TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
August 26, 2009

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the month of August 2009
Taiwan Semiconductor Manufacturing Company Ltd.
(Translation of Registrant s Name Into English)
No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
Taiwan
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F þ Form 40-F o

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes o No þ

(If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82: __________.)

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Taiwan Semiconductor Manufacturing Company Limited
Financial Statements for the Six Months Ended June 30, 2009 and 2008 and Independent Auditors Report

INDEPENDENT AUDITORS REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2009 and 2008, and the related statements of income, changes in shareholders equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, effective January 1, 2009, Taiwan Semiconductor Manufacturing Company Limited adopted the newly revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories. In addition, effective January 1, 2008, Taiwan Semiconductor Manufacturing Company Limited adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors, issued by the Accounting Research and Development Foundation of the Republic of China and relevant requirements promulgated by the Financial Supervisory Commission of the Executive Yuan.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the six months ended June 30, 2009 and 2008, and expressed an unqualified opinion with an explanatory paragraph relating to the adoption of the newly revised Statement of Financial Accounting Standard, Accounting for Inventories, and the adoption of Interpretation 2007-052, respectively, on such consolidated financial statements.

July 27, 2009

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors report and financial statements shall prevail.

Taiwan Semiconductor Manufacturing Company Limited
BALANCE SHEETS
JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)

	2009 Amount	%	2008 Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 171,474,261	30	$ 146,745,700	25
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	38,883		22,996	
Available-for-sale financial assets (Notes 2, 6 and 23)			6,880,784	1
Held-to-maturity financial assets (Notes 2, 7 and 23)	5,476,955	1	5,771,334	1
Receivables from related parties (Note 24)	18,716,737	3	24,139,822	4
Notes and accounts receivable	20,561,613	4	20,912,315	4
Allowance for doubtful receivables (Notes 2 and 8)	(398,419)		(687,619)	
Allowance for sales returns and others (Notes 2 and 8)	(7,311,251)	(1)	(4,194,528)	(1)
Other receivables from related parties (Note 24)	794,151		1,644,824	
Other financial assets (Note 25)	1,333,913		417,822	
Inventories (Notes 2, 3 and 9)	17,153,932	3	20,816,966	4
Deferred income tax assets (Notes 2 and 17)	5,669,448	1	6,004,789	1
Prepaid expenses and other current assets	883,166		927,421	
Total current assets	234,393,389	41	229,402,626	39
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 23)				
Investments accounted for using equity method	106,116,192	19	106,640,304	18
Available-for-sale financial assets	1,035,686			
Held-to-maturity financial assets	8,615,988	2	7,240,785	1
Financial assets carried at cost	501,060		747,521	
Total long-term investments	116,268,926	21	114,628,610	19
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)				
Cost				
Buildings	114,927,509	20	103,267,057	17
Machinery and equipment	644,746,923	113	618,319,896	104
Office equipment	9,902,124	2	9,477,430	2

	769,576,556	135	731,064,383	123
Accumulated depreciation	(592,207,395)	(104)	(520,741,784)	(87)
Advance payments and construction in progress	25,712,586	5	26,550,147	4
Net property, plant and equipment	203,081,747	36	236,872,746	40
INTANGIBLE ASSETS				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2 and 13)	5,666,736	1	7,068,055	1
Total intangible assets	7,234,492	1	8,635,811	1
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 17)	5,030,761	1	4,724,630	1
Refundable deposits	2,699,751		2,722,875	
Others (Note 2)	469,209		281,402	
Total other assets	8,199,721	1	7,728,907	1
TOTAL	$ 569,178,275	100	$ 597,268,700	100
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23)	$ 32,709		$ 115,320	
Accounts payable	7,784,982	1	8,734,095	2
Payables to related parties (Note 24)	2,222,351		2,486,070	
Income tax payable (Notes 2 and 17)	2,997,283	1	5,718,520	1
Cash dividends payable (Note 19)	76,876,312	14	76,881,311	13
Bonuses payable to employees and directors (Notes 2, 3 and 19)	11,599,659	2	12,753,706	2
Payables to contractors and equipment suppliers	15,549,894	3	8,614,287	1
Accrued expenses and other current liabilities (Note 15)	8,128,016	1	19,154,139	4
Current portion of bonds payable (Note 14)			8,000,000	1
Total current liabilities	125,191,206	22	142,457,448	24
LONG-TERM LIABILITIES				

