

TSMC ANNUAL REPORT 2008 (I)





TSMC VISION & CORE VALUES

TSMC's Vision

Our vision is to be the most advanced and largest technology and foundry services provider to fabless companies and IDMs, and in partnership with them, to forge a powerful competitive force in the semiconductor industry.

To realize our vision, we must have a trinity of strengths:

- (1) be a technology leader, competitive with the leading IDMs
- (2) be the manufacturing leader
- (3) be the most reputable, service-oriented and maximum-total-benefits silicon foundry.

TSMC Core Values

Integrity – Integrity is our most basic and most important core value. We tell the truth. We believe the record of our accomplishments is the best proof of our merit. Hence, we do not brag. We do not make commitments lightly. Once we make a commitment, we devote ourselves completely to meeting that commitment. We compete to our fullest within the law, but we do not slander our competitors and we respect the intellectual property rights of others. With vendors, we maintain an objective, consistent, and impartial attitude. We do not tolerate any form of corrupt behavior or politicking. When selecting new employees, we place emphasis on the candidates' qualifications and character, not connections or access.

Commitment – TSMC is committed to the welfare of customers, suppliers, employees, shareholders, and society. These stakeholders all contribute to TSMC's success, and TSMC is dedicated to serving their best interests. In return, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

Innovation – Innovation is the wellspring of TSMC's growth, and is a part of all aspects of our business, from strategic planning, marketing and management, to technology and manufacturing. At TSMC, innovation means more than new ideas, it means putting ideas into practice.

Customer Partnership – At TSMC, customers come first. Their success is our success, and we value their ability to compete as we value our own. We strive to build deep and enduring relationships with our customers, who trust and rely on us to be part of their success over the long term.





2008 was a year of rapid change. TSMC's business remained vibrant in the first three quarters of the year, but saw demand slowing by the middle of the third quarter. Fourth quarter revenue substantially declined and showed no sign of recovery by the year-end. Historically, TSMC has leveraged periodic challenges to become stronger. The challenges of 2009 are clear: TSMC is committed to do our utmost to emerge from this global economic crisis stronger than ever. TSMC's trinity of strengths—technology leadership, manufacturing excellence and customer partnership—will continue to enable us to become the most advanced, innovative, and largest provider of foundry services.

From left to right:
F.C. Tseng, Vice Chairman
Morris Chang, Chairman
Rick Tsai, President and CEO



LETTER TO SHAREHOLDERS

Dear Shareholders,

2008 was a year of rapid change. TSMC's business remained vibrant in the first three quarters of the year, but saw demand slowing by the middle of the third quarter. Fourth quarter revenue substantially declined and showed no sign of recovery by the year-end.

With the sharp decline in the demand for semiconductors in the last quarter of 2008, revenue of the worldwide semiconductor market for the full year is estimated to have declined by about 3 percent from its 2007 level. Pure-play foundry segment is estimated to have outperformed the semiconductor industry and registered an annual growth rate of approximately 2 percent. TSMC outperformed its peers, delivered 7.9 percent revenue growth in US dollars, and gained market share to reach 51 percent among pure-play foundries during 2008. The outperformance is particularly pronounced in the advanced process technologies where TSMC successfully ramped its 65-nanometer process technology from 10 percent of wafer revenue at the beginning of the year to 27 percent by year-end, taking a share of more than 80 percent for that technology among the logic foundries.

Financial Results

Total consolidated revenue for 2008 was NT\$333.16 billion, a 3.3 percent increase compared with NT\$322.63 billion in 2007. Mainly due to the implementation of a new accounting rule that requires expensing of employee profit sharing in the Company's financial statements starting in 2008, net income decreased 8.5 percent to NT\$99.93 billion, compared with 2007 net income of NT\$109.18 billion. Similarly, diluted earnings per share decreased 5.7 percent to NT\$3.83, compared with NT\$4.06 a year earlier. Had the accounting rules remained the same and employee profit sharing had not been expensed, net income in 2008 would have been NT\$112.42 billion and EPS NT\$4.31. In US dollars, TSMC's 2008 revenue was US\$10.61 billion and net income was US\$3.18 billion.

Among other highlights in 2008, TSMC achieved:

- Total average capacity utilization of 90 percent;
- Average gross profit margin of 42.5 percent; and
- Average operating profit margin of 31.4 percent.

During the year, TSMC shipped 8.47 million eight-inch equivalent wafers, representing about 8 percent of global IC wafer shipments, up from 7.5 percent a year ago.

Technology Innovation

As a technology leader, TSMC is committed to investing in long-term growth by delivering continual innovation. Despite a challenging economic environment, 2008 was characterized by significant technological progress. TSMC led the foundry segment with qualification and delivery of 40-nanometer high performance and low-power technologies, using advanced immersion lithography, performance enhancing silicon strains and extreme low-k inter-metal dielectric material. TSMC also demonstrated the foundry's first 32-nanometer technology which supported both analog and digital functionalities. TSMC is the first foundry to announce the 28-nanometer process as a full node technology that will include a choice of silicon oxynitride and high-k/metal gate transistor options. Our paper on high-k/metal gate published in the 2008 International Electron Device Meeting proceedings was featured as a conference highlight.

In order to enable efficient implementation of innovations among the semiconductor design community, and its ecosystem partners, along with TSMC's own IP, design services and process technologies, TSMC unveiled its Open Innovation Platform™ (OIP) in early 2008. Central to the platform is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that can more efficiently empower innovation throughout the supply chain and yield benefit to all participants.

Corporate Developments

Early in 2008 TSMC reorganized and established the Advanced Technology Business Organization and the Mainstream Technology Business Organization by merging operation with technology and service marketing. These two new organizations will respectively take responsibility for formulation, development, and execution of advanced technology and mainstream technology business objectives, with dedicated human resources and more flexibility.

In August 2008, Royal Philips Electronics NV completed a four-phased plan and exited from its TSMC shareholding. As part of the plan, and subsequently for the purpose of partially offsetting the dilution from employee profit sharing, the Company repurchased, in two separate programs, a total of 495,549 thousand common shares in the open market of the Taiwan Stock Exchange, accounting for approximately 1.92% of its total outstanding shares, at an average price of NT\$61.40 per share. The repurchased shares were cancelled subsequently.

Honors and Awards

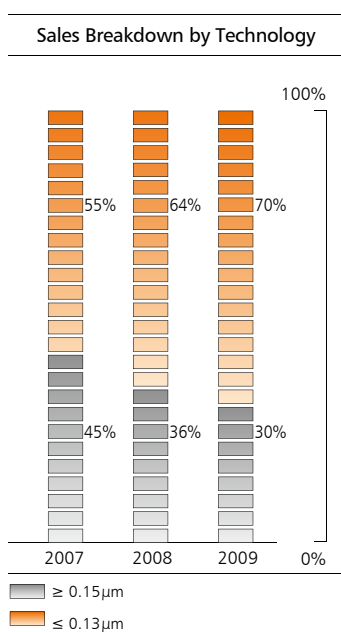
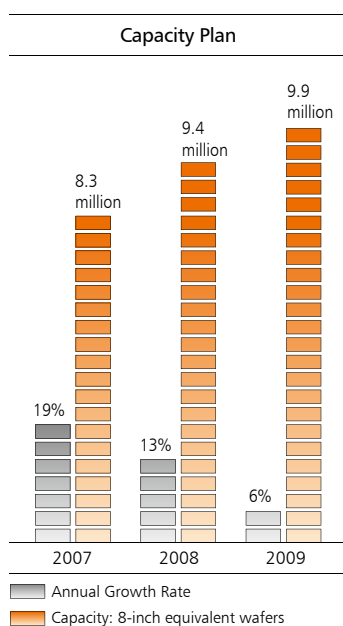
In recognition of his distinguished career and significant contributions to the U.S. semiconductor industry, the Semiconductor Industry Association (SIA), in November, honored TSMC's Chairman Dr. Morris Chang as the 2008 recipient of the Robert N. Noyce Memorial Award, the Association's highest honor.

TSMC, in 2008, continued to receive recognition and awards from around the world as a corporate role model. TSMC's disclosure and transparency and its focus on shareholder value have won top honors from *AsiaMoney Magazine*, *The Asset Magazine*, *Corporate Governance Asia*, *FinanceAsia*, and *Institutional Investors* in the areas of Corporate Governance, Management, and Investor Relations. *IR Magazine* announced TSMC as the winner of Grand Prix for Best Overall Investor Relations 6 years in a row, while *CommonWealth Magazine* voted TSMC the Most Admired Company in Taiwan for the 12th consecutive year, and also awarded us with "Excellence in Corporate Social Responsibility". As a leader in good corporate citizenship, TSMC was included in the Dow Jones Sustainability Index for the 8th consecutive year, and is the only company from Taiwan included in the Carbon Disclosure Leadership Index. TSMC has received certificate of National Industrial Safety and Health Award given by the Taiwan Executive Yuan, and its Fab 14 Phase III has been certified by the US Green Building Council as a Leader in Energy and Environmental Design (LEED).

Outlook

As we enter 2009, the global economy is in the midst of a deep recession and the timing of a recovery is uncertain. TSMC's Management understands that the strong headwinds brought by the global recession will likely result in a long period of slower business recovery. However, TSMC's solid balance sheet and strong cash position should enable us to weather the storm well. We will continue to invest wisely in our future to enhance our technologies and capabilities. TSMC's trinity of strengths: technology leadership, manufacturing excellence and customer partnership, will continue to enable us to become the most advanced, innovative, and largest provider of foundry services.

Historically, TSMC has leveraged periodic challenges to become stronger. The challenges of 2009 are clear, and all TSMC employees are committed to do our utmost to emerge from this global economic crisis stronger than ever.



2009 wafer shipment is expected to be approximately 4.6 million 8-inch equivalent wafers.

Morris Chang
Chairman

Rick Tsai
President and CEO

A photograph of a semiconductor manufacturing facility. In the foreground, a worker wearing a white cleanroom suit, mask, and hairnet is looking towards the camera. The background shows a complex industrial environment with various machines, cables, and structural beams. A large, stylized white arrow graphic points from the left towards the text box.

To support the semiconductor industry's reliance on foundry services, we unveiled our Open Innovation Platform™ to enable efficient implementation of innovations among the semiconductor design community, bringing together our ecosystem partners, along with TSMC's own IP, design services and process technologies. Central to the platform is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that can more efficiently empower innovation throughout the supply chain and yield benefit to all participants.

COMPANY PROFILE

2.1 An Introduction to TSMC

TSMC is the world's largest pure-play semiconductor foundry. Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the business model of focusing solely on manufacturing customers' semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers.

With a diverse global customer base, TSMC-manufactured microchips are used in a broad variety of applications that cover various segments of the computer, communications and consumer electronics markets.

Total capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, was 9.38 million 8-inch equivalent wafers in 2008. In Taiwan, TSMC operates two advanced 12-inch wafer fabs, four 8-inch wafer fabs, and one 6-inch wafer fab. TSMC also manages two 8-inch fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited. In addition, TSMC obtains 8-inch wafer capacity from other companies in which the Company has an equity interest.

TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, South Korea, and India. The Company employed more than 22,000 people worldwide as of the end of 2008.

TSMC continued to lead the foundry segment in semiconductor industry in advanced process technologies. Already the first foundry to provide 65nm production capacity, again, in 2008, TSMC was the first foundry to provide 40nm production. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, mixed signal/RF, high voltage, CMOS image sensor, color filter, MEMS, and silicon germanium technologies. In September 2008, TSMC announced future plans to deliver its 28nm process as a full node technology in 2010, offering the option of both high-k metal gate (HKMG) and silicon oxynitride (SiON) material to support a variety of customer applications.

The Company is listed on the Taiwan Stock Exchange (TWSE) under ticker number 2330, and its American Depositary Shares trade on the New York Stock Exchange (NYSE) under the symbol "TSM".



2.2 Market/Business Summary

2.2.1 TSMC Achievements

In 2008, TSMC maintained its leading position in the pure-play foundry segment of the global semiconductor industry, with an estimated market segment share of 51%. TSMC achieved this result amid fierce competition from both established players and relatively new entrants to the business.

Leadership in advanced process technologies is a key factor in TSMC's strong market position. In 2008, 64% of TSMC's wafer revenue came from manufacturing processes with geometries of 0.13 μ m and below. A critical milestone was reached in September 2008, when TSMC shipped its five hundred thousandth 65nm 12-inch wafer. Moreover, TSMC also achieved volume production of the 45/40nm process as well as development of the leading-edge 32/28nm process, both foundry firsts. As of the fourth quarter of 2008, 27% of TSMC's wafer revenue came from 65nm processes and below.

In addition to advanced technologies, TSMC also offers innovative services in line with its unwavering focus on customer partnership. Among the many innovative services unveiled in 2008 was wafer level chip scale package (WLCSP) which offers smaller form factor, addressing the trend of mobile devices becoming smaller, thinner while providing richer features. TSMC also rolled out its Open Innovation Platform™ initiative in 2008 to promote and facilitate timely innovation among the semiconductor design community, its ecosystem partners and TSMC's IP, design methodology, design implementation, DFM capabilities, process technology and backend services.

TSMC continued to advance the semiconductor roadmap in 2008. Examples of technologies the Company developed or rolled out include:

- 32/28nm technology with functional static random access memory (SRAM)
- 45/40nm technology
- 55nm general performance technology, a 90% linear shrink from 65nm
- 85nm general performance technology
- 85nm low power technology
- 0.12 μ m general performance technology
- 0.13 μ m high voltage process for small panel single chip drivers
- 0.152 μ m logic process for low power and radio frequency (RF) applications

- 0.18 μ m low power embedded flash memory
- 0.18 μ m bipolar complementary device (BCD)

Meanwhile, the following technology is also in our development roadmap:

- 55nm low power technology

In addition, one of the major focus of TSMC's technology development in 2008 was its specialty technology strategy, including 65nm/90nm embedded flash, 65nm/90nm CMOS image sensor and 0.13 μ m analog technologies. In 2008, TSMC also marked foundry-first CMOS image sensor with innovative back side illumination technology, named 0.11 μ m BSI. These specialty technologies are key differentiators from competitors and provide customer more value.

2.2.2 Market Overview

It's estimated that the semiconductor market in 2008 reached US\$249 billion in revenue, a slight decrease of 3% compared to 2007. According to IC Insights, total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US\$25.0 billion in 2008, up 2.9% year on year, while revenues from pure-play foundries such as TSMC reached US\$21.0 billion. In 2008, the largest geographic market for pure-play foundry services was North America, which accounted for 62% of overall pure-play foundry revenue. The second largest geographic market was Asia Pacific (excluding Japan), which accounted for 24% of total pure-play foundry revenue in 2008. European-based customers accounted for 9%, and orders from companies based in Japan contributed 5%.

2.2.3 Industry Outlook, Opportunities and Threats

Industry Demand and Supply Outlook

The semiconductor market in 2008 experienced a slight decline of 3%. For 2009, based on the deteriorating global macro economic, the semiconductor market could decline in percentage terms by around 20%, depending on the severity of the recession. As the inventory level in the supply chain generally appears higher than average at the end of 2008, the decline of the foundry segment could be deeper than the semiconductor industry by another mid-to-high single digit percent in 2009. Pure-play foundry capacity is estimated to increase by around 5% in 2009, compared with the 12% compound annual growth rate from 2006 to 2008. This indicates that the foundry players may only invest very limited capacity in response to the recession in 2009.

Opportunities and Threats in the Foundry Sector of the Semiconductor Market

Despite the fact that the semiconductor market as a whole is maturing and the challenge in 2009, TSMC believes that foundry services, the sector in which TSMC principally competes, will play an increasingly important role as the semiconductor industry becomes more reliant on outsourced manufacturing in the long run. With the assumption of production value being 2.2 times of pure-play foundry revenue, it's forecasted that by 2013, 21% of global semiconductor revenue will come from pure-play foundries, compared with 17% in 2008, according to IC Insights. As the leader in pure-play foundry services, TSMC is well positioned to capture the growth opportunities of this sector. On the other hand, threats facing the foundry sector include a continuing decline in wafer prices, due to the fact that the IC industry is prone to fast-declining end application prices, as well as potential industry overcapacity when the global economic climate experiences a downturn.

2.2.4 TSMC Position, Differentiation and Strategy

Position

As the leader in the pure-play foundry segment of the semiconductor manufacturing industry, TSMC commanded a 51% share of this segment in 2008, with total consolidated revenue of US\$10.6 billion. In terms of geographic distribution of wafer revenue, 74% came from North America, 13% from the Asia Pacific region excluding Japan, 10% from Europe, and 3% from Japan. In terms of end product application, 33% of total wafer revenue came from the computing sector, 42% from communications, 19% from consumer products, and 6% from other categories, such as industrial products.

Differentiation

TSMC's leading industry position is based on a trinity of key differentiating strengths: technology leadership, manufacturing excellence, and customer partnership. As a technology leader, TSMC has consistently been the first pure-play foundry to develop the next generation of leading-edge technologies. As a manufacturing leader, TSMC is renowned for its yield management, and offers best-in-class support services to expedite time-to-market and time-to-volume. And, in customer partnership, TSMC works closely with its customers on end-to-end collaboration to optimize design and manufacturing efficiencies. Going forward, TSMC will continue building on this trinity of strengths to provide the best overall value to its customers.

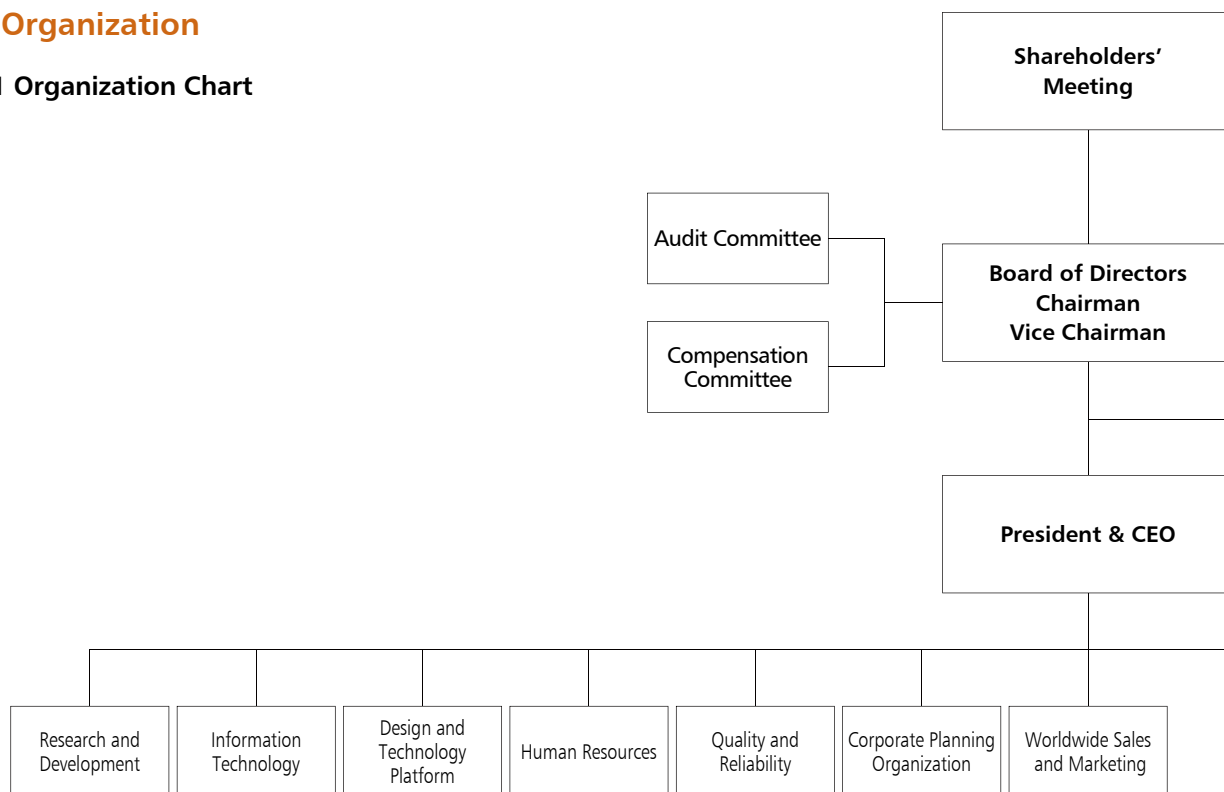
Strategy

TSMC is confident its differentiating strengths will enable it to leverage the attractive growth opportunities in the foundry sector going forward. TSMC works constantly to ensure that these strengths are maintained and improved. For example, TSMC is intensively working on the leading-edge 28nm and 22nm process to maintain its technology leadership position, and is poised to be the first pure-play foundry player to roll out production in these technologies. Numerous efforts are also underway to ensure manufacturing excellence, such as continuing enhancement of Design-For-Manufacturing (DFM) support services to increase yield and efficiency. TSMC also introduced its Open Innovation Platform initiative, a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that efficiently empowers innovation throughout the supply chain to enhance timely innovation. Finally, TSMC conducts throughout the year customer reviews and surveys to better understand customer needs and wants, and accordingly may adjust its offerings in response, thereby strengthening its partnership with customers.

To counter the ongoing challenge of falling wafer prices, TSMC's plans to continue strengthening its core capabilities and value propositions, including its ability to deliver customer product to market earlier and with better functionality; to develop advanced and mainstream technologies with sufficient capacity support and flexible manufacturing, and to continue to focus on customer service. In addition, TSMC will continue optimizing its service portfolio in order to balance profitability and growth.

2.3 Organization

2.3.1 Organization Chart



2.3.2 Major Corporate Functions

Research and Development

- Technology research and development, and exploratory research and development

Information Technology

- Technology and business system integration, Information technology infrastructure, and IT development and operation

Design and Technology Platform

- Design services and technology platform development

Human Resources

- Human resources management and organizational development

Quality and Reliability

- Quality and reliability management

Corporate Planning Organization

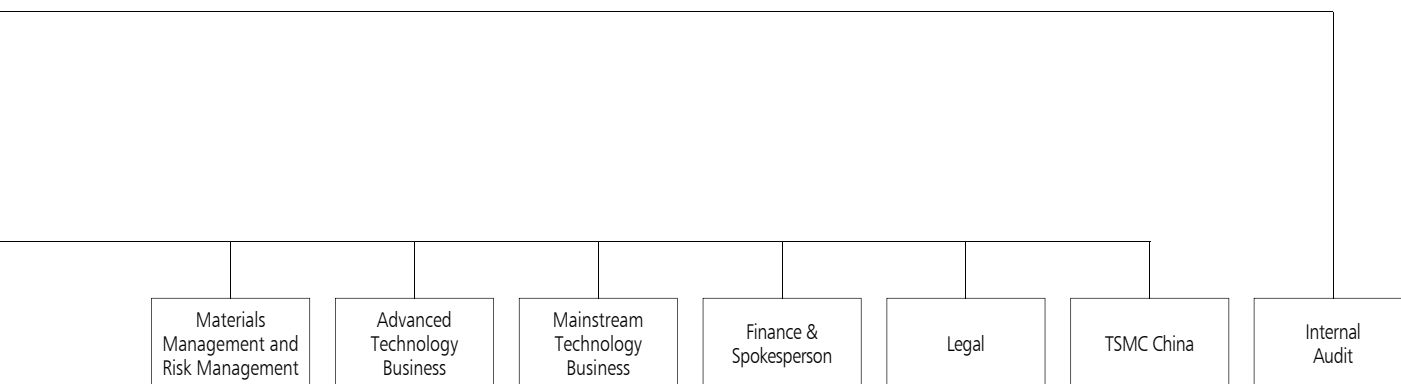
- Operation resources planning, production and demand planning, and business process integration

Worldwide Sales and Marketing

- Brand Management — corporate brand management
- Market Research — market analysis, forecast and research
- Customer Service — customer loyalty and solutions management
- Regional Operations — business development and account services for the North American, European, Japanese, and Asian regions

Materials Management and Risk Management

- Purchasing, warehousing, import and export, logistics support, industrial safety, and environmental protection



Advanced Technology Business

- Manufacturing operations (Fabs 12 and 14), new fab planning, manufacturing technology integration, advanced product engineering, backend technology and service, mask manufacturing, advanced technology business development, and technology and service marketing

Mainstream Technology Business

- Manufacturing operations (Fabs 2, 3, 5, 6, and 8), mainstream product engineering, mainstream technology business development, capacity management, and technology and service marketing

Finance & Spokesperson

- Corporate finance, accounting, investor relations, public relations, tax, financial planning, investment management, and strategic program
- Corporate spokesperson

Legal

- Corporate legal affairs, litigation, commercial transactions, patents and other intellectual property management

TSMC China

- Business strategy and development, manufacturing operations, and account services in China

Internal Audit

- Internal audit and process compliance



2.4 Board Members

2.4.1 Information Regarding Board Members

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding	
				Shares	%	Shares	%
Chairman Morris Chang	05/16/2006	05/15/2009	12/10/1986	112,677,772	0.46%	118,047,697	0.46%
Vice Chairman F.C. Tseng	05/16/2006	05/15/2009	05/13/1997	39,010,891	0.16%	36,234,509	0.14%
National Development Fund, Executive Yuan Representative: (Note 1, 2, 3) Director Chintay Shih	05/16/2006	05/15/2009	12/10/1986	1,581,649,966	6.39%	1,645,482,861	6.42%
Director Rick Tsai	05/16/2006	05/15/2009	06/03/2003	25,466,795	0.10%	34,018,636	0.13%
Independent Director Sir Peter Leahy Bonfield	05/16/2006	05/15/2009	05/07/2002	-	-	-	-
Independent Director Lester Carl Thurow	05/16/2006	05/15/2009	05/07/2002	-	-	-	-
Independent Director Stan Shih	05/16/2006	05/15/2009	04/14/2000	1,415,785	0.01%	1,472,922	0.01%

As of 02/28/2009

Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
Shares	%		
35,042	0.00%	B.S. and M.S. degrees, Mechanical Engineering, MIT Ph.D., Electrical Engineering, Stanford University Former Chairman, Industrial Technology Research Institute Former President & COO, General Instrument Corporation Former Group Senior Vice-President, Texas Instrument Former CEO, TSMC Life Member Emeritus of MIT Corporation Member of National Academy of Engineering, USA Trustee of the Eisenhower Foundation Member of the Committee of 100 Fellow of Computer History Museum, USA Member of the International Advisory Committee of NYSE Euronext Board of Directors	None
132,195	0.00%	Ph.D., Electrical Engineering, National Chengkung University, Taiwan Former President, Vanguard International Semiconductor Corp. Former President, TSMC Former Deputy CEO, TSMC	Chairman of: - TSMC China Company Limited. - Global Unichip Corp. Director of: - Prosperity Venture Capital Corp. - digimax, Inc. - Allegro Manufacturing Pte, Ltd.
-	-	Ph.D., Electrical Engineering, Princeton University Former President, Industrial Technology Research Institute Special Advisor, Industrial Technology Research Institute Professor and Dean, College of Technology Management, National Tsinghua University, Taiwan	Director, Industrial Technology Investment Corporation
-	-	Ph.D., Material Science, Cornell University Former President, Vanguard International Semiconductor Corporation Former COO, TSMC Former Executive Vice President, Worldwide Marketing and Sales, TSMC	President & CEO, TSMC Director, TSMC subsidiary companies
-	-	Bachelor Degree in Engineering, Loughborough University Honours Degree in Engineering, Loughborough University Fellow of the Royal Academy of Engineering Former Chairman and CEO, ICL Plc Former CEO and Chairman of the Executive Committee, British Telecommunications Plc Vice President, the British Quality Foundation	Chairman of the Supervisory Board, NXP Director of: - Sony Corporation, Japan - L.M. Ericsson, Sweden - Mentor Graphics Corporation Inc., Oregon, USA - Dubai International Capital - Actis Capital LLP, London Member of: - The Citigroup International Advisory Board - The Longreach Group Advisory Board - The Sony Corporation Advisory Board - New Venture Partners LLP Advisory Board Advisor to Apax Partners LLP Board Mentor, CMI
-	-	Ph.D., Economics, Harvard University Former Dean, Sloan School of Management, MIT Jerome and Dorothy Lemelson Professor of Management and Economics, Sloan School of Management, MIT Former Director, Analog Devices Inc.	None
16,036	0.00%	Honorary EE Ph.D., MSEE, BSEE, National Chiao Tung University, Taiwan Honorary Doctor of Technology, The Hong Kong Polytechnic University Honorary Fellowship, University of Wales, Cardiff, UK Honorary Doctor of International Law, Thunderbird, American Graduate School of International Management, USA Former Chairman, CEO and Co-Founder, Acer Group	Group Chairman, iD SoftCapital Director of: - Acer Incorporated - Qisda Corporation - Wistron Corporation - Nan Shan Life Insurance Company, Ltd.

(Continued)

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding	
				Shares	%	Shares	%
Independent Director Carleton (Carly) S. Fiorina	05/16/2006	05/15/2009	05/16/2006	-	-	-	-
Remarks: 1. No member of the Board of Directors held TSMC shares by nominee arrangement. 2. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at TSMC.							

Note 1: Effective on November 10, 2008, Mr. Chintay Shih, representative of National Development Fund, Executive Yuan, resigned as a director of TSMC. As of the date of this Annual Report, TSMC has not been informed of the replacement.

Note 2: Major Shareholder of TSMC's Director that is a Juridical Person Shareholder

Director that is a Juridical Person Shareholder	Top 10 Shareholders
National Development Fund, Executive Yuan	Not Applicable

Note 3: Major shareholders of juridical person shareholder as stated in note 2: Not applicable.

2.4.2 Directors' Professional Qualifications and Independence Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Board members are listed in the table below.