Bonds payable (Note 14)	4,500,000	1	4,500,000	1
Other long-term payables (Note 15)	590,724		1,005,988	
Total long-term liabilities	5,090,724	1	5,505,988	1
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	3,760,071	1	3,691,624	1
Guarantee deposits (Note 27)	1,212,250		1,704,666	
Deferred credits (Notes 2 and 24)	162,529		668,408	
Total other liabilities	5,134,850	1	6,064,698	1
Total liabilities	135,416,780	24	154,028,134	26
CAPITAL STOCK NT$10 PAR VALUE (Notes 19 and 21)				
Authorized: 28,050,000 thousand shares				
Issued: 25,626,356 thousand shares in 2009				
25,631,371 thousand shares in 2008	256,263,562	45	256,313,709	43
To be issued	2,699,971		5,221,238	1
	258,963,533	45	261,534,947	44
CAPITAL SURPLUS (Notes 2 and 19)	55,331,535	10	50,916,645	9
RETAINED EARNINGS (Note 19)				
Appropriated as legal capital reserve	77,317,710	14	67,324,393	11
Appropriated as special capital reserve			391,857	
Unappropriated earnings	41,347,655	7	84,236,793	14
	118,665,365	21	151,953,043	25
OTHERS (Notes 2, 21 and 23)				
Cumulative translation adjustments	456,824		(6,787,320)	(1)
Unrealized gain on financial instruments	344,238		468,749	
Treasury stock: 250,770 thousand shares			(14,845,498)	(3)
	801,062		(21,164,069)	(4)

Total shareholders equity	433,761,495	76	443,240,566	74
TOTAL	$ 569,178,275	100	$ 597,268,700	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated July 27, 2009)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 24)	$ 114,227,264		$ 173,877,093	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	4,671,054		3,052,847	
NET SALES	109,556,210	100	170,824,246	100
COST OF SALES (Notes 3, 9, 18 and 24)	67,820,643	62	94,108,599	55
GROSS PROFIT	41,735,567	38	76,715,647	45
UNREALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	79,066		130,977	
REALIZED GROSS PROFIT	41,656,501	38	76,584,670	45
OPERATING EXPENSES (Notes 18 and 24)				
Research and development	7,934,763	7	9,874,836	6
General and administrative	3,975,992	4	5,171,447	3
Marketing	822,469	1	1,261,930	1
Total operating expenses	12,733,224	12	16,308,213	10
INCOME FROM OPERATIONS	28,923,277	26	60,276,457	35
NON-OPERATING INCOME AND GAINS				
Interest income (Note 2)	740,068	1	1,441,583	1
Settlement income (Note 27)	494,070	1	456,195	
Technical service income (Notes 24 and 27)	149,052		364,485	
Gain on settlement and disposal of financial assets, net (Notes 2 and 23)	53,461		391,888	
Valuation gain on financial instruments, net (Notes 2, 5 and 23)			1,737,652	1
			946,787	1

Equity in earnings of equity method investees, net (Notes 2 and 10)				
Others (Notes 2 and 24)	219,593		467,689	
Total non-operating income and gains	1,656,244	2	5,806,279	3

(Continued)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
NON-OPERATING EXPENSES AND LOSSES				
Equity in losses of equity method investees, net (Notes 2 and 10)	$ 3,276,491	3	$	
Interest expense	74,526		177,500	
Valuation loss on financial instruments, net (Notes 2, 5 and 23)	42,347			
Foreign exchange loss, net (Note 2)	32,612		1,790,609	1
Provision for litigation loss			459,078	
Others (Note 2)	63,174		47,052	
Total non-operating expenses and losses	3,489,150	3	2,474,239	1
INCOME BEFORE INCOME TAX	27,090,371	25	63,608,497	37
INCOME TAX EXPENSE (Notes 2 and 17)	1,089,852	1	6,694,609	4
NET INCOME	$ 26,000,519	24	$ 56,913,888	33

	2009		2008	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (NT$, Note 22)				
Basic earnings per share	$ 1.05	$ 1.01	$ 2.42	$ 2.17
Diluted earnings per share	$ 1.04	$ 1.00	$ 2.42	$ 2.16

Certain pro forma information (after income tax) is shown as follows, based on the assumption that the Company s stock held by subsidiaries is treated as available-for-sale financial assets instead of treasury stock for the six months ended June 30, 2008 (Notes 2 and 21):

	2008
NET INCOME	$ 57,016,167
EARNINGS PER SHARE (NT$)	

Basic earnings per share	$	2.17
Diluted earnings per share	$	2.16

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated July 27, 2009) (Concluded)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

- Common k	To Be Issued			Retained Earnings					Othe Unrealiz Gain (Loss) On financi Instrume
Amount	Shares (in Thousands)	Amount	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	
256,254,373		$	$ 49,875,255	$ 67,324,393	$ 391,857	$ 102,337,417	$ 170,053,667	$ 481,158	$ (287,3
				9,993,317		(9,993,317)			
					(391,857)	391,857			
						(76,876,312)	(76,876,312)		
	51,251	512,509				(512,509)	(512,509)		
	141,870	1,418,699	6,076,289						
	76,876	768,763	(768,763)						
						26,000,519	26,000,519		
			129,081						