Name/Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience		
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company
Chairman Morris Chang			✓
Vice Chairman F.C. Tseng			✓
Director Chintay Shih			✓
Director Rick Tsai			✓
Independent Director Sir Peter Leahy Bonfield			✓
Independent Director Lester Carl Thurow	✓		
Independent Director Stan Shih			✓
Independent Director Carleton (Carly) S. Fiorina			✓

Note: Directors or Supervisors, during the two years before being elected or during the term of office, have been or be any of the following, please tick the appropriate corresponding boxes:

- Not an employee of the Company or any of its affiliates;
- Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares;
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings;
- Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs;
- Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings;
- Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Company;
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof;
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company;
- Not been a person of any conditions defined in Article 30 of the Company Law; and
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
Shares	%		
-	-	Bachelor Degree, Medieval History and Philosophy, Stanford University Master Degree, Business Administration, Robert H. Smith School of Business, University of Maryland at College Park, Md. Master Degree, Science, MIT's Sloan School Former Chairman of the Board, Hewlett-Packard Former President and CEO, Hewlett-Packard Former Senior Management, AT&T and Lucent Technologies Member, MIT Corporation Chairman, Technology Policy Institute, Washington, D.C. Vice-Chairman, Initiative for Global Development	Chairman and CEO, Carly Fiorina Enterprises

Criteria (Note)										Number of Other Public Companies Concurrently Serving as an Independent Director
1	2	3	4	5	6	7	8	9	10	
√	√		√	√	√	√	√	√	√	0
√			√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√		0
			√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0

2.4.3 Remuneration Paid to Directors (Note 1)

Unit: NT\$ thousands

Title/Name	Remuneration								Total Remuneration (A+B+C+D) as a % of 2008 Net Income	
	Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C) (Note 3)		Allowances (D) (Note 4)			
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities
Chairman Morris Chang	24,466	24,466	0	0	158,080	158,080	905	905	0.18%	0.18%
Vice Chairman F.C. Tseng										
National Development Fund, Executive Yuan Representative: Director Chintay Shih (Note 2)										
Director Rick Tsai										
Independent Director Sir Peter Leahy Bonfield										
Independent Director Lester Carl Thurow										
Independent Director Stan Shih										
Independent Director Carleton (Carly) S. Fiorina										

Note 1: Remuneration Policies: The base compensation for the Chairman, Vice-Chairman and directors are determined in accordance with the procedures set forth in TSMC's Articles of Incorporation. The Articles of Incorporation also provides that TSMC shall allocate no more than 0.3% of earnings available for distribution as bonus to directors. The distribution of compensation to directors shall be made in accordance with TSMC's "Rules for Distribution of Compensation to Directors".

Note 2: Effective on November 10, 2008, Mr. Chintay Shih, representative of National Development Fund, Executive Yuan, resigned as a director of TSMC. As of the date of this Annual Report, TSMC has not been informed of the replacement.

Note 3: The Board adopted a proposal for 2008 compensation to TSMC's directors in the amount of NT\$158,080 thousand at its meeting on February 10, 2009. The proposed compensation will be effected upon the approval of shareholders at the Annual Shareholders' Meeting on June 10, 2009.

Note 4: Includes the expense for company cars. Exclude compensation paid to company drivers totaled NT\$3,160 thousand.

Note 5: Pensions funded according to applicable law.

Note 6: Represents cumulative employee stock options exercisable as of the date of this Annual Report.

Note 7: Total remuneration paid to TSMC's directors in 2007 was NT\$403,701 thousand, accounting for 0.37% of 2007 net income.

Remuneration Paid to Directors (Note 1)

	2008			
	Total Remuneration (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G)	
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities
Under NT\$ 2,000,000	Rick Tsai (Note 2)		-	-
NT\$2,000,000 ~ NT\$5,000,000	-	-	-	-
NT\$5,000,000 ~ NT\$10,000,000	-	-	-	-
NT\$10,000,000 ~ NT\$15,000,000	-	-	-	-
NT\$15,000,000 ~ NT\$30,000,000	Morris Chang F.C. Tseng National Development Fund, Executive Yuan Sir Peter Leahy Bonfield Lester Carl Thurow Stan Shih Carleton (Carly) S. Fiorina		Morris Chang F.C. Tseng National Development Fund, Executive Yuan Sir Peter Leahy Bonfield Lester Carl Thurow Stan Shih Carleton (Carly) S. Fiorina	
NT\$30,000,000 ~ NT\$50,000,000	-	-	-	-
NT\$50,000,000 ~ NT\$100,000,000	-	-	-	-
Over NT\$100,000,000	-	-	Rick Tsai (Note 2)	
Total	8		8	

Note 1: The proposed compensation will be effected upon the approval of shareholders at the Annual Shareholder Meeting on June 10, 2009.

Note 2: According to the Company's Articles of Incorporation, directors who also serve as executive officers of this Corporation are not entitled to receive bonus to directors. As a result, no director remuneration was paid to Dr. Rick Tsai.

Compensation Earned as Employee of TSMC or of TSMC's Consolidated Entities										Total Compensation (A+B+C+D+E+F+G) as a % of 2008 Net Income (Note 7)		Compensation Paid to Directors from Non- consolidated Affiliates
Base Compensation, Bonuses, and Allowances (E)		Severance Pay (F) (Note 5)		Employee Profit Sharing (G)				Exercisable Employee Stock Options (Note 6) (H)				
From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC		From All Consolidated Entities		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	
				Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)					
9,209	9,209	663	663	55,040	55,040	55,040	55,040	822	822	0.30%	0.30%	0

2.5 Management Team

2.5.1 Information Regarding Management Team

Title (Note 1)/Name	Date Effective (Note 2)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)
		Shareholding	%	Shareholding	%	
President & Chief Executive Officer Rick Tsai	07/01/2005	34,018,636	0.13%	-	-	-
Senior Vice President Special Projects Kenneth Kin (Note 3)	07/04/2001	7,580,915	0.03%	-	-	-
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management Stephen T. Tso	02/01/2005	15,264,895	0.06%	-	-	-
Senior Vice President Advanced Technology Business Mark Liu	12/01/2005	13,382,351	0.05%	-	-	-
Senior Vice President Mainstream Technology Business C.C. Wei	12/01/2005	9,027,433	0.04%	260	0.00%	-
Vice President Mainstream Technology Business M.C. Tzeng	01/01/2002	7,446,038	0.03%	102,211	0.00%	-
Vice President & General Counsel Richard Thurston	01/02/2002	2,648,215	0.01%	-	-	-
Vice President, Chief Financial Officer & Spokesperson Lora Ho	09/08/2003	6,264,160	0.02%	109,720	0.00%	-
Vice President Human Resources P.H. Chang	02/17/2004	4,734,391	0.02%	-	-	-
Vice President Research and Development Wei-Jen Lo	06/05/2006	3,000,337	0.01%	-	-	-
Vice President Worldwide Sales and Marketing Jason C.S. Chen	03/01/2008	2,274,970	0.01%	122	0.00%	-
Vice President Design and Technology Platform Fu-Chieh Hsu	03/31/2006	2,079,727	0.01%	-	-	-
Vice President Research and Development Jack Sun	06/23/2006	5,498,216	0.02%	-	-	-
Vice President Advanced Technology Business Y.P. Chin	02/19/2008	6,970,076	0.03%	948,176	0.00%	-
Vice President Quality and Reliability N.S. Tsai	02/19/2008	1,829,088	0.01%	1,097,765	0.00%	-
Vice President & President, North America Rick Cassidy	11/11/2008	0	0.00%	-	-	-
Senior Director Corporate Planning L.C. Tu	04/01/2003	9,153,080	0.04%	1,246,250	0.00%	-
Senior Director Internal Audit Jan Kees van Vliet	10/15/2003	2,151,223	0.01%	-	-	-

Note 1: TSMC's business organization was re-structured beginning March 1, 2008.

Note 2: The date effective means the official date of current job position.

Note 3: Mr. Kenneth Kin resigned on December 31, 2008. The shareholding is updated to December 31, 2008.

As of 02/28/2009

Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
Ph.D., Material Science, Cornell University, USA Executive Vice President, Worldwide Marketing and Sales, TSMC COO, TSMC President, Vanguard International Semiconductor Corp.	Director, TSMC subsidiary companies	-	-	-
Ph.D., Nuclear Engineering and Applied Physics, Columbia University, USA Vice President, Worldwide Sales & Services, IBM Microelectronics Division	Director, TSMC subsidiary companies	-	-	-
Ph.D., Materials Science & Engineering, University of California, Berkeley, USA President, WaferTech, L.L.C. Senior Vice President, Operations, TSMC	Director, TSMC subsidiary companies	-	-	-
Ph.D., Electrical Engineering & Computer Science, University of California, Berkeley, USA Vice President, South Site Operation, TSMC President, Worldwide Semiconductor Manufacturing Corp.	None	-	-	-
Ph.D., Electrical Engineering, Yale University, USA Vice President, South Site Operation, TSMC Senior Vice President, Chartered Semiconductor Manufacturing Ltd.	Director, TSMC subsidiary companies Director, TSMC affiliated companies	-	-	-
Master, Applied Chemistry, Chungyuan University, Taiwan Senior Director, Fab 2 Operation, TSMC	None	Department Manager	M.J. Tzeng	Siblings
J.D., Rutgers School of Law, State University of New Jersey, USA Ph.D., History, University of Virginia, USA Partner, Haynes Boone, LLP. Vice President Corporate Staff, Assistant General Counsel, Texas Instruments Incorporated	Director, TSMC subsidiary companies Director, TSMC affiliated companies	-	-	-
Master, Business Administration, National Taiwan University, Taiwan Senior Director, Accounting, TSMC Vice President, TI-Acer Semiconductor Manufacturing Corp.	Director and/or Supervisor, TSMC subsidiary companies Supervisor, TSMC affiliated companies	-	-	-
Ph.D., Materials Science & Engineering, Purdue University, USA Senior Director, Materials Management, TSMC Vice President, Worldwide Semiconductor Manufacturing Corp.	None	-	-	-
Ph.D., Solid State Physics & Surface Chemistry, University of California, Berkeley, USA Director, Advanced Technology Development & CTM Plant Manager, Intel	None	-	-	-
Master, Business Administration, University of Missouri-Columbia, USA Vice President & Co-Director of Worldwide Sales & Marketing Group, Intel	Director, TSMC subsidiary companies	-	-	-
Ph.D., Electrical Engineering and Computer Sciences, University of California, Berkeley, USA Chairman and CEO, Monolithic System Technology Inc. Chairman and President, Myson Technology Inc.	Director, TSMC subsidiary companies	-	-	-
Ph.D., Electrical Engineering, University of Illinois at Urbana-Champaign, USA Senior Director, Logic Technology Division, TSMC	None	-	-	-
Master, Electrical Engineering, National Cheng Kung University, Taiwan Senior Director, Product Engineering & Services, TSMC	None	-	-	-
Ph.D., Material Science, Massachusetts Institute of Technology, USA Senior Director, Assembly Test Technology & Service, TSMC Vice President, Operations, Vanguard International Semiconductor Corp.	None	-	-	-
Bachelor, Engineering Technology, United States Military Academy at West Point, USA Vice President of TSMC North America Account Management	None	-	-	-
Master, Business Administration, Tulane University, USA Senior Director, Fab 5 Operation, TSMC	None	-	-	-
Master, Management, Delft/Erasmus University, the Netherlands Senior Director, Pricing & Business Process, TSMC Chief Financial Officer & member of the Board of Management, Philips Taiwan	None	-	-	-

2.5.2 Compensation Paid to President and Vice Presidents (Note 1)

Unit: NT\$ thousands

Title	Name	Salary		Severance Pay (Note 5)		Bonuses and Allowances (Note 6)	
		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities
President & Chief Executive Officer	Rick Tsai	60,392	70,828	5,262	5,908	16,728	85,548
Senior Vice President Special Projects	Kenneth Kin (Note 2)						
Senior Vice President & Chief Information Officer Information Technology & Materials Management/Risk Management	Stephen T. Tso						
Senior Vice President Advanced Technology Business	Mark Liu						
Senior Vice President Mainstream Technology Business	C.C. Wei						
Vice President Mainstream Technology Business	M.C. Tzeng						
Vice President & General Counsel	Richard Thurston						
Vice President Chief Financial Officer & Spokesperson	Lora Ho						
Vice President Human Resources	P.H. Chang						
Vice President Research and Development	Wei-Jen Lo						
Vice President Worldwide Sales and Marketing	Jason C.S. Chen						
Vice President Design and Technology Platform	Fu-Chieh Hsu						
Vice President Research and Development	Jack Sun						
Vice President Advanced Technology Business	Y.P. Chin (Note 3)						
Vice President Quality and Reliability	N.S. Tsai (Note 3)						
Vice President & President, North America	Rick Cassidy (Note 4)						

Note 1: Compensation Policy: The cash compensation and profit sharing paid to the president and each vice president are also reviewed by the Compensation Committee individually based on their job responsibility, contribution and performance before the compensation and profit sharing proposals are submitted to the Board of Directors for approval.

Note 2: Mr. Kenneth Kin resigned on December 31, 2008.

Note 3: Mr. Y.P. Chin and Mr. N.S. Tsai was promoted on February 19, 2008.

Note 4: Mr. Rick Cassidy was promoted on November 11, 2008.

Note 5: Pensions funded according to applicable law.

Note 6: Include the expense for company cars. Exclude compensation paid to company drivers totaled NT\$3,364 thousand.

Note 7: The Board adopted a proposal for 2008 employee profit sharing distribution in 2009 with respect to 2008 earnings at its meeting on February 10, 2009. The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholder Meeting on June 10, 2009.

Note 8: Total compensation paid to TSMC's president and vice presidents in 2007 was NT\$1,244,268 thousand, accounting for 1.07% of 2007 net income.

Note 9: Represents cumulative employee stock options exercisable as of this annual report print date.

Compensation Paid to President and Vice Presidents (Note)

	2008	
	From TSMC	From All Consolidated Entities
Under NT\$2,000,000	-	-
From NT\$2,000,000 ~ NT\$5,000,000	-	-
From NT\$5,000,000 ~ NT\$10,000,000	Kenneth Kin	-
From NT\$10,000,000 ~ NT\$15,000,000	-	-
From NT\$15,000,000 ~ NT\$30,000,000	-	-
From NT\$30,000,000 ~ NT\$50,000,000	M.C. Tzeng, Richard Thurston, Lora Ho, P.H. Chang, Wei-Jen Lo, Jason C.S. Chen, Fu-Chieh Hsu, Jack Sun, Y.P. Chin, N.S. Tsai	-
From NT\$50,000,000 ~ NT\$100,000,000	Stephen T. Tso, Mark Liu, C.C. Wei, Rick Cassidy	-
Over NT\$100,000,000	Rick Tsai	-
Total	16	-

Note: The Board adopted a proposal for 2008 employee profit sharing distribution in 2009 with respect to 2008 earnings at its meeting on February 10, 2009. The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholder Meeting on June 10, 2009.

Employee Profit Sharing (Note 7)				Total Compensation as a % of 2008 Net Income (Note 8)		Exercisable Employee Stock Options (Note 9)		Compensation Received from Non-consolidated Affiliates
From TSMC		From All Consoildated Entities		From TSMC	From All Consoildated Entities	From TSMC	From All Consoildated Entities	
Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)					
311,090	311,090	311,090	311,090	0.71%	0.78%	2,552	4,001	0

2.5.3 Employee Profit Sharing Granted to Management Team (Note)

Unit: NT\$ thousands

Title	Name
President & Chief Executive Officer	Rick Tsai
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management	Stephen T. Tso
Senior Vice President Advanced Technology Business	Mark Liu
Senior Vice President Mainstream Technology Business	C.C. Wei
Vice President Mainstream Technology Business	M.C. Tzeng
Vice President & General Counsel	Richard Thurston
Vice President Chief Financial Officer & Spokesperson	Lora Ho
Vice President Human Resources	P.H. Chang
Vice President Research and Development	Wei-Jen Lo
Vice President Worldwide Sales and Marketing	Jason C.S. Chen
Vice President Design and Technology Platform	Fu-Chieh Hsu
Vice President Research and Development	Jack Sun
Vice President Advanced Technology Business	Y.P. Chin
Vice President Quality and Reliability	N.S. Tsai
Senior Director Corporate Planning	L.C. Tu
Senior Director Internal Audit	Jan Kees van Vliet

Note: The Board adopted a proposal for 2008 employee profit sharing distribution in 2009 with respect to 2008 earnings at its meeting on February 10, 2009. The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 10, 2009. Mr. Kenneth Kin resigned on December 31, 2008 and was not eligible to receive 2008 employee profit sharing.

Stock (Fair Market Value)	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of 2008 Net Income
331,886	331,886	663,773	0.66%

A photograph of a semiconductor manufacturing cleanroom. A worker in a white cleanroom suit is standing in the foreground, facing away from the camera, looking at a computer monitor. The background shows complex machinery, overhead tracks, and bright yellow lighting. A semi-transparent text box is overlaid on the image.

TSMC has an independent, dedicated, and capable Board of Directors, independent from major shareholders and the management team, and loyal to the interests of all shareholders. The Board of Directors monitors the company to ensure that it obeys the law, its finances are transparent, it is free from internal corruption, and to coach the company's management. Its role is also to be consulted, to encourage, and to warn the management.

CORPORATE GOVERNANCE

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors established an Audit Committee in 2002 and a Compensation Committee in 2003.

TSMC's corporate governance won international recognition in 2008: *The Asset Magazine* awarded TSMC with the "The Asset Triple A Corporate Governance Awards 2008"; *Corporate Governance Asia* honored TSMC with its "Corporate Governance Asia Recognition in Taiwan". *FinanceAsia Magazine* ranked TSMC's corporate governance as the best among all companies in Taiwan with its "Best at Corporate Governance" for the Taiwan region.

3.1 Board of Directors

TSMC's Board of Directors consists of eight (Note) distinguished members with a great breadth of experience as world-class business leaders or scholars. Four of the eight members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Professor Lester Thurow from the Massachusetts Institute of Technology; former Acer Group Chairman, Mr. Stan Shih; and former Hewlett-Packard Chairman and CEO, Ms. Carleton (Carly) Fiorina. Under the leadership of Chairman Morris Chang, TSMC's Board of Directors takes a serious and forthright approach to its duties and is a serious, competent and independent Board.

In the spirit of Chairman Chang's approach to corporate governance, a board of directors' primary duty is to supervise. The Board should supervise the Company's: compliance with relevant laws and regulations; financial transparency; timely disclose of material information, and maintaining of highest integrity within the Company. TSMC's Board of Directors strives to perform through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, coordination with the Internal Audit department, and through the ombudsman reporting system.

The second duty of the board of directors is to provide guidance to the management team of the Company. TSMC's management quarterly reports to the TSMC Board on a variety of subjects. The management also reviews the Company's business strategies with the Board. Furthermore, the management often reviews with and updates TSMC's Board on the progress of the strategies, obtaining Board guidance as appropriate.

The third duty of the Board of Directors is to evaluate the management's performance and to dismiss officers of the Company when necessary. TSMC's management has maintained a healthy and functional communication with TSMC Board of Directors, has been devoted in executing guidance of TSMC Board of Directors, and is dedicated in running the business operations, all to achieve the best interests for TSMC shareholders.

Note: Effective on November 10, 2008, Mr. Chintay Shih, representative of National Development Fund, Executive Yuan, resigned as a director of TSMC. As of the date of this Annual Report, TSMC has not been informed of the replacement.

Board of Directors Meeting Status

The Chairman convened four regular meetings and one special meeting in 2008. The directors' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Morris Chang	5	0	100%	None
Vice Chairman	F.C. Tseng	5	0	100%	None
Director	National Development Fund, Executive Yuan Representative: Chintay Shih	4	1	80%	Mr. Chintay Shih resigned on November 10, 2008. As of the date of this Annual Report, TSMC has not been informed of the replacement.
Director	Rick Tsai	5	0	100%	None
Independent Director	Sir Peter Leahy Bonfield	5	0	100%	None
Independent Director	Lester Carl Thurow	3	2	60%	None
Independent Director	Stan Shih	5	0	100%	None
Independent Director	Carleton (Carly) S. Fiorina	1	4	20%	None

Annotations:

1. In 2008, there were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion.
2. There were no recusals of Directors due to conflicts of interests in 2008.
3. Measures taken to strengthen the functionality of the Board: We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors has established an Audit Committee and a Compensation Committee to assist the Board in carrying out its various duties.

3.1.1 Audit Committee

The Audit Committee assists the Board in carrying out its financial oversight responsibilities and other duties as set forth in the Company Act, the Securities and Exchange Act, and other applicable laws and regulations. Matters required to be reviewed by the Audit Committee include the Company's: financial reports; auditing and accounting policies and procedures; internal control systems; material asset or derivatives transactions; offering or issuance of any equity-type securities; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers.

TSMC's Audit Committee is empowered by its Charter to conduct any study or investigation it deems appropriate to fulfill its responsibilities. It has direct access to TSMC's internal auditors, the Company's independent auditors, and all employees of the Company. The Committee is authorized to retain and oversee special legal, accounting, or other consultants as it deems appropriate to fulfill its mandate.

As of February 2009, the Audit Committee was comprised of all four independent directors and had engaged a financial expert consultant. The Audit Committee Charter is available on TSMC's corporate website.

Audit Committee Meeting Status

Sir Peter Bonfield, Chairman of the Audit Committee, convened four regular meetings and three special meetings in 2008. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Sir Peter Leahy Bonfield	7	0	100%	None
Member	Lester Carl Thurow	6	1	86%	None
Member	Stan Shih	7	0	100%	None
Member	Carleton (Carly) S. Fiorina	5	1	71%	None
Financial Expert	J.C. Lobbezoo	7	0	100%	None
Annotations: 1. There was no Securities and Exchange Act §14-5 resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2008. 2. There were no recusals of independent directors due to conflicts of interests in 2008. 3. The communications between the independent directors, the internal auditors, and the independent auditors in 2008 (e.g. the channels, items and/or results of the audits on the corporate finance and/or operations, etc.) Descriptions: (1) The internal auditors have communicated the result of the audit reports to the members of Audit Committee periodically, and had presented the findings of all audit reports in the quarterly meetings of the Audit Committee. Should the urgency of the matter requires, the head of Internal Audit will inform the members of the Audit Committee outside of the regular reporting. The communication channel between the Audit Committee and the internal auditor functioned well. (2) The Company's independent auditors have presented the findings and/or the comments for the quarterly corporate financial reports, as well as the matters compulsory for communication legally, in the regular meetings of the Audit Committee every quarter. Under applicable laws and regulations, the independent auditors are required to communicate to the Audit Committee any material matters that they have discovered. During 2008, the Company's independent auditors did not make such communication. The communication channel between the Audit Committee and the independent auditors functioned well.					

3.1.2 Compensation Committee

The Compensation Committee assists the Board in discharging its responsibilities related to TSMC's compensation and benefits policies, plans and programs, and in the evaluation and compensation of TSMC's executives.

As of February 2009, the Compensation Committee was comprised of five members. All four independent directors served as voting members of the Committee; the Chairman of the Board, Dr. Morris Chang, was a non-voting member. Mr. Stan Shih, Chairman of the Compensation Committee, convened four regular meetings in 2008. The Compensation Committee Charter is available on TSMC's corporate website.

3.2 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Reason for Non-implementation
1. Shareholding Structure & Shareholders' Rights (1) Method of handling shareholder suggestions or complaints (2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3) Risk management mechanism and "firewall" between the Company and its affiliates	TSMC has designated appropriate departments, such as Investor Relations, Public Relations, the SEC Compliance Department, Legal Department, etc., to handle shareholder suggestions or complaints. TSMC tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of TSMC. TSMC has established appropriate guidelines in its "Internal Control System" policy and procedures.	None
2. Composition and Responsibilities of the Board of Directors (1) Independent Directors (2) Regular evaluation of external auditors' independence	Sir Peter Leahy Bonfield, Prof. Lester Carl Thurow, Mr. Stan Shih and Ms. Carleton (Carly) S. Fiorina are the independent directors of TSMC. The Audit Committee regularly evaluates the independence of external auditors.	None
3. Communication channel with stakeholders	TSMC has designated appropriate departments, such as Investor Relations, Public Relations, the SEC Compliance Department, Legal Department, etc., to communicate with stakeholders on a case by case basis, as needed. Furthermore, the contact information providing access to the Company's spokesperson and relevant departments is available on TSMC's website.	None
4. Information Disclosure (1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance status (2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	TSMC discloses information through its website http://www.tsmc.com . Since TSMC is a foreign private issuer with American Depositary Receipts listed on the New York Stock Exchange (NYSE), TSMC is subject to various NYSE regulations, one of which requires TSMC to disclose the significant ways in which its corporate governance practices differ from those followed by US domestic companies under NYSE listing standards. Such disclosure information may be found at the following web address: http://www.tsmc.com/download/english/e03_governance/NYSE_Section_303A.pdf TSMC has designated appropriate departments (e.g. Investor Relations, Public Relations, the SEC Compliance Department, etc.) to handle the collection and disclosure of information as required by the relevant laws and regulations of Taiwan and other jurisdictions. TSMC has designated spokespersons as required by relevant regulations. TSMC webcasts live investor conferences.	None
5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors	TSMC's Board of Directors has established an Audit Committee and a Compensation Committee. Please refer to the "Corporate Governance" section on pages 27-33 of this Annual Report for details.	None
6. If the Company has established corporate governance policies based on TSE Corporate Governance Best Practice Principles, please describe any discrepancy between the policies and their implementation. For the status of TSMC's corporate governance, please refer to the "Corporate Governance" section on pages 27-33 of this Annual Report.		
7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors): (1) Status of employee rights and employee wellness: Please refer to the "Employees" section on pages 55-58 of this Annual Report. (2) Status of investor relations, supplier relations and rights of stakeholders: Please refer to the "Corporate Social Responsibility" on pages 73-77 of this Annual Report. (3) Status of Risk Management Policies and Risk Evaluation: Please refer to the "Risk Management" section on pages 65-71 of this Annual Report. (4) Status of Customer Relations Policies: Please refer to the "Customer Partnership" section on pages 54-55 of this Annual Report. (5) TSMC maintains D&O Insurance for its directors and officers.		
8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None TSMC's corporate governance won international recognition in 2008: <i>The Asset Magazine</i> awarded TSMC with the "The Asset Triple A Corporate Governance Awards 2008"; <i>Corporate Governance Asia</i> honored TSMC with its "Corporate Governance Asia Recognition in Taiwan". <i>FinanceAsia Magazine</i> ranked TSMC's corporate governance as the best among all companies in Taiwan with its "Best at Corporate Governance" for the Taiwan region.		

Continuing Education/Training of Directors in 2008:

Title/Name	Date	Host by	Training/Speech Title	Duration
Chairman Morris Chang (Note)	05/04-05/06	Harvard Business School	Board Leadership Workshop	2 days
	11/06	The Taiwan Financial Supervisory Commission of the Executive Yuan	The 5 th Taipei Corporate Governance Forum Speech: "Social Responsibility through Corporate Governance - case study of TSMC"	0.5 hour
Vice Chairman F.C. Tseng	08/14	Taiwan Security & Futures Institute	Board Directors and Supervisors' Duty Under Corporate Governance	3 hours
Independent Director Sir Peter Leahy Bonfield	October	Ericsson	Board of Directors Training Programme (in Sweden)	1 day
Independent Director Stan Shih (Note)	03/27	Taipei International Management Council	2008 CEO Learning Consortium: Multi-National Corporation Merger Case Study	1.5 hours
1. From time to time, TSMC provides directors with information concerning regulatory requirements and developments as related to directors' activities. TSMC management also regularly presents updates on the Company's business and other information to directors. 2. Regular regulatory update reports are provided by TSMC's General Counsel and by the Company's independent auditors at the Audit Committee meetings.				

Note: Selected speeches on corporate governance and related topics.

3.3 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.1 Major Resolutions of Shareholders' Meeting and Implementation Status

Major Resolutions: TSMC's 2008 regular Shareholder Meeting was held in Hsinchu, Taiwan on June 13, 2008. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1) The 2007 Business Report and Financial Statements;
- (2) The distribution of 2007 profits;
- (3) The capitalization of 2007 dividends, employee profit sharing and capital surplus.

Implementation Status: All the resolutions of the Shareholders' Meeting have been fully implemented in accordance with the resolutions.

3.3.2 Major Resolutions of Board Meetings

During the 2008 calendar year, and through the period of January 1 to February 28, 2009, five regular board meetings and one special board meeting were convened. Major resolutions approved at these meetings are summarized below:

- (1) Regular Board Meeting of February 19, 2008:
 - 2007 business report and financial statements
 - distribution of 2007 profits, and the capitalization of dividends, employee profit sharing and capital surplus
 - cancellation of 800,000,000 treasury shares and the paid-in capital reduction of NT\$8,000,000,000
 - capital appropriation of US\$400 million
 - promotion of Mr. Y.P. Chin and Dr. N.S. Tsai as Vice Presidents of TSMC

- convening the 2008 Annual Shareholders' Meeting
- (2) Regular Board Meeting of May 13, 2008:
 - purchasing up to US\$1 billion (approximately NT\$30.43 billion) of the Company's common shares from the open market
 - capital appropriation of US\$995 million
 - (3) Regular Board Meeting of August 12, 2008:
 - purchasing up to US\$542 million (approximately NT\$16.5 billion) of the Company's common shares from the open market
 - capital appropriation of US\$687.6 million for 12-inch fabs
 - capital appropriation of US\$107.4 million for 8-inch fab
 - TSMC's merger of its 100%-owned subsidiary, Hsin Ruey Investment Co., Ltd.
 - cancellation of 216,674,000 treasury shares and the paid-in capital reduction of NT\$2,166,740,000
 - 2008 semi-annual financial statement
 - (4) Regular Board Meeting of November 11, 2008:
 - cancellation of 278,875,000 treasury shares and the paid-in capital reduction of NT\$2,788,750,000
 - promotion of Mr. Rick Cassidy as Vice President of TSMC
 - (5) Regular Board Meeting of February 10, 2009:
 - 2008 business report and financial statements
 - distribution of 2008 profits and capitalization of dividends, employee profit sharing and capital surplus
 - convening the 2009 Annual Shareholders' Meeting
 - appointment of Dr. L. John Liang as the head of Internal Audit of TSMC

3.3.3 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors from January 1, 2008 to February 28, 2009: None.

3.4 Internal Control System Execution Status

Taiwan Semiconductor Manufacturing Company Limited Statement of Internal Control System

Date: February 10, 2009

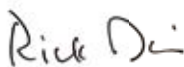
Based on the findings of a self-assessment, Taiwan Semiconductor Manufacturing Company Limited (TSMC) states the following with regard to its internal control system during the period from January 1, 2008 to December 31, 2008:

1. TSMC is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. TSMC has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of TSMC contains self-monitoring mechanisms, and TSMC takes corrective actions whenever a deficiency is identified.
3. TSMC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinbelow, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. TSMC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, TSMC believes that, during the year 2008, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be an integral part of TSMC's Annual Report for the year 2008 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on February 10, 2009, with zero of the eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Taiwan Semiconductor Manufacturing Company Limited



Morris Chang,
Chairman of the Board of Directors



Rick Tsai,
President & Chief Executive Officer

The disclosure of the external auditors' opinion on TSMC's internal control is not applicable.

3.5 Status of Personnel Responsible for Preparing Financial Reports

No personnel responsible for preparing financial reports resigned or were dismissed in 2008, and as of February 28, 2009.