								(24,334)	
9,189			19,673						
									3,0
									628,5
256,263,562	269,997	$ 2,699,971	$ 55,331,535	$ 77,317,710	$	$ 41,347,655	$ 118,665,365	$ 456,824	$ 344,2
264,271,037		$	$ 53,732,682	$ 56,406,684	$ 629,550	$ 161,828,337	$ 218,864,571	$ (1,072,853)	$ 680,9
				10,917,709		(10,917,709)			
					(237,693)	237,693			
						(3,939,883)	(3,939,883)		
	393,988	3,939,883				(3,939,883)	(3,939,883)		
						(76,881,311)	(76,881,311)		
	51,254	512,542				(512,542)	(512,542)		
						(176,890)	(176,890)		
	76,881	768,813	(768,813)						

						56,913,888	56,913,888		
			(186,344)						
								(5,714,467)	
42,672			128,891						
			102,279						
									(264,2
									51,9
(8,000,000)			(2,092,050)			(38,374,907)	(38,374,907)		
256,313,709	522,123	$ 5,221,238	$ 50,916,645	$ 67,324,393	$ 391,857	$ 84,236,793	$ 151,953,043	$ (6,787,320)	$ 468,7

Note: Bonus to employees and directors in the amount of NT$14,989,976 thousand and NT$158,080 thousand, respectively, had been charged against

earnings of
2008.

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated July 27, 2009)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,000,519	$ 56,913,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,142,624	36,227,938
Unrealized gross profit from affiliates	79,066	130,977
Amortization of premium/ discount of financial assets	(15,843)	(51,144)
Gain on disposal of available-for-sale financial assets, net	(37,370)	(391,218)
Gain on held-to-maturity financial assets redeemed by the issuer	(16,091)	
Gain on disposal of financial assets carried at cost, net		(670)
Equity in losses (earnings) of equity method investees, net	3,276,491	(946,787)
Dividends received from equity method investees	988,201	589,071
Gain on disposal of property, plant and equipment and other assets, net	(55,936)	(153,449)
Deferred income tax	(551,537)	1,780,514
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(47,332)	(113,239)
Receivables from related parties	(6,988,533)	2,561,826
Notes and accounts receivable	(9,120,437)	(3,000,987)
Allowance for doubtful receivables	(38,327)	(1,353)
Allowance for sales returns and others	1,442,669	337,843
Other receivables from related parties	168,432	222,924
Other financial assets	(603,233)	(86,124)
Inventories	(4,345,996)	170,176
Prepaid expenses and other current assets	309,309	(65,956)
Increase (decrease) in:		
Accounts payable	3,470,717	(751,723)
Payables to related parties	1,020,001	(513,560)
Income tax payable	(6,225,528)	(5,259,443)
Bonuses payable to employees and directors	3,946,590	8,636,933
Accrued expenses and other current liabilities	154,947	302,852
Accrued pension cost	50,062	33,945
Deferred credits	(115,831)	(47,873)
Net cash provided by operating activities	49,887,634	96,525,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(12,638,153)	(36,086,150)
Available-for-sale financial assets		(4,300,000)

Held-to-maturity financial assets	(662,685)	(549,455)
Investments accounted for using equity method	(210,999)	(301,607)
Financial assets carried at cost	(483)	(1,142)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	1,037,370	21,235,748
Held-to-maturity financial assets	4,245,000	7,788,000
Financial assets carried at cost		2,451
Property, plant and equipment and other assets	383	1,764,920

(Continued)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
Proceeds from return of capital by investees	$ 20,201	$ 114,255
Increase in deferred charges	(194,313)	(1,854,102)
Decrease in refundable deposits	19,986	18,663
Net cash used in investing activities	(8,383,693)	(12,168,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds payable	(8,000,000)	
Decrease in guarantee deposits	(266,902)	(536,011)
Proceeds from exercise of employee stock options	28,862	171,563
Repurchase of treasury stock		(9,668,896)
Net cash used in financing activities	(8,238,040)	(10,033,344)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,265,901	74,323,598
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	138,208,360	72,422,102
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 171,474,261	$ 146,745,700
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 351,803	$ 355,000
Income tax paid	$ 7,694,716	$ 10,105,861
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	$ 20,613,156	$ 39,310,697
Increase in payables to contractors and equipment suppliers	(7,975,003)	(3,224,547)
Cash paid	$ 12,638,153	$ 36,086,150
Disposal of property, plant and equipment and other assets	$ 58,833	$ 1,901,048
Increase in other payables to related parties	(58,450)	(136,128)

Cash received	$	383	$	1,764,920
Repurchase of treasury stock	$		$	13,927,423
Increase in accrued expenses and other current liabilities				(4,258,527)
Cash paid	$		$	9,668,896
NON-CASH FINANCING ACTIVITIES				
Bonus to employees transferred to capital stock	$	7,494,988	$	
Current portion of bonds payable	$		$	8,000,000
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$	935,825	$	2,012,071

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated July 27, 2009) (Concluded)

Taiwan Semiconductor Manufacturing Company Limited
NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engaged mainly in the manufacturing, selling, packaging, testing and computer-aided designing of integrated circuits and other semiconductor devices and the manufacturing of masks. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

As of June 30, 2009 and 2008, the Company had 19,759 and 20,835 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the R.O.C.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management s estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Repurchase agreements collateralized by government bonds and repurchase agreements collateralized by short-term notes acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of shareholders equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value of open-end mutual funds is determined using the net assets value at the end of the period. For debt securities, fair value is determined using the average of bid and asked prices at the end of the period.

Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost under the effective interest method except for structured time deposits which are carried at acquisition cost. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of notes and accounts receivable. The Company determines the amount of the allowance for doubtful receivables by examining the aging analysis of outstanding notes and accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, the rewards of ownership and significant risk of the goods has been transferred to the buyer, price is fixed or determinable, and collectibility is reasonably assured. Provisions for estimated sales returns and others are recorded in the period the related revenue is recognized, based on historical experience, management s judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

Inventories

Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date. Prior to January 1, 2009, inventories were stated at the lower of cost or market value. Any write-down was made on a total-inventory basis. Market value represented replacement cost for raw materials, supplies and spare parts and net realizable value for work in process and finished goods. As stated in note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company s share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

When the Company subscribes for additional investee s shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company s share of the investee s equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company s ownership percentages in the investees until such gains or losses are realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has a controlling interest is deferred until such gains or losses are realized through subsequent sales of the related products to third parties. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company s ownership percentages in the investees until they are realized through transactions with third parties. Gains or losses on sales between equity method investees over each of which the Company has control are deferred in proportion to the Company s weighted-average ownership percentage in the investee which records gains or losses. In transactions between equity method investees over either or both of which the

Company has no control, gains or losses on sales are deferred in proportion to the multiplication of the Company s weighted-average ownership percentages in the investees. Such gains or losses are recorded until they are realized through transactions with third parties.

If an investee s functional currency is a foreign currency, differences will result from the translation of the investee s financial statements into the reporting currency of the Company. Such differences are charged or credited to cumulative translation adjustments, a separate component of shareholders equity.

Financial Assets Carried at Cost

Investments for which the Company does not exercise significant influence and that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks and mutual funds, are carried at their original cost. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared on the earnings of the investee attributable to the period prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Property, Plant and Equipment, Assets Leased to Others and Idle Assets

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings 10 to 20 years; machinery and equipment 5 years; and office equipment 3 to 5 years.

Upon sale or disposal of property, plant and equipment and assets leased to others, the related cost and accumulated depreciation are deducted from the corresponding accounts, with any gain or loss recorded as non-operating gains or losses in the period of sale or disposal.

When property, plant and equipment are determined to be idle or useless, they are transferred to idle assets at the lower of the net realizable value or carrying amount. Depreciation on the idle assets is provided continuously, and the idle assets are tested for impairment on a periodical basis.

Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is no longer amortized and instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized over the following periods: Technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract; software and system design costs and other charges 3 years. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expenses when incurred.

Pension Costs

For employees who participate in defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods. For employees who participate in defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies an inter-period allocation for its income tax whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training expenditures, and investments in important technology-based enterprises are recognized using the flow-through method.

Adjustments of prior years tax liabilities are added to or deducted from the current period s tax provision.

Income tax on unappropriated earnings at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with Statement of Financial Accounting Standards No. 39, Accounting for Share-based Payment. The Company did not grant or modify any employee stock options since January 1, 2008.

Bonuses to Employees and Directors

Effective January 1, 2008, the Company adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors, which requires companies to record bonuses paid to employees and directors as an expense rather than as an appropriation of earnings.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus treasury stock transactions and to retained earnings for any remaining amount.

The Company s stock held by its subsidiaries is treated as treasury stock and reclassified from investments accounted for using equity method to treasury stock. The gains resulted from disposal of the treasury stock held by subsidiaries and cash dividends received by subsidiaries from the Company are recorded under capital surplus treasury stock transactions.

Foreign-currency Transactions

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

3. ACCOUNTING CHANGES

Effective January 1, 2009, the Company adopted the newly revised SFAS No. 10, Accounting for Inventories. The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of sales for the period. Such changes in accounting principle did not have significant effect on the Company s financial statements for the six months ended June 30, 2009.

Effective January 1, 2008, the Company adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors, issued in March 2007 by the ARDF, which requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than as an appropriation of earnings. The adoption of this interpretation resulted in a decrease in net income and earnings per share (after income tax and retroactively adjusted for the issuance of stock dividend) of NT$7,194,657 thousand and NT$0.27, respectively, for the six months ended June 30, 2008.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 39, Accounting for Share-based Payment, which requires companies to record share-based payment transactions in the financial statements at fair value. Such a change in accounting principle did not have any effect on the Company s financial statements as of and for the six months ended June 30, 2008.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2009	2008
Cash and deposits in banks	$ 164,060,131	$ 130,545,705
Repurchase agreements collaterized by government bonds	7,414,130	12,229,689
Repurchase agreements collaterized by short-term notes		3,970,306
	$ 171,474,261	$ 146,745,700