3.5.1 Certification Details of Employees Whose Jobs are Related to the Release of the Company's Financial Information

Certification	Number of Employees	
	Internal Audit	Finance
Certified Public Accountants (CPA)	0	13
US Certified Public Accountants (US CPA)	2	7
Certified Internal Auditor (CIA)	4	4
Chartered Financial Analyst (CFA)	0	4
Certified Management Accountant (CMA)	0	1
Financial Risk Manager (FRM)	0	1
Certificate in Financial Management (CFM)	0	1
Certification in Control Self-Assessment (CCSA)	3	0
Certified Information Systems Auditor (CISA)	1	0
BS7799/ISO 27001 Lead Auditor	1	0

3.6 Information Regarding TSMC's Independent Auditor

3.6.1 Audit Fees

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Whether the CPA's Audit Period Covers an Entire Fiscal Year			Note
			System Design	Company Registration	Human Resource	Others	Subtotal	Yes	No	Audit Period	
Deloitte & Touche	Hung-Peng Lin, Shu-Chieh Huang, and others	82,412	-	1,023	-	160	1,183	✓			

Note: TSMC was not required to disclose certain items listed in Article 10-4 of Regulation Governing Information to be published in Annual Reports of Public Companies.

3.6.2 TSMC did not replace its independent auditor during 2007, 2008, and as of February 28, 2009.

3.6.3 TSMC's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations did not hold any positions within TSMC's independent audit firm or its affiliates during 2008.



In August 2008, Royal Philips Electronics NV completed a four-phased plan and exited from its TSMC shareholding. As part of the plan, and subsequently for the purpose of partially offsetting the dilution from employee profit sharing, the Company repurchased, in two separate programs, a total of 495,549 thousand common shares in the open market of the Taiwan Stock Exchange, accounting for approximately 1.92% of its total outstanding shares. The repurchased shares were cancelled.

CAPITAL AND SHARES

4.1 Capital and Shares

4.1.1 Capitalization

Unit: Share/NT\$

As of 02/28/2009

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
03/2008	10	28,050,000,000	280,500,000,000	25,627,103,715	256,271,037,150	Exercise of Employee Stock Options: NT\$9,019,210 Cancellation of Treasury Shares: NT\$8,000,000,000	None	03/20/2008 Yuan Shang Tzu No. 0970006741
06/2008	10	28,050,000,000	280,500,000,000	25,629,241,609	256,292,416,090	Exercise of Employee Stock Options: NT\$21,378,940	None	06/04/2008 Yuan Shang Tzu No. 0970014822
08/2008	10	28,050,000,000	280,500,000,000	26,151,365,437	261,513,654,370	Capitalization of Profits: NT\$4,452,425,160 Capitalization of Surplus: NT\$768,813,120	None	08/06/2008 Yuan Shang Tzu No. 0970021495
09/2008	10	28,050,000,000	280,500,000,000	25,936,820,778	259,368,207,780	Exercise of Employee Stock Options: NT\$21,293,410 Cancellation of Treasury Shares: NT\$2,166,740,000	None	09/10/2008 Yuan Shang Tzu No. 0970024882
09/2008	10	28,050,000,000	280,500,000,000	25,902,552,963	259,025,529,630	Cancellation of Treasury Shares: NT\$342,678,150	None	09/23/2008 Yuan Shang Tzu No. 0970027199
12/2008	10	28,050,000,000	280,500,000,000	25,625,290,957	256,252,909,570	Exercise of Employee Stock Options: NT\$16,129,940 Cancellation of Treasury Shares: NT\$2,788,750,000	None	12/17/2008 Yuan Shang Tzu No. 0970035975

4.1.2 Capital and Shares

Unit: Share

As of 02/28/2009

Type of Stock	Authorized Share Capital				Total
	Issued Shares			Unissued Shares	
	Listed	Non-listed	Total		
Common Stock	25,625,913,370	0	25,625,913,370	2,424,086,630	28,050,000,000

Shelf Registration: None.

4.1.3 Composition of Shareholders

Common Share

As of 07/22/2008 (last record date)

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	15	85	889	2,422	440,028	443,439
Shareholding	1,798,513,579	747,206,508	887,853,432	18,620,542,150	3,882,705,109	25,936,820,778
Holding Percentage (%)	6.93%	2.88%	3.43%	71.79%	14.97%	100.00%

Distribution Profile of Share Ownership

Common Share

As of 07/22/2008 (last record date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	160,172	43,269,719	0.17%
1,000 ~ 5,000	173,656	391,631,760	1.51%
5,001 ~ 10,000	47,631	320,775,364	1.24%
10,001 ~ 15,000	21,148	249,775,352	0.96%
15,001 ~ 20,000	8,629	147,839,546	0.57%
20,001 ~ 30,000	11,408	271,914,396	1.05%
30,001 ~ 40,000	5,084	173,052,936	0.67%
40,001 ~ 50,000	3,253	144,383,477	0.56%
50,001 ~ 100,000	5,895	402,944,478	1.55%
100,001 ~ 200,000	2,785	379,932,007	1.46%
200,001 ~ 400,000	1,456	402,884,290	1.55%
400,001 ~ 600,000	529	254,186,752	0.98%
600,001 ~ 800,000	278	191,515,838	0.74%
800,001 ~ 1,000,000	212	189,545,770	0.73%
Over 1,000,001	1,303	22,373,169,093	86.26%
Total	443,439	25,936,820,778	100.00%

Preferred Share: None.

4.1.4 Major Shareholders with 5% Shareholdings or More

Common Share

As of 07/22/2008 (last record date)

Shareholders	Total Shares Owned	Ownership (%)
ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	5,460,265,037	20.88%
National Development Fund, Executive Yuan	1,645,482,861	6.29%

4.1.5 Net Change in Shareholding and Net Change in Shares Pledged by Directors, Management and Shareholders with 10% Shareholdings or More

Unit: Share

Title/Name	2008		01/01/2009 ~ 02/28/2009	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Chairman Morris Chang	1,410,489	-	-	-
Vice Chairman F.C. Tseng	(638,080)	-	-	-
Director & President & Chief Executive Officer Rick Tsai	2,747,611	-	-	-
Director National Development Fund, Executive Yuan Representative: Chintay Shih (Note 2)	8,254,558	-	-	1,644,820,402
Independent Director Sir Peter Leahy Bonfield	-	-	-	-
Independent Director Lester Carl Thurow	-	-	-	-
Independent Director Stan Shih	7,388	-	-	-
Independent Director Carleton (Carly) S. Fiorina	-	-	-	-
Senior Vice President Special Projects Kenneth Kin (Note 3)	1,550,003	-	-	-
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management Stephen T. Tso	1,122,296	-	(180,000)	-
Senior Vice President Advanced Technology Business Mark Liu	1,160,912	-	(80,000)	-
Senior Vice President Mainstream Technology Business C.C. Wei	920,319	-	(54,000)	-
Vice President Mainstream Technology Business M.C. Tzeng	460,356	1,100,000	(135,000)	-
Vice President & General Counsel Richard Thurston	(1,072,618)	120,000	(50,000)	(700,000)
Vice President, Chief Financial Officer & Spokesperson Lora Ho	632,486	-	(120,000)	-
Vice President Human Resources P.H. Chang	958,935	-	-	-
Vice President Research and Development Wei-Jen Lo	874,959	-	-	-
Vice President Worldwide Sales and Marketing Jason C.S. Chen	457,700	-	(35,000)	-
Vice President Design and Technology Platform Fu-Chieh Hsu	638,853	-	-	-
Vice President Research and Development Jack Sun	372,518	-	(145,000)	-
Vice President Advanced Technology Business Y.P. Chin	820,539	-	(5,000)	-
Vice President Quality and Reliability N.S. Tsai	659,532	-	(800,000)	-

(Continued)

Title/Name	2008		01/01/2009 ~ 02/28/2009	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Vice President & president, North America Rick Cassidy (Note 4)	-	-	-	-
Senior Director Corporate Planning L.C. Tu	439,294	-	(43,000)	-
Senior Director Internal Audit Jan Kees van Vliet	527,867	-	-	-

Note 1: This refers to the creation of security interest over TSMC shares in favor of creditors, usually in connection with a shareholder's own financing activities.

Note 2: Effective on November 10, 2008, Mr. Chintay Shih, representative of National Development Fund, Executive Yuan, resigned as a director of TSMC. As of the date of this Annual Report, TSMC has not been informed of the replacement.

Note 3: Mr. Kenneth Kin resigned on December 31, 2008.

Note 4: Mr. Rick Cassidy was promoted on November 11, 2008. His net change in shareholding or shares pledged was from November 11, 2008 to February 28, 2009.

4.1.6 Stock Trade with Related Party: None.

4.1.7 Stock Pledge with Related Party: None.

4.1.8 Information on Our 10 Largest Shareholders Who are Related Parties to Each Other: None of TSMC's 10 largest shareholders are related parties to each other.

4.1.9 Long-term Investment Ownership

As of 12/31/2008

Long-term Investment	Ownership by TSMC (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Equity Method:						
TSMC International Investment Ltd.	987,968,244	100.0%	0	0%	987,968,244	100.0%
TSMC Partners, Ltd.	300,000	100.0%	0	0%	300,000	100.0%
TSMC Global Ltd.	1,284	100.0%	0	0%	1,284	100.0%
TSMC North America	11,000,000	100.0%	0	0%	11,000,000	100.0%
Taiwan Semiconductor Manufacturing Company Europe B.V.	200	100.0%	0	0%	200	100.0%
TSMC Japan Limited	6,000	100.0%	0	0%	6,000	100.0%
TSMC Korea Limited	80,000	100.0%	0	0%	80,000	100.0%
TSMC China Company Limited	Not Applicable (Note 1)	100.0%	0	0%	Not Applicable (Note 1)	100.0%
Systems on Silicon Manufacturing Co. Pte Ltd.	313,603	38.8%	0	0%	313,603	38.8%
Vanguard International Semiconductor Corp.	628,223,493	37.1%	274,029,592	16.2% (Note 2)	902,253,085	53.3%
XinTec Inc.	92,619,866	41.7%	0	0%	92,619,866	41.7%
Global UniChip Corporation	44,903,811	36.0%	0	0%	44,903,811	36.0%
Emerging Alliance Fund, L.P.	Not Applicable (Note 1)	99.5%	0	0%	Not Applicable (Note 1)	99.5%
VentureTech Alliance Fund II, L.P.	Not Applicable (Note 1)	98.0%	0	0%	Not Applicable (Note 1)	98.0%
VentureTech Alliance Fund III, L.P.	Not Applicable (Note 1)	98.0%	0	0%	Not Applicable (Note 1)	98.0%
Cost Method:						
Non-publicly Traded						
United Industrial Gases Co. Ltd.	16,782,937	9.8%	Not Available (Note 3)	Not Available (Note 3)	16,782,937	9.8%
Shin-Etsu Handotai Taiwan Co. Ltd.	10,500,000	7.0%	Not Available (Note 3)	Not Available (Note 3)	10,500,000	7.0%
Hontung Venture Capital Co., Ltd.	2,632,867	10.5%	Not Available (Note 3)	Not Available (Note 3)	2,632,867	10.5%
W.K. Technology Fund IV	4,000,000	1.9%	Not Available (Note 3)	Not Available (Note 3)	4,000,000	1.9%
Funds						
Horizon Ventures Fund I, L.P.	Not Applicable (Note 1)	12.1%	Not Applicable (Note 1)	Not Available (Note 3)	Not Applicable (Note 1)	12.1%
Crimson Asia Capital Ltd., L.P.	Not Applicable (Note 1)	1.0%	Not Applicable (Note 1)	Not Available (Note 3)	Not Applicable (Note 1)	1.0%

Note 1: Not applicable. These firms do not issue shares. TSMC's investment is measured as a percentage of ownership.

Note 2: 16.2% represents the shareholding owned by National Development Fund, Executive Yuan

Note 3: Not available. Not all information is available to TSMC as of the report date.

4.1.10 Share Information

TSMC's earnings per share decreased 5.7% in 2008 to NT\$3.83 per share. The following table details TSMC's net worth, earnings, dividends and market price per common share in 2008, as well as other data regarding return on investment.

Net Worth, Earnings, Dividends, and Market Price Per Common Share

Unit: NT\$, except for weighted average shares and return on investment ratios

Item	2007	2008	01/01/2009 ~ 02/28/2009
Market Price Per Share			
Highest Market Price	68.82 (Note 1)	65.43 (Note 1)	46.25
Lowest Market Price	55.15 (Note 1)	36.80 (Note 1)	39.60
Average Market Price	60.46 (Note 1)	54.55 (Note 1)	43.51
Net Worth Per Share			
Before Distribution	18.47	18.59	-
After Distribution	15.37	(Note 5)	-
Earnings Per Share			
Weighted Average Shares (thousand shares)	26,368,250	26,106,676	-
Diluted Earnings Per Share	4.14	3.83 (Note 5, 6)	-
Adjusted Diluted Earnings Per Share (Note 1)	4.06	(Note 5)	-
Dividends Per Share			
Cash Dividends	3.00	3.00 (Note 5)	-
Stock Dividends			
Dividends from Retained Earnings	0.02	0.02 (Note 5)	-
Dividends from Capital Surplus	0.03	0.03 (Note 5)	-
Accumulated Undistributed Dividend	-	-	-
Return on Investment			
Price/Earnings Ratio (Note 2)	14.89	(Note 5)	-
Price/Dividend Ratio (Note 3)	20.15	(Note 5)	-
Cash Dividend Yield (Note 4)	5%	(Note 5)	-

Note 1: Retroactively adjusted for stock dividends and stock bonuses to employees

Note 2: Price/Earnings Ratio = Average Market Price/Adjusted Diluted Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share/Average Market Price

Note 5: Pending shareholders' approval

Note 6: The calculation of diluted earning per share is after consideration of expensing estimated profit sharing to employees and bonus to directors based on the regulation. The final profit sharing and bonus are subject to change based on 2009 Annual Shareholders' Meeting.

4.1.11 Dividend Policy

TSMC's profits may be distributed by way of cash dividend and/or stock dividend. The preferred method of distributing profits is by way of cash dividend. Under TSMC's Articles of Incorporation, stock dividend shall not exceed 50% of the total dividend distribution in any given fiscal year. Except under certain conditions specified in the Company's Articles of Incorporation, TSMC does not pay dividends when there is no profit or retained earnings.

4.1.12 Distribution of Profit

The Board adopted a proposal for 2008 profit distribution at its Meeting on February 10, 2009. The proposed profit distribution will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 10, 2009.

Proposal to Distribute 2008 Profits

Unit: NT\$

Cash Dividends to Common Shareholders (NT\$3.0 per share)	76,876,311,768
Stock Dividends to Common Shareholders (NT\$0.02 per share at par value, i.e., 2 shares for each 1,000 shares owned; equivalent to underlying 51,250,875 Shares) (Note)	512,508,750

Note: In addition, it is proposed to capitalize a portion of capital surplus in the amount of NT\$768,763,120. For each 1,000 shares owned, each common share holder will be entitled to receive 3 shares from such capitalization of capital surplus, and, together with the 2 shares of stock dividend as mentioned above, 5 shares in total.

According to the Company's Articles of Incorporation, TSMC shall allocate no more than 0.3% of earnings available for distribution (net income after a regulatory required deduction for prior years' losses and contributions to legal and special reserves) as a bonus to directors, and not less than 1% as bonus to employees. Effective in 2008, both bonus to directors and employees became expense items under the Company's income statements, and amounted to NT\$158,080,488 and NT\$14,989,975,155, respectively. Half of the bonus to employees will be paid in stock, for which, the number of shares shall be determined based on the closing price of TSMC common shares on June 9, 2009, the day before TSMC's 2009 Annual Shareholders' Meeting.

2007 Profit Distribution Set Aside as Directors Compensation and Employee Profit Sharing:

	Board Resolution (02/19/2008)	Actual Result		
	Amount (NT\$)	Amount (NT\$)	Underlying Number of Shares	Dilution (%)
Directors Compensation (Cash)	176,889,955	176,889,955	-	-
Employee Profit Sharing in Cash	3,939,883,064	3,939,883,064	-	-
Employee Profit Sharing in Stock	3,939,883,080	3,939,883,080	393,988,308	1.51%
Total	8,056,656,099	8,056,656,099	-	-

4.1.13 Impact to 2008 Business Performance and EPS Resulting from Stock Dividend Distribution: Not applicable.

4.1.14 Buyback of Common Stock

As of 02/28/2009

Buyback Plan	Third Buyback Plan	Forth Buyback Plan
Purpose	For the shareholders' interest	For the shareholders' interest
Period	05/14/2008 ~ 07/13/2008	08/13/2008 ~ 10/12/2008
Planned Buyback Price Range (NT\$)	48.25 ~ 100.50 per common share	42.85 ~ 86.20 per common share
Class and Number of Shares Bought Back	216,674,000 common shares	278,875,000 common shares
Value of Shares Bought Back (NT\$)	13,927,422,800	16,499,990,000
Number of Shares Cancelled	216,674,000 common shares	278,875,000 common shares
Accumulated Number of Treasury Shares Held	0	0
Accumulated Treasury Shares Held as a % of Total Outstanding Shares	0.00%	0.00%

4.2 Issuance of Corporate Bonds

4.2.1 Corporate Bonds

As of 02/28/2009

Issuance	Domestic Unsecured Bond (V)	
Issuing Date	01/10/2002 - 01/24/2002	
Denomination	NT\$1,000,000 NT\$5,000,000	
Offering Price	Par	
Total Amount	NT\$15,000,000,000	
Coupon Rate	Tranche A: 2.60% p.a. Tranche B: 2.75% p.a. Tranche C: 3.00% p.a.	
Tenure	Tranche A: 5 years Maturity: 01/10/2007 - 01/22/2007 Tranche B: 7 years Maturity: 01/10/2009 - 01/24/2009 Tranche C: 10 years Maturity: 01/10/2012 - 01/24/2012	
Guarantor	None	
Trustee	TC Bank	
Underwriter	Not Applicable	
Legal Counsel	Yan-an International Law Office	
Auditor	TN Soong & Co (now Deloitte & Touche)	
Repayment	Bullet	
Outstanding	NT\$4,500,000,000	
Redemption or Early Repayment Clause	None	
Covenants	Customary Covenants	
Credit Rating	twAAA (Taiwan Ratings Corporation, 10/07/2008)	
Other Rights of Bondholders	Conversion Right	None
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities as of 02/28/2009	Not Applicable
Dilution Effect and Other Adverse Effects on Existing Shareholders	None	
Custodian	None	

4.2.2 Convertible Bond: None.

4.2.3 Exchangeable Bond: None.

4.2.4 Shelf Registration: None.

4.2.5 Bond with Warrants: None.

4.3 Preferred Shares

4.3.1 Preferred Share: None.

4.3.2 Preferred Share with Warrants: None.

4.4 Issuance of American Depositary Shares

Issuing Date	10/08/1997	11/20/1998	01/12/1999 - 01/14/1999	07/15/1999	08/23/1999 - 09/09/1999	02/22/2000 - 03/08/2000	04/17/2000	06/07/2000 - 06/15/2000
Issuance & Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
Total Amount (US\$)	594,720,000	184,554,440	35,500,000	296,499,641	158,897,089	379,134,599	224,640,000	1,167,873,850
Offering Price Per ADS (US\$)	24.78	15.26	17.75	24.516	28.964	57.79	56.16	35.75
Units Issued	24,000,000	12,094,000	2,000,000	12,094,000	5,486,000	6,560,000	4,000,000	32,667,800
Underlying Securities	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	Cash Offering and TSMC Common Shares from Selling Shareholders
Common Shares Represented	120,000,000	60,470,000	10,000,000	60,470,000	27,430,000	32,800,000	20,000,000	163,339,000
Rights & Obligations of ADS Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders
Trustee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Depository Bank	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York
Custodian Bank	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch
ADSs Outstanding (Note 1)	24,000,000	46,222,650	48,222,650	71,407,859	76,893,859	83,453,859	87,453,859	144,608,739
Apportionment of Expenses for Issuance & Maintenance	(Note 2)							(Note 3)
Terms and Conditions in the Deposit Agreement & Custody Agreement	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details
Closing Price Per ADS (US\$)	2008	High	11.37					
		Low	5.85					
		Average	9.22					
	01/01/2009 - 02/28/2009	High	8.69					
		Low	6.99					
		Average	7.77					

Note 1: TSMC has in aggregate issued 813,544,500 ADSs since 1997, which, if taking into consideration stock dividend distributed over the period, would amount to 1,142,375,138 ADSs. As of February 28, 2009, total number of outstanding ADSs was 1,092,053,004 after 50,322,134 ADSs were redeemed. Stock dividends distributed in 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008 was 45%, 23%, 28%, 40%, 10%, 8%, 14.08668%, 4.99971%, 2.99903%, 0.49991% and 0.50417% respectively.

Note 2: All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of ADSs were borne by the selling shareholders, while maintenance expenses such as annual listing fees and accountant fees were borne by TSMC.

Note 3: All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of ADSs were borne by TSMC and the selling shareholders, while maintenance expenses such as annual listing fees and accountant fees were borne by TSMC.

05/14/2001 - 06/11/2001	06/12/2001	11/27/2001	02/07/2002 - 02/08/2002	11/21/2002 - 12/19/2002	07/14/2003 - 07/21/2003	11/14/2003	08/10/2005 - 09/08/2005	05/23/2007
NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
240,999,660	297,649,640	320,600,000	1,001,650,000	160,097,914	908,514,880	1,077,000,000	1,402,036,500	2,563,200,000
20.63	20.63	16.03	16.75	8.73	10.40	10.77	8.6	10.68
11,682,000	14,428,000	20,000,000	59,800,000	18,348,000	87,357,200	100,000,000	163,027,500	240,000,000
TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders
58,410,000	72,140,000	100,000,000	299,000,000	91,740,000	436,786,000	500,000,000	815,137,500	1,200,000,000
Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders
Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York
Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch
156,290,739	170,718,739	259,006,235	318,806,235	369,019,413	485,898,166	585,898,166	864,210,597	1,128,739,639
(Note 2)								
See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details

4.5 Status of Employee Stock Option Plan

4.5.1 Issuance of Employee Stock Options

ESOP Granted	First Grant	Second Grant	Third Grant
Approval Date by the Securities & Futures Bureau	06/25/2002	06/25/2002	06/25/2002
Issue (Grant) Date	08/22/2002	11/08/2002	03/07/2003
Number of Options Granted	18,909,700	1,085,000	6,489,514
Percentage of Shares Exercisable to Outstanding Common Shares	0.10154%	0.00583%	0.03485%
Option Duration	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share
Vesting Schedule	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
Shares Exercised	13,697,418	1,025,758	2,217,396
Value of Shares Exercised (NT\$)	505,381,314	35,891,833	60,099,151
Shares Unexercised	6,895,859	388,594	5,342,542
Original Grant Price Per Share (NT\$)	NT\$53.0	NT\$51.0	NT\$41.6
Adjusted Exercise Price Per Share (NT\$)	NT\$30.7	NT\$29.6	NT\$24.2
Percentage of Shares Unexercised to Outstanding Common Shares	0.02691%	0.00152%	0.02085%
Impact to Shareholders' Equity	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited

4.5.2 Employee Stock Options Granted to Management Team and to Top 10 Employees with an Individual Grant Value over NT\$30,000,000

Title	Name	Number of Options Granted (Note 4)	% of Shares Exercisable to Outstanding Common Shares
Chairman	Morris Chang (Note 1)	5,578,925	0.02177%
President & Chief Executive Officer	Rick Tsai (Note 1)		
Senior Vice President	Kenneth Kin (Note 1, 2)		
Senior Vice President	Stephen T. Tso (Note 1)		
Senior Vice President	Mark Liu (Note 1)		
Senior Vice President	C.C. Wei (Note 1)		
Vice President & General Counsel	Richard Thurston (Note 1)		
Vice President	Jack Sun (Note 1)		
Vice President	Rick Cassidy (Note 3)		

Note 1: TSMC granted options to certain of its officers (as listed above) as a result of their voluntary selection to exchange part of their profit sharing for stock options in 2003. This includes a voluntary exchange by Chairman Morris Chang in his capacity as Chief Executive Officer.

Note 2: Mr. Kenneth Kin resigned on December 31, 2008.

Note 3: Mr. Rick Cassidy was promoted on November 11, 2008.

Note 4: Number of options granted includes the additional shares due to stock dividend distributed in 2004, 2005, 2006, 2007, and 2008.

4.6 Status of New Share Issuance in Connection with Mergers and Acquisitions

TSMC did not issue new shares in connection with mergers or acquisitions in 2008, and as of the date of this Annual Report.

4.7 Financing Plans and Implementation: Not applicable.

As of 12/31/2008

Fourth Grant	Fifth Grant	Sixth Grant	Seventh Grant	Eighth Grant	Ninth Grant
06/25/2002	10/29/2003	10/29/2003	10/29/2003	10/29/2003	01/06/2005
06/06/2003	12/03/2003	02/19/2004	05/11/2004	08/11/2004	05/17/2005
23,090,550	842,900	15,720	11,167,817	135,300	10,742,350
0.12399%	0.00416%	0.00008%	0.05510%	0.00058%	0.04620%
10 years	10 years	10 years	10 years	10 years	10 years
New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share
2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
11,818,213	253,245	5,475	6,003,508	89,821	3,376,607
462,554,697	13,281,053	268,999	270,152,640	3,530,336	162,567,048
13,005,852	396,896	9,893	4,405,895	38,035	5,750,281
NT\$58.5	NT\$66.5	NT\$63.5	NT\$57.5	NT\$43.8	NT\$54.3
NT\$33.9	NT\$50.4	NT\$48.0	NT\$43.4	NT\$38.2	NT\$47.4
0.05075%	0.00155%	0.00004%	0.01719%	0.00015%	0.02244%
Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited

As of 12/31/2008

Exercised				Unexercised			
Shares Exercised	Exercise Price Per Share	Value of Shares Exercised (NT\$)	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share	Value of Shares Unexercised (NT\$)	% of Shares Unexercised to Outstanding Common Shares
1,179,091	27.6	32,510,976	0.00460%	4,399,834	27.0	118,849,963	0.01717%



Outstanding people and comprehensive process technologies are our proudest assets. A collaborative team of colleagues, together with a solid portfolio of intellectual property is how we are able to provide leading process technologies and design solutions to ensure customer success in a complex and challenging market environment.

OPERATIONAL HIGHLIGHTS

5.1 Business Activities

5.1.1 Business Scope

TSMC's business scope is semiconductor foundry and associated services. The Company excels in all aspects of its business, including semiconductor process technology research and development, wafer manufacturing, logistics management, capacity utilization, customer service, and associated services such as design services, mask manufacturing, wafer probing, in-house bumping and testing. TSMC strives to provide the best overall value to customers; the success of TSMC's business is manifested in the success of its customers.

5.1.2 Customer Applications

Over the past 21 years, more than 500 customers worldwide have relied on TSMC to manufacture chips that are used across the entire spectrum of electronic applications, including computers and peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, consumer electronics such as DVDs, digital TVs, game consoles, digital still cameras (DSCs), and many other applications.

The rapid evolution of end products drives our customers to utilize TSMC's innovative technologies and services, while at the same time spurring TSMC's own development of technology. As always, success depends on leading rather than following industry trends.

5.1.3 Shipments and Gross Sales in 2008 and 2007

Unit: Shipments (8-inch equivalent wafers) / Gross Sales (NT\$ thousands)

		2008		2007	
		Shipments	Gross Sales	Shipments	Gross Sales
Wafer	Domestic	1,553,636	39,822,198	1,442,285	38,066,322
	Export	6,806,969	260,386,524	6,255,368	246,329,084
Package	Domestic	1	14	53	3,641
	Export	100,050	3,694,690	303,427	12,192,114
Other	Domestic	19,518	3,884,590	15,945	3,471,751
	Export	49,512	22,440,011	43,148	19,104,387
Total	Domestic	1,573,155	43,706,802	1,458,283	41,541,714
	Export	6,956,531	286,521,225	6,601,943	277,625,585

5.1.4 Production in 2008 and 2007

Unit: Capacity / Output (8-inch equivalent wafers) / Amount (NT\$ thousands)

		Wafers		
Year		Capacity	Output	Amount
2008		9,376,612	8,350,692	154,242,282
2007		8,289,788	7,861,951	164,625,063

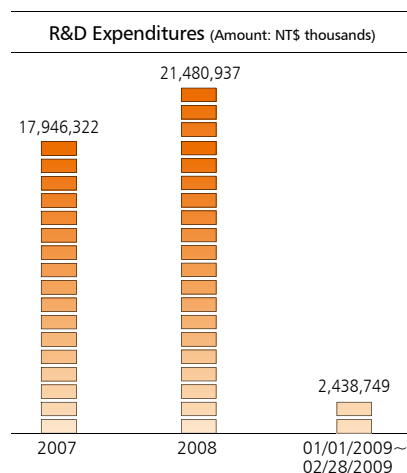
5.2 Technology Leadership

5.2.1 R&D Organization and Investment

In 2008, TSMC increased its research and development investments and strengthened its R&D organization both in advanced and mainstream technologies. Our goal is to provide best-in-class semiconductor processing technologies and design solutions to TSMC's customers. The Company also expanded its developments for system-on-chip (SoC) and system-in-package (SiP) applications. R&D expenditure reached NT\$21.5 billion, while R&D staff grew by 13.5% in 2008. The Company has committed to investing continuously in R&D irrespective of the business environment in 2009.

TSMC accelerated the development of advanced transistors, embedded memories, and Cu/low-K interconnect technologies. During 2008, the R&D organization once again proved its capabilities by offering a first-to-market 45/40nm foundry technology portfolio as well as establishing 32nm HKMG capability. TSMC also expanded its external R&D partnerships and alliances with world-class research institutions. For example, TSMC is a core partner of IMEC, the respected European R&D consortium. TSMC also has a partnership agreement with NXP, a semiconductor company with world-class technologies, to conduct exploratory researches in advanced CMOS, beyond CMOS, and special "more than Moore" technologies. In addition, TSMC strengthened its collaborations with key partners on design-process optimization. TSMC provides funding for nanotechnology researches at major universities worldwide to promote innovation and the advancement of technology.

These research efforts enable the Company to continuously offer its customers the industry-leading, first-to-market technology and design solutions that ensure their product success in the complex and challenging market environment.



5.2.2 R&D Accomplishments in 2008

R&D Highlights

• 40 and 45 Nanometer Technology

2008 was an outstanding year for TSMC's 40nm technology. Following the release of TSMC's 45nm low-power technology in the third quarter of 2007, we further extended our technology leadership in the foundry sector with qualification and delivery of both 40nm high-performance (N40G) and low-power (N40LP) technologies in the fourth quarter of 2008, using advanced 193nm immersion lithography, leading edge performance enhancing silicon strains, and extreme low-k inter-metal dielectric material.

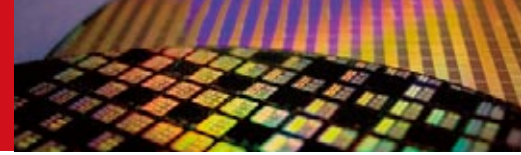
Both high-performance and low-power 40nm technologies have demonstrated best-in-class performance and density with excellent yield from internal SRAM vehicles and customers' products.