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30	
	2009	**2008**
Trading financial assets		
Cross currency swap contracts	$ 38,883	$ 22,996
Trading financial liabilities		
Forward exchange contracts	$ 6,284	$ 112,709
Cross currency swap contracts	26,425	2,611
	$ 32,709	$ 115,320

The Company entered into derivative contracts during the six months ended June 30, 2009 and 2008 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	**Contract Amount (in Thousands)**
June 30, 2009		
Sell EUR/Buy US$	July 2009	EUR12,200/US$17,019
June 30, 2008		
Sell EUR/Buy US$	July 2008	EUR11,500/US$17,826
Sell EUR/Buy NT$	July 2008	EUR20,000/NT$858,620
Sell US$/Buy NT$	July 2008	US$30,000/NT$909,600

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	**Contract Amount (in Thousands)**	**Range of Interest Rates Paid**	**Range of Interest Rates Received**
June 30, 2009			
July 2009	US$767,000/NT$25,197,800	0.46%-9.26%	0.00%-0.76%
June 30, 2008			
July 2008	US$971,000/NT$29,509,297	2.49%-4.68%	0.43%-2.42%

For the six months ended June 30, 2009 and 2008, valuation on financial instruments arising from derivative financial instruments was a net loss of NT$42,347 thousand and a net gain of NT$1,737,652 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30 2009	June 30 2008
Corporate bonds	$ 1,035,686	$ 3,177,927
Open-end mutual funds		3,702,857
	1,035,686	6,880,784
Current portion		(6,880,784)
	$ 1,035,686	$

7. HELD-TO-MATURITY FINANCIAL ASSETS

	June 30 2009	June 30 2008
Corporate bonds	$ 13,209,510	$ 9,516,207
Government bonds	883,433	2,995,912
Structured time deposits		500,000
	14,092,943	13,012,119
Current portion	(5,476,955)	(5,771,334)
	$ 8,615,988	$ 7,240,785

Structured time deposits categorized as held-to-maturity financial assets consisted of the following:

June 30, 2008	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
Step-up callable domestic deposits	$ 500,000	$ 2,031	1.83%	October 2008

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Balance, beginning of period	$ 436,746	$ 688,972
Provision	205,480	
Write-off	(243,807)	(1,353)

Balance, end of period	$ 398,419	$ 687,619

Movements of the allowance for sales returns and others were as follows:

	Six Months Ended June 30	
	2009	2008
Balance, beginning of period	$ 5,868,582	$ 3,856,685
Provision	4,671,054	3,052,847
Write-off	(3,228,385)	(2,715,004)
Balance, end of period	$ 7,311,251	$ 4,194,528

9. INVENTORIES

	June 30	
	2009	2008
Finished goods	$ 1,762,370	$ 3,095,657
Work in process	13,832,628	16,395,692
Raw materials	872,203	764,863
Supplies and spare parts	686,731	560,754
	$ 17,153,932	$ 20,816,966

Write-down of inventories to net realizable value in the amount of NT$691,760 thousand and NT$329,560 thousand, respectively, were included in the cost of sales for sales for the six months ended June 30, 2009 and 2008.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30			
	2009		2008	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
TSMC Global Ltd. (TSMC Global)	$ 46,275,534	100	$ 41,946,173	100
TSMC Partners, Ltd. (TSMC Partners)	32,889,200	100	3,534,832	100
Vanguard International Semiconductor Corporation (VIS)	9,209,323	37	9,926,933	36
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	5,744,178	39	8,641,503	39
TSMC China Company Limited (TSMC China)	4,286,079	100	7,574,803	100
TSMC North America	2,593,228	100	2,246,123	100
VentureTech Alliance Fund III, L.P. (VTAF III)	1,418,421	98	1,106,412	98
XinTec Inc. (XinTec)	1,349,779	42	1,396,316	43
Global UniChip Corporation (GUC)	920,198	36	798,498	37
VentureTech Alliance Fund II, L.P. (VTAF II)	807,446	98	963,211	98

Emerging Alliance Fund, L.P. (Emerging Alliance)	332,124	99	388,216	99
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe)	141,821	100	107,796	100

(Continued)

	June 30			
	2009		2008	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
TSMC Japan Limited (TSMC Japan)	$ 132,285	100	$ 104,842	100
TSMC Korea Limited (TSMC Korea)	16,576	100	15,286	100
TSMC International Investment Ltd. (TSMC International)			27,447,357	100
Chi Cherng Investment Co., Ltd. (Chi Cherng)			221,911	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)			220,092	36
	$ 106,116,192		$ 106,640,304	

(Concluded)

TSMC Partners and TSMC International were both 100% owned subsidiaries of the Company. To simplify the organization structure of investment, TSMC Partners merged TSMC International in June 2009.

Chi Cherng and Hsin Ruey, both 100% owned subsidiaries of the Company, were engaged in investing activities. To simplify the organization structure of investment, the Company merged Chi Cherng and Hsin Ruey in the third quarter of 2008.

For the six months ended June 30, 2009 and 2008, equity in earnings/losses of equity method investees was a net loss of NT$3,276,491 thousand and a net gain of NT$946,787 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the audited financial statements, except those of Emerging Alliance, TSMC Japan, TSMC Europe and TSMC Korea for the six months ended June 30, 2009. The Company believes that, had Emerging Alliance, TSMC Japan, TSMC Europe and TSMC Korea s financial statements been audited, any adjustments arising would have had no material effect on the Company s financial statements.

As of June 30, 2009 and 2008, fair value of publicly traded stocks in investments accounted for using equity method (VIS and GUC) was NT$15,082,092 thousand and NT$23,162,413 thousand, respectively.

Movements of the difference between the cost of investments and the Company s share in investees net assets allocated to depreciable assets were as follows:

	Six Months Ended June 30	
	2009	2008
Balance, beginning of period	$ 2,053,253	$ 2,677,388
Amortization	(312,068)	(312,068)
Balance, end of period	$ 1,741,185	$ 2,365,320

As of June 30, 2009 and 2008, balance of the aforementioned difference allocated to goodwill was NT$1,061,885 thousand and NT$987,349 thousand, respectively. There are no any additions or impairment for the six months ended June 30, 2009 and 2008.

11. FINANCIAL ASSETS CARRIED AT COST

	June 30 2009	June 30 2008
Non-publicly traded stocks	$ 338,584	$ 364,913
Mutual funds	162,476	382,608
	$ 501,060	$ 747,521

12. PROPERTY, PLANT AND EQUIPMENT

	Six Months Ended June 30, 2009				
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	$ 114,014,588	$ 913,730	$ (809)	$	$ 114,927,509
Machinery and equipment	635,008,261	11,454,368	(1,718,271)	2,565	644,746,923
Office equipment	9,748,869	290,510	(137,255)		9,902,124
	758,771,718	$ 12,658,608	$ (1,856,335)	$ 2,565	769,576,556
Accumulated depreciation					
Buildings	65,351,514	$ 4,051,294	$ (809)	$	69,401,999
Machinery and equipment	484,046,160	31,694,103	(1,115,264)	2,565	514,627,564
Office equipment	7,849,580	465,322	(137,070)		8,177,832
	557,247,254	$ 36,210,719	$ (1,253,143)	$ 2,565	592,207,395
Advance payments and construction in progress	17,758,038	$ 7,954,548	$	$	25,712,586
	$ 219,282,502				$ 203,081,747

	Six Months Ended June 30, 2008				
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	$ 101,907,892	$ 1,361,363	$ (1,887)	$ (311)	$ 103,267,057
Machinery and equipment	589,131,625	32,074,642	(2,665,119)	(221,252)	618,319,896
Office equipment	9,167,107	407,498	(97,232)	57	9,477,430
	700,206,624	$ 33,843,503	$ (2,764,238)	$ (221,506)	731,064,383

Accumulated depreciation								
Buildings	57,349,828	$	3,848,827	$	(1,887)	$	(4)	61,196,764
Machinery and equipment	422,278,071		30,674,584		(667,487)		(206,424)	452,078,744
Office equipment	7,097,120		466,362		(97,232)		26	7,466,276
	486,725,019	$	34,989,773	$	(766,606)	$	(206,402)	520,741,784
Advance payments and construction in progress	21,082,953	$	5,467,194	$		$		26,550,147
	$ 234,564,558							$ 236,872,746

No interest was capitalized during the six months ended June 30, 2009 and 2008.

13. DEFERRED CHARGES, NET

	Six Months Ended June 30, 2009					
	Balance, Beginning of Period	Additions	Amortization	Disposals	Reclassification	Balance, End of Period
Technology license fees	$ 3,786,251	$	$ (423,468)	$	$	$ 3,362,783
Software and system design costs	1,559,857	194,313	(370,739)			1,383,431
Patent and others	1,055,353		(134,831)			920,522
	$ 6,401,461	$ 194,313	$ (929,038)	$	$	$ 5,666,736

	Six Months Ended June 30, 2008					
	Balance, Beginning of Period	Additions	Amortization	Disposals	Reclassification	Balance, End of Period
Technology license fees	$ 5,349,937	$	$ (781,844)	$	$	$ 4,568,093
Software and system design costs	1,309,272	666,273	(347,384)	(14,279)	59	1,613,941
Patent and others	513,204	454,125	(81,308)			886,021
	$ 7,172,413	$ 1,120,398	$ (1,210,536)	$ (14,279)	$ 59	$ 7,068,055

14. BONDS PAYABLE

	June 30	
	2009	2008
Domestic unsecured bonds:		
Issued in January 2002 and repayable in January 2009 and 2012 in two installments, 2.75% and 3.00% interest payable annually, respectively	$ 4,500,000	$ 12,500,000
Current portion		(8,000,000)
	$ 4,500,000	$ 4,500,000

15. OTHER LONG-TERM PAYABLES

Most of the Company s long-term payables resulted from license agreements for certain semiconductor-related patents. As of June 30, 2009, future payments for other long-term payables were as follows:

Year of Payment	Amount
2009 (3rd and 4th quarter)	$ 596,487
2010	503,428
2011	426,634
	1,526,549
Current portion (classified under accrued expenses and other current liabilities)	(935,825)
	$ 590,724

16. PENSION PLANS

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee s monthly salary to employees pension accounts, and recognized pension costs of NT$284,118 thousand and NT$326,409 thousand for the six months ended June 30, 2009 and 2008, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee s name in the Bank of Taiwan. The Company recognized pension costs of NT$144,341 thousand and NT$134,494 thousand for the six months ended June 30, 2009 and 2008, respectively.