As a part of TSMC's shift towards building stronger and tighter foundry customer co-development relationships for advanced technologies, very intensive customer engagements and collaborations were involved throughout the development of both the 45nm and 40nm technologies. This win-win business model was successfully demonstrated as TSMC's new 45nm and 40nm technology enabled and accelerated customer success. For example, one key TSMC customer successfully placed phone calls using the world's first 45nm 3G cellular phone chip in 2007, and another key TSMC customer also demonstrated the world's first functional 40nm FPGA and high-speed Serdes chips in 2008. TSMC's co-development business model significantly improves both TSMC's and our customers' technology leadership and market shares.

TSMC's 45nm and 40nm technologies extended the Company's foundry segment leadership not only on technical metrics such as performance, power and density, but also in terms of development milestones and customer shuttle verifications. The Company provided its customers with the first-to-market cyber shuttle for both the 45nm and 40nm technologies starting from 2006.

• 32/28 Nanometer Technology

In 2008, TSMC continued to lead the foundry segment in demonstrating the first 32/28nm high-K/metal gate (HKMG) technology, which supported both analog and digital functionalities. This leading-edge technology was optimized for low power, high density and manufacturing margins with optimal process complexity. TSMC has proven fully functional 0.15 μm^2 high-density 64Mb SRAM at the 32nm node. The 64M SRAM yield has been demonstrated for a general-purpose technology for high-end ASIC and graphics applications.



TSMC is the first foundry to announce the 28nm process as a full node technology when the node enters initial production in the first quarter of 2010. The 28nm node will include a choice of silicon oxynitride (SiON) and high-K/metal gate (HKMG) transistor options. TSMC has demonstrated high performance and high yield 64Mb and fully functional 0.127 μm^2 high-density 16Mb SRAM (smallest bit-cell and highest density) at the 28nm node.

In addition, the Company has made excellent progress in 28nm high-K/metal gate technology for high performance applications. One high-K/metal gate paper was published by TSMC in the 2008 International Electron Device Meeting proceeding and featured as a conference highlight.

● Immersion Lithography

Immersion lithography provides better depth of focus and enables the industry to continue scaling beyond the 65nm node, all the way to 22nm. TSMC was the first foundry to demonstrate 90nm SRAM using the immersion scanner in 2004. The Company was also the first foundry to achieve single-digit immersion-related defects on 300mm wafers in early 2006, demonstrating 65nm customer product chip yield in July 2006. The Company yielded 32Mb SRAM with 45nm process in December 2006, qualified 45nm at the end of 2007 and 40nm at the end of 2008.

TSMC led the industry in achieving manufacturing-ready immersion lithography for the 45/40/28nm generation. The Company developed proprietary techniques and resist systems to produce nearly defect-free immersion lithography patterning for volume production.

Overlay performance was also raised to a new level consistent with the requirements of our 40nm and 28nm volume productions, which had the tightest design rules in the industry.

● Mask Technology

Mask technology is an integral part of advanced lithography. TSMC has developed proprietary resolution-enhancement techniques that are co-optimized with our in-house mask-making technology. They include optical proximity correction (OPC), sub-resolution-assist mask features, and phase-shifting masks. Fast Lithography Process Check (LPC) technology and Design For Manufacturing (DFM) have also been extended to the 45/40nm node. TSMC mask facilities feature state-of-the-art electron-beam mask writers, etchers, inspection, and repair tools for production at 45/40nm, and advanced stages of R&D at 28nm. In 2008, advances in mask making also contributed to the enablement of computational lithography techniques (CLT), which are under development for the 22nm technology node. TSMC's

strength in mask technology provides significant benefits to our customers in terms of technical excellence, quality, fast cycle time, and one-stop service.

● Long-term Research

Excellent progress has been made in the area of advanced transistor research. The research team has made prototype transistors based on non-planar transistor architecture – FinFET. These FinFET transistors have been made into the smallest SRAM cell with competitive performance to its larger planar counterpart. For even longer-term, high mobility materials were also explored. We have formed a strong collaboration between internal and external research through joint research program with universities. These fundamental researches form important constituents for long-term technology leadership run up to year 2020, when we expect non-CMOS type logic switches will start to emerge.

Spectrum of Technology

Beyond the highlights above, TSMC continued to develop a broad mix of new technologies. The Company accelerated its SoC roadmap, including embedded DRAM (eDRAM) and RF with earlier availability, higher integration and more variants.

● Embedded DRAM

Embedded DRAM is important for many applications, such as game consoles, digital TVs, networking, base stations, and hard-disk drives. TSMC's eDRAM is fully compatible with the Company's logic technology. In 2007, TSMC qualified 65nm embedded DRAM technologies for both high-speed and low-power applications. These technologies entered production in early 2008. Several customer products have already been successfully piloted. We also successfully demonstrated 45nm low-power (N45LP) eDRAM and made excellent progress in 40nm general-purpose eDRAM technology.

● Silicon Germanium BiCMOS RF Technology

Having resolved thermal stress challenges, high resistive silicon-on-insulator (HR-SOI) substrate was successfully implemented into TSMC's 0.18 μm CMOS and SiGe BiCMOS process flow. On this substrate, CMOS, NPN and PNP SiGe HBTs are all demonstrated successfully. Furthermore, inductors with 60% higher Q is achieved using this technology. For integration of power management unit into CMOS, a no-cost-adding 6V high drain voltage MOSFET is delivered in 2008 for 0.16 μm CMOS. Similarly for handling high-voltage functionality, a 5V high-density (2.0fF/ μm^2) metal-insulator-metal (MiM) capacitor is qualified for 0.18 μm CMOS. Lower density no-cost-adding metal-oxide-metal (MOM) capacitors will be developed in 2009 to accommodate >10V applications.

● Mixed Signal/Radio Frequency (MS/RF) Technology

TSMC qualified 45 low-power RF technology in 2008, enabling early Wi-Fi SoC design evaluation in 4Q/2008. A 40nm low-power RF process design kit with silicon-validated model was delivered in the fourth quarter of 2008 to facilitate design launch for an advanced Blue-Tooth chip. Challenges in multi-finger RFMOSFET-related device drive current behavior is investigated and resolved by analyzing with distributing source/drain into multi-segments. To deliver accurate model for small unit metal-oxide-metal (MOM) capacitors for high frequency (67GHz, e.g.) applications, an innovated correlation methodology along with smart MOM modeling array is successfully implemented for 40nm, 45nm, 65nm and 90nm MOM modeling. Small capacitor with ~1 fF unit could be predicted accurately and the total variation specification is thus tightened from 25% to 15% or even down to 12%. This enhances the precision level for analog and RF designs. For high-speed data link ($\geq 10\text{Gbits/s}$) needing inductor-based LC oscillators in most advanced CMOS technologies (28nm, e.g.), simulation-based RF design packages are under development and will be implemented in 2009 to greatly shorten design cycle.

● Power IC/BCD Technology

TSMC has driven multiple power IC platforms into production, including $0.35\mu\text{m}$ 3.3/5/12~40V BCD & $0.25\mu\text{m}$ 2.5/5/12~40+60V BCD. Fruitful features were enabled in these platform solutions, such as world-leading Rdson performance, cost-effective modular flexibility & customized characterization reports for friendly power IC design. $0.18\mu\text{m}$ BCD, for highly integrated SoC applications, has been officially released for 24/40V phase, while an extension phase offering more comprehensive components will be qualified in 2009. TSMC also dominated technology for CCD V-drivers with $0.18\mu\text{m}$ 1.8/3.3/32V technology, together with a cost-competitive shrinkage path to $0.16\mu\text{m}$ 1.8/3.3/24V technology. Furthermore, TSMC's offering of $0.6\mu\text{m}$ 60V BCD also achieved best-in-class Rdson, which is expected to enable competitive LED drivers for the customers.

● Panel Driver Technology

TSMC has completed development of C013 32V technology for small panel driver IC applications. The technology has the smallest SRAM in the world.

TSMC has also provided three high-performance and cost-effective technologies for large panel driver applications. Following them, there are newly defined technologies in development to support customer demands. These technologies will enable SoC with power benefits for next generation products.

● CMOS Image Sensor Technology

A high-performance, $0.11\mu\text{m}$ 4T CMOS image sensor (CIS) process with back side illumination (BSI) technology was successfully developed by TSMC in 2008. This new process aimed at high-end imaging applications with a small pixel size of $1.4\mu\text{m}$ and high resolutions of greater than five megapixels. It is compatible with TSMC's $0.13\mu\text{m}$ CMOS logic, which enables SoC platforms in mobile phones, digital cameras, security sensors, automotive applications and other image sensor markets. Color backside illumination image capability was also successfully demonstrated. This technology can extend to N90 CIS technology with smaller pixel sizes ($1.1\mu\text{m}$) and ultra-high resolutions (larger than eight megapixels).

● Flash/Embedded Flash Technology

In 2008, TSMC also completed the qualification of its automotive-grade application using embedded flash (embFlash™) processes at the $0.18\mu\text{m}$ technology node. Production is well underway. In addition, $0.13\mu\text{m}$ embFlash technology was also qualified for commercial embFlash prototype activities. For next-generation embFlash technology, a new cell with scaling capabilities of the 90nm and 65nm nodes was demonstrated. A test vehicle with 32Mb flash IP has been proven with good yield.

5.2.3 Intellectual Property

A strong portfolio of intellectual property strengthens TSMC's technology leadership. In 2008, TSMC received 365 U.S. patents, 224 Taiwanese patents, 231 PRC patents, and other patents issued in countries around the world. We continue to implement a unified model for TSMC's intellectual capital management. Strategic considerations and close alignment with business objectives now drive the creation, management and use of our intellectual property.

At TSMC, we have built a process to extract value from our intellectual property by aligning our intellectual property strategy with our R&D, marketing, and corporate development strategies. Intellectual property rights protect our freedom to operate, enhance our competitive position, and give us leverage to participate in many profit-generating activities.

We have worked continuously to improve the quality of our intellectual property portfolio and to reduce the cost of maintaining it. We expect to continue investing in our intellectual property portfolio and intellectual property management system to ensure that we receive maximum business value from our intellectual property rights.

5.2.4 Future R&D Plans

Following the significant successes of TSMC's advanced technologies in 2008, the Company plans to continue to grow the R&D organization. TSMC will further expand its 300mm R&D pilot line to speed up 28nm qualification with its early engagement customers and the 22nm path-finding programs with world-leading research institutions. We plan to reinforce our exploratory development work on new transistors and technologies such as 3D structures, strained-layer CMOS, high mobility materials, and novel 3D-IC devices with TSV. These studies of the fundamental physics of nanometer CMOS transistors are core aspects of our efforts to improve the understanding and guide the design of transistors at advanced nodes. The findings of these studies are being applied to ensure our continued industry leadership at the 28nm and 22nm nodes. One of TSMC's goals is to extend Moore's Law through innovative in-house work, as well as by collaborating with industry leaders and academia to push the envelope in finding cost-effective technologies and manufacturing solutions.

TSMC plans to continue working closely with international consortia and photolithography equipment suppliers to ensure the timely development of 193nm high-NA scanner technology, liquid immersion lithography, EUV lithography, and massively parallel E-Beam direct-write technologies. These technologies are now fundamental to our process development efforts at the 22nm and 15nm nodes and beyond.

TSMC plans to continue its collaboration with mask inspection equipment suppliers to develop viable inspection techniques. This collaborative partnership should help to ensure that we maintain our leadership position in mask quality and cycle time, and continue to meet aggressive R&D, prototyping and production requirements.

Overall, TSMC will continue to invest heavily to expand our R&D capabilities. With a highly competent and dedicated R&D team and unwavering commitment to innovation, we are confident of our ability to deliver the best and most cost-effective SoC technologies for our customers, and to support our business growth and profitability.

TSMC R&D future major project summary:

Project Name	Description	Risk Production (Estimated Target Schedule)
28nm logic platform technology and applications	28nm technology for both digital and analog products	2009-2010
22nm logic platform technology and applications	Next-generation technology for both digital and analog products	2011-2012
15nm logic platform technology and applications	Exploratory technology for both digital and analog products	2013-2014
3D-IC	Low cost solution with better form factor and performance for SiP	2011
Next-generation lithography	EUV and multiple E-Beam to extend Moore's Law	2011-2012
Long-term research	Special SoC technology (including new NVM, MEMS, RF, analog) and 15nm transistors	2012-2014
The above plans account for roughly 70% of the total corporate R&D budget in 2009.		

5.3 Manufacturing Excellence

5.3.1 Efficiency

Fast Yield Ramp

Fast yield ramp for new products is an important factor to help TSMC's customers shorten their time-to-market. TSMC has developed a comprehensive technology transfer methodology extending from R&D to production in order to shorten the yield learning curve of leading edge technologies. In 2008, the Company accelerated its 45nm ramp-up by shortening the yield learning curve by 14% in comparison with that of the previous generation, 65nm.

Accurate Delivery

TSMC has a proven record of providing customers with consistent on-time delivery. The Company has equipped a state-of-the-art supply chain management system in an effort try to improve customers' forecast processes, and delivery schedule accuracy. In 2008, the Company was able to make over 95 percent of deliveries within one day of the scheduled delivery date.

Best-in-Class Cycle Time Management

Fast manufacturing cycle time is another important factor behind TSMC's continued competitive success and that of our customers. Accordingly, TSMC has developed a sophisticated manufacturing scheduling and dispatching system, implemented industry-leading automated materials handling systems, and employed effective lean manufacturing approaches. In 2008, the Company unceasingly strived to optimize manufacturing processes and cycle time management techniques, and continued to break cycle time records.

Flexible Manufacturing Management

Flexible Manufacturing is a crucial element that addresses the fluctuations in demand forecast. In most cases, TSMC has the ability to meet unanticipated customer demand surges, thanks in large part to our cluster fab capability as well as to our extensive know-how in performance matching for both tools and fabs.

Knowledge Management

TSMC has built the industry's leading, state-of-the-art knowledge management, and Best Known Method (BKM) systems. TSMC maintains a vast repository system for retaining key TSMC knowledge. This database also features a sophisticated expert system that embeds the captured knowledge into TSMC's engineering system.

Inventory Management

As the semiconductor devices become more diverse, inventory management becomes more critical. TSMC has integrated supply and demand information into its inventory management system to improve the Company's responsiveness to wafer demand forecasts. The speed and accuracy of TSMC's response has been improved through real-time demand information sharing.

5.3.2 GIGAFAB™ Fabrications

TSMC's 12-inch fabs are a key part of its manufacturing strategy. TSMC currently operates two 12-inch GIGAFAB fabrications — Fab 12 and Fab 14. The combined capacity of the two GIGAFAB fabrications reached 457,000 12-inch wafers in the fourth quarter of 2008. Production within these two facilities supports 0.13μm, 90nm, 65nm and 40nm process technologies, and their sub-nodes. Part of the capacity is reserved for research and development work and currently supports 28nm, 22nm and beyond technology development.

These GIGAFAB fabrications are the center stones of TSMC's unceasing efforts to improve manufacturing excellence and to deliver manufacturing breakthroughs. GIGAFAB fabrications have the inherent scale advantages over smaller fabs and also enable greater flexibility to adapt to demand fluctuations, improve product quality and yields, accelerate yield learning and time to volume, shorten cycle times, and minimize costly product re-qualification.