Movements of the Fund and accrued pension cost under the defined benefit plan were summarized as follows:

	Six Months Ended June 30	
	2009	**2008**
The Fund		
Balance, beginning of period	$ 2,389,519	$ 2,145,010
Contributions	98,290	109,289
Interest	52,445	71,236
Payments	(37,801)	(13,726)
Balance, end of period	$ 2,502,453	$ 2,311,809
Accrued pension cost		
Balance, beginning of period	$ 3,710,009	$ 3,657,679
Accruals	50,062	33,945
Balance, end of period	$ 3,760,071	$ 3,691,624

17. INCOME TAX

a. A reconciliation of income tax expense based on income before income tax at statutory rate and income tax currently payable was as follows:

	Six Months Ended June 30	
	2009	**2008**
Income tax expense based on income before income tax at statutory rate (25%)	$ 6,772,583	$ 15,902,124
Tax effect of the following:		
Tax-exempt income	(3,229,360)	(5,071,328)
Temporary and permanent differences	2,063,571	310,461
Others	69,174	41,235
Investment tax credits used	(2,837,984)	(5,591,246)

Income tax currently payable	$ 2,837,984	$ 5,591,246

b. Income tax expense consisted of the following:

	Six Months Ended June 30	
	2009	**2008**
Income tax currently payable	$ 2,837,984	$ 5,591,246
Income tax adjustments on prior years	(1,155,113)	(707,255)
Other income tax adjustments	(41,482)	30,104
Net change in deferred income tax assets		
Investment tax credits	(2,296,767)	1,318,658
Temporary differences	308,450	25,929
Valuation allowance	1,436,780	435,927
Income tax expense	$ 1,089,852	$ 6,694,609

c. Net deferred income tax assets consisted of the following:

	June 30	
	2009	**2008**
Current deferred income tax assets		
Investment tax credits	$ 4,956,104	$ 6,004,789
Temporary differences	713,344	
	$ 5,669,448	$ 6,004,789
Noncurrent deferred income tax assets		
Investment tax credits	$ 10,952,881	$ 7,513,308
Temporary differences	1,914,306	1,117,382
Valuation allowance	(7,836,426)	(3,906,060)
	$ 5,030,761	$ 4,724,630

The amendment of Article 5 of the Income Tax Law which was public in May, 2009 announced that the income tax rate of profit-seeking enterprises reduces from 25% to 20% since 2010. The Company recalculated its deferred tax assets and liabilities in accordance with the amended Article and adjusted the resulting difference as an income tax benefit and expense.

d. Integrated income tax information:

The balance of the imputation credit account as of June 30, 2009 and 2008 was NT$8,102,454 thousand and NT$12,141,222 thousand, respectively.

The estimated and actual creditable ratios for distribution of earnings of 2008 and 2007 was 9.06% and 9.83%, respectively.

The imputation credit allocated to shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. All earnings generated prior to December 31, 1997 have been appropriated.

f. As of June 30, 2009, investment tax credits consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 500,000	$ 500,000	2009
		1,053,410		2010
		4,592,615	4,592,615	2011
		3,076,348	3,076,348	2012
		47,066	47,066	2013
		$ 9,269,439	$ 8,216,029	
Statute for Upgrading Industries	Research and development expenditures	$ 2,663,784	$ 879,210	2010
		2,687,841	2,687,841	2011
		2,688,201	2,688,201	2012
		1,184,049	1,184,049	2013
		$ 9,223,875	$ 7,439,301	
Statute for Upgrading Industries	Personnel training expenditures	$ 23,146	$ 23,146	2010
		36,568	36,568	2011
		27,036	27,036	2012
		$ 86,750	$ 86,750	
Statute for Upgrading Industries	Investments in important technology-based enterprises	$ 87,101	$ 87,101	2009
		79,804	79,804	2010
		$ 166,905	$ 166,905	

g. The profits generated from the following projects are exempt from income tax for a five-year period:

	Tax-exemption Period
Construction of Fab 14 Module A	2006 to 2010
Construction of Fab 12 Module B and expansion of Fab 14 Module A	2007 to 2011

Construction of Fab 14 Module B and expansion of Fab 12 and others	2008 to 2012

h. The tax authorities have examined income tax returns of the Company through 2006. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

18. LABOR COST, DEPRECIATION AND AMORTIZATION

	Six Months Ended June 30, 2009		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	$ 6,099,123	$ 4,445,518	$ 10,544,641
Labor and health insurance	290,166	172,465	462,631
Pension	268,466	159,993	428,459
Meal	193,992	80,986	274,978
Welfare	62,101	37,965	100,066
Others	37,969	8,800	46,769
	$ 6,951,817	$ 4,905,727	$ 11,857,544
Depreciation	$ 34,426,607	$ 1,775,979	$ 36,202,586
Amortization	$ 608,828	$ 320,210	$ 929,038

	Six Months Ended June 30, 2008		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	$ 9,092,200	$ 6,656,160	$ 15,748,360
Labor and health insurance	335,749	189,700	525,449
Pension	294,502	166,401	460,903
Meal	219,219	88,295	307,514
Welfare	92,539	54,046	146,585
Others	89,637	3,876	93,513
	$ 10,123,846	$ 7,158,478	$ 17,282,324
Depreciation	$ 32,997,017	$ 1,984,163	$ 34,981,180
Amortization	$ 894,932	$ 315,604	$ 1,210,536

19. SHAREHOLDERS EQUITY

As of June 30, 2009, 1,092,053 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,460,265 thousand (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of the Company s paid-in capital. In addition, the capital surplus from long-term investments may not be used for any purpose.

Capital surplus consisted of the following:

	June 30	
	2009	**2008**
Additional paid-in capital	$ 23,289,667	$ 18,295,464
From merger	22,805,390	23,276,911
From convertible bonds	8,893,190	9,077,065
From long-term investments	343,233	164,871
Donations	55	55
From treasury stock transactions		102,279
	$ 55,331,535	$ 50,916,645

The Company s Articles of Incorporation provide that, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly:

a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company s paid-in capital;

b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;

c. Bonus to directors and bonus to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors. The Company may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;

d. Any balance left over shall be allocated according to the resolution of the shareholders meeting.

The Company s Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders approval in the following year.

The Company has recorded bonuses to employees and directors with an estimate based on historical experience with a charge to earnings of approximately 15% of net income. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders resolution as a change in accounting estimate. If stock bonuses are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonuses by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders meeting.

The Company no longer has supervisors since January 1, 2007. The required duties of supervisors are being fulfilled by the Audit Committee.

The appropriation for legal capital reserve shall be made until the reserve equals the Company s paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of

50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company s paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company s paid-in capital, up to 50% of the reserve may be transferred to capital.

A special capital reserve equivalent to the net debit balance of the other components of shareholders equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2008 and 2007 had been approved in the shareholders meeting held on June 10, 2009 and June 13, 2008, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2008	For Fiscal Year 2007	For Fiscal Year 2008	For Fiscal Year 2007
Legal capital reserve	$ 9,993,317	$ 10,917,709		
Special capital reserve	(391,857)	(237,693)		
Bonus to employees in cash		3,939,883		
Bonus to employees in stock		3,939,883		
Cash dividends to shareholders	76,876,312	76,881,311	$ 3.00	$ 3.00
Stock dividends to shareholders	512,509	512,542	0.02	0.02
Bonus to directors		176,890		
	$ 86,990,281	$ 96,130,525		

Bonus to employees that to be paid in cash and in stock as well as bonus to directors in the amounts of NT$7,494,988 thousand, NT$7,494,988 thousand and NT$158,080 thousand for 2008, respectively, had been approved in the shareholders meeting held on June 10, 2009. The employee stock bonus of 141,870 thousand shares were determined by the closing price of the Company s common share (after considering the effect of dividends) of the day immediately preceding the shareholders meeting, which is NT$52.83. The resolved amounts of the bonus to employees and to directors were consistent with the resolutions of meeting of the Board of Directors held on February 10, 2009 and same amount had been charged against earnings of 2008.

The shareholders meeting held on June 10, 2009 also resolved to distribute stock dividends out of capital surplus, and stock dividends to shareholders as well as bonus to employee to be paid in stock in the amount of NT$768,763 thousand, NT$512,509 thousand and NT$7,494,988 thousand, respectively. The aforementioned capital increase had been approved by SFB and has taken effect on July 21, 2009.

The information about the appropriations of bonuses to employees and directors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated since January 1, 1998.

20. STOCK-BASED COMPENSATION PLANS

The Company s Employee Stock Option Plans under the 2004 Plan, 2003 Plan and 2002 Plan were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of options authorized to be granted under the 2004 Plan, 2003 Plan and 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share when exercisable. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company s shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equals to the closing price of the Company s common shares listed on the TSE on the grant date.

Options of the aforementioned plans that had never been granted or had been granted but subsequently cancelled had expired as of June 30, 2009.

Information about outstanding options for the six months ended June 30, 2009 and 2008 was as follows:

	Number of Options (in Thousands)	Weighted-average Exercise Price (NT$)
Six months ended June 30, 2009		
Balance, beginning of period	36,234	$ 35.3