5.3.3 Raw Materials and Supply Chain Risk Management

In 2008, TSMC brought together materials management, fab operations, risk management and quality system management in one project to continuously improve supply chain risk management. TSMC worked with suppliers to enhance the performance of quality, delivery, risk management, and to support Green procurement, protection of the environment and safety.

Raw Materials Supply

Major Materials	Major Suppliers	Market Status	Procurement Strategy
Raw Wafers	F.S.T. MEMC S.E.H. Siltronic SUMCO	These five suppliers together provide over 85% of the world's wafer supply. Each supplier has multiple manufacturing sites in order to meet customer demand, including plants in North America, Asia, and Europe.	TSMC's suppliers of silicon wafers are required to pass stringent quality certification procedures. TSMC procures wafers from multiple sources to ensure adequate supplies for volume manufacturing and to appropriately manage supply risk. TSMC maintains competitive price and service agreements with its wafer suppliers, and when necessary enters into strategic and collaborative agreements with key suppliers. TSMC regularly reviews the quality, delivery, cost and service performance of its wafer suppliers. The results of these reviews are incorporated into TSMC's subsequent purchasing decisions. A periodic audit of each wafer supplier's quality assurance systems ensures that TSMC can maintain the highest quality in its own products.
Chemicals	Air Products ATMI BASF MGC TYS	These five companies are the major suppliers for bulk and specialty chemicals.	Most suppliers have relocated many of their operations closer to TSMC's major manufacturing facilities, thereby significantly improving procurement logistics. The suppliers' products are regularly reviewed to ensure that TSMC's specifications are met and product quality is satisfactory.
Photoresist	AZ Nissan Shin-Etsu Chemical Sumitomo T.O.K.	These five companies are the major suppliers for photoresist.	TSMC works closely with its suppliers to ensure that they have adequate production lead time to supply the required products to TSMC. TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.
Gases	Air Liquide Air Products Linde Taiyo Nippon Sanso	These four companies are the major suppliers of specialty gases. The products of these four suppliers are interchangeable.	The majority of the four suppliers are located in different geographic locations, minimizing supply risk to TSMC. TSMC has long-term contracts with these suppliers to ensure supply stability and service quality. In addition, the availability of other domestic suppliers enables TSMC to secure better purchase terms for these gases. TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.
Slurry, Pad, Disk	3M Cabot DA Nano Kinik Planar Solutions Rohm & Haas	These six companies are the major suppliers for CMP materials.	Most suppliers have relocated many of their operations closer to TSMC's major manufacturing facilities, thereby improving procurement logistics and mitigating supply chain risk. TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.

5.3.4 Quality and Reliability

TSMC is committed to providing customers with the best quality wafers for their products. Our Quality and Reliability (Q&R) services lead the partnership between customers and the entire TSMC organization to achieve "quality on demand". The goal of quality on demand is to fulfill customers' needs regarding time to market, reliable quality, and market competition over a broad range of products.

In the design stage, Q&R technical services assist customers to design-in their product reliability requirements. Q&R works with R&D to successfully establish and implement new qualification methodology for high-K/Metal Gate to ensure the robustness of advanced technology development in 2008. Q&R also works with Design Services on Embedded Memory IP development to expand TSMC's design portfolio. Q&R has deployed systems to ensure robust quality in managing production dynamics as the Company meets customers' business requirements. To sustain production quality and minimize risks to customers when deviations occur, manufacturing quality monitoring and event management span all critical stages, from raw material supply, mask making, and real-time in-process monitoring, to bumping, wafer sort and reliability

performance. Advanced failure and materials analysis techniques are also developed and effectively deployed in process development, customer new product development, and product manufacturing. In 2008, to enhance support of R&D for the 32 and 28nm technology nodes, newly developed X-ray based techniques and atomic level imaging methodologies were used to characterize new advanced materials and interfaces. To address our new emphasis in advanced packaging and assembly, a package materials laboratory was established to analyze mechanical and chemical properties of materials used in the packaging process.

TSMC Q&R is also responsible for leading the Company towards the ultimate goal of zero-defect production, using continuous improvement programs. Periodic customer feedback indicates that products shipped from TSMC have consistently met or exceeded their field quality and reliability requirements. In 2008, the effectiveness of TSMC quality management system was validated by the success of third-party audit activities, ISO/TS 16949 triennial recertification and IECQ QC080000 annual surveillance.

5.4 Customer Partnership

5.4.1 Customers

TSMC's global customers have diverse product specialties and excellent performance records in various segments of the semiconductor industry. Fabless customers include Altera Corporation, Advanced Micro Devices, Inc., Broadcom Corporation, Marvell Semiconductor Inc., NVIDIA Corporation, Qualcomm Inc. and MediaTek Inc. IDM customers include Analog Devices Inc., Freescale Semiconductor Inc., NXP Semiconductors (formerly Philips Semiconductors), and Texas Instruments Inc. In 2007 and 2008, there was only one customer from which sales accounted for more than 10% of TSMC's gross sales. For more information, please refer to the "Financial Information" on page 71 of Annual Report (II).

Customer Service

TSMC is committed to providing the best services to our customers and believes that customer service is critical to enhancing customer loyalty. In turn, customer loyalty leads to higher levels of customer retention and to expansion of our business relationships. TSMC's goal is to maintain our position as the most advanced and largest provider of semiconductor manufacturing technologies and foundry services. TSMC believes that achieving this goal will help retain existing customers, attract new customers, and strengthen customer partnerships.

To facilitate customer interaction and information access on a real-time basis, TSMC has established a wide range of web-based services covering applications in design, engineering, and logistics collaborations. They are collectively branded as eFoundry™ lines.

Customer Satisfaction

TSMC regularly conducts surveys and reviews to ensure that customers' needs and wants are being adequately understood and addressed. Continual improvement plans supplemented by customer feedback are an integral part of this business process.

Market Expansion and Penetration

TSMC continues to diversify its customer base while supporting the growth of our existing customers. TSMC acquired more than 80 new customers in 2008.

5.4.2 Technology Platform and Design Enablement

In advanced technologies, design is becoming increasingly intertwined with manufacturing, and design solutions — from layout guidelines to design methodology — are often needed to alleviate the restrictions imposed by technology. TSMC design engineering team works closely with technology R&D for solutions that lower design barriers. In addition, TSMC and its alliance partners offer comprehensive design infrastructure to support our technology platform.

Early in 2008, the Company unveiled its Open Innovation Platform™ initiative. Hosted by TSMC, the TSMC Open Innovation Platform initiative promotes the speedy implementation of innovation amongst the semiconductor design community, its ecosystem partners and TSMC's IP, design methodology, design implementation and DFM capabilities, process technology and backend services. A key element of the Open Innovation Platform initiative is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that efficiently empowers innovation throughout the supply chain. TSMC's Active Accuracy Assurance (AAA) initiative is a key element of the Open Innovation Platform initiative, providing the accuracy and quality required by the ecosystem interfaces and collaborative components.

Another key collaborative component of the Open Innovation Platform initiative is Reference Flow 9.0. Announced in June 2008, Reference Flow 9.0 addressed new design challenges of TSMC's advanced technologies up to and including 40nm process technology, with features such as transparent half-node design, support for new low-power automation flow via Unified Power Format (UPF) in addition to Common Power Format (CPF) enabled flow, new statistical design features, and hierarchical DFM capability. The latest version of TSMC's industry-leading design methodology is aimed at lowering design obstacles, improving design margins, and increasing yields of TSMC 40nm process technology.

In 2008, the Company also extended its design support effort to mainstream technologies. In mainstream technologies, the design support on PDK, foundation libraries, and IP for derivative technologies such as BCD, HV, and Analog was strengthened. This trend will continue with the Company placing significantly more emphasis on mainstream technology business.

5.5 Employees

5.5.1 Human Capital

Human capital is one of the most important assets of TSMC. The Company is committed to create a corporate culture that embraces innovation and diversity. Believing that an inspiring work environment promotes innovation, TSMC strives to provide employees with a work environment that is challenging, enjoyable and rewarding. In 2008, TSMC was named the "Most Admired Company in Taiwan" by *Commonwealth Magazine* for the 12th consecutive year.

At the end of 2008, TSMC had 22,843 employees worldwide, among whom 2,618 were managers and 8,830 were professionals. Female managers comprised 11.2% of all managers and non-Taiwanese nationals comprised 11.6% of all TSMC managers and professionals. At the end of February 2009, TSMC's total workforce, managers and professionals were 21,973, 2,576 and 8,493 respectively. The following tables summarize TSMC's workforce structure:

TSMC Workforce Structure

		12/31/2007	12/31/2008	02/28/2009
Managers		2,520	2,618	2,576
Professionals		8,814	8,830	8,493
Assistant Engineer/Clerical		844	824	794
Technician		10,842	10,571	10,110
Gender	Male (%)	47.9%	48.6%	48.7%
	Female (%)	52.1%	51.4%	51.3%
Average Age (years)		32.1	32.7	32.9
Average Years of Service (years)		5.8	6.5	6.7
Total		23,020	22,843	21,973

TSMC Workforce Structure by Level of Education

	12/31/2007	12/31/2008	02/28/2009
Ph.D.	2.9%	3.1%	3.1%
Master's	29.7%	30.6%	30.9%
Bachelor's	19.9%	20.2%	20.2%
Other Higher Education	18.9%	18.2%	18.2%
High School	28.6%	27.9%	27.6%

5.5.2 Recruitment

Attracting new employees and retaining and motivating the existing employees are key to the success of TSMC's human resources strategy. TSMC believes in equal opportunity employment. Recruitment is conducted via an open selection process and is based on the candidate's ability to fulfill the needs of each position, regardless of race, gender, age, religion, nationality, or political affiliation. In order to seek out the best talents around the world, TSMC employs a number of recruiting programs, including academic/corporate collaboration programs, Joint Development Program in Campus, summer internships, job fairs, and Technology Talents Career Symposium. During 2008, TSMC recruited 63 managers, 1,110 professionals and 458 technicians.

5.5.3 People Development

Continuous learning is the cornerstone of TSMC's employee development strategy. A tailor-made individual development plan is established for each employee appropriate to the employee's development needs. Employees are provided with a comprehensive network of resources, including on-the-job training, coaching, mentoring, job rotation, on-site courses, e-learning, and external learning opportunities.

TSMC provides employees with a wide range of on-site general, professional and management training programs. In addition to external experts engaged as trainers, hundreds of internal trainers are trained as instructors for training courses. During 2008, TSMC conducted 726 internal training sessions totaling 522,352 training hours in Taiwan. A total of 235,480 attendees participated in those trainings. The total training expenses were NT\$43,469,699. TSMC's training programs include:

- **Management Training:** Management training includes management development training programs tailored to the needs of managers at all levels. Management training programs include New Manager Program, Experienced Manager Program, and Senior Manager Program, as well as other elective courses.
- **General Training:** General training refers to training required by government regulations and company policies. Such training includes industry-specific safety, workplace health and safety, quality, fab emergency response team, languages, and personal effectiveness training.
- **Professional/Functional Training:** Professional/functional training provides technical and professional training required by various functions within the Company, offering training courses on equipment engineering, process engineering, accounting, and information technology, among others.
- **Direct Labor (DL) Training:** DL training enables production line employees to acquire the knowledge, skills and attitudes they need to perform their job well. It also helps employees pass required tests in order to be certified for operating equipments. DL training includes DL Skill Training, Technician "Train-the-Trainer" Training, and Manufacturing Leader Training.
- **New Employee Training:** New Employee training includes new employee orientation and pre-job training. The training consists of new employee basic training and job orientation.

TSMC has established "Procedure of Employee Training and Education", which not only enables the on-site training courses but also best suits company and individual development objectives through external training courses. Under the guideline, employees are encouraged to participate in various training programs and the subsidies are provided when taking short courses, credit courses, and degrees.

5.5.4 Employee Satisfaction

TSMC has continuously promoted programs devoted to employee benefits, employee care, employee rewards, and employee communication. TSMC works hard to provide a work environment that is challenging yet enjoyable.

Employee Benefits Programs

- TSMC Employee Welfare Committee plans and implements various welfare programs, including hobby clubs, art and cultural seminars, employee outings, TSMC Sports Day, and TSMC Family Day. In addition, TSMC provides holiday bonuses, wedding bonuses, funeral and emergency subsidies.
- To ensure that employees have all the conveniences they need while at work, TSMC provides on-site cafeteria, dry-cleaning, travel, banking, haircut services, housing, and commuting assistances.
- Health improvement programs and psychological consultation services are provided to employees to ensure the physical and psychological well being of all employees.
- In order to promote healthy living, TSMC Sports Center was established. It is open to all employees and their family members and provides a variety of workout facilities. TSMC provides Children Centers at Hsinchu and Tainan sites to meet employees' needs for childcare.

Employee Rewards

- Innovation and customer partnership are key elements of TSMC's core values. TSMC annual innovation awards and customer partnership awards were established to recognize and reward employees who contribute to TSMC in all aspects of success.

- In addition to the TSMC annual innovation awards and customer partnership awards, there are a number of other award programs to recognize employees' achievements, including the Outstanding Engineer Award for each fab and the Total Quality Excellence Conference Award. In 2008, TSMC employees were recognized nationally, including: the National Model Worker Award; the Top 10 National Outstanding Managers Award; the Outstanding Engineer Award; and the Outstanding Young Engineer Award.

Employee Communication

TSMC is committed to keeping an open communication channel with its employees. Regular communication meetings are held for the various levels of managers and employees. Periodic employee satisfaction surveys are conducted. *eSilicon Garden*, a quarterly electronic TSMC internal publication, is issued covering things from work to fun. These all help maintain the free flow of information between TSMC and its employees.

In order to ensure that employees' opinions and voices can be heard, well responded, and resolved, impartial and smooth voice submission mechanisms have been established:

- Whistleblower channels for complaints related to major management, financial and auditing issues directed to:
 - 1) Independent Audit Committee Chairman
 - 2) "Ombudsman", headed by a vice president
- Suggestion Box managed by the Employee Relations department for employees to express their opinions regarding their work and the working environment in general.
- HR Call Center and employee care teams in each fab to deal with issues related to employees' work and personal life.

TSMC is committed to establishing and promoting policies and measures for ensuring gender equality in accordance with employment laws and sexual harassment prevention policies to create a fair working environment for employees of both sexes.

As a result of TSMC's annual (2008) human resources performance management and development appraisal, certain employees were terminated in accordance with applicable internal corporate policies and Taiwan law. But, some terminated ex-employees filed labor complaints with the Science Park Administration seeking mediation. The disputes are currently being mediated by the relevant parties. TSMC hopes to resolve these matters amicably and anticipates that

any monetary awards arising from settlement of such mediation would not have any material impact on TSMC's financial results and commercial operations. As of the date of this Annual Report, this matter is still ongoing and therefore it is not possible to estimate an exact monetary loss.

5.5.5 Retention

From employee's initial adjustment to professional and career development, TSMC works hard to retain outstanding employees through creating an innovative, challenging, and developmental environment. We are committed to:

- Setting up retention and counseling plans for different groups. For example, TSMC employs a "Buddy System" to help new employees to fit in quickly through assistance provided by senior employees.
- Enabling employees to enhance professional knowledge and to pursue further career development through numerous employee development programs.
- Establishing a synergized welfare services platform to all employees, and enhancing employees' loyalty and commitment through employee engagement programs such as employee activities, on-site recreational facilities and amenities and cooperate events. Aims to provide employees a work-life balance environment.

5.5.6 Compensation

TSMC's compensation program includes cash compensation and profit sharing. Cash compensation includes a monthly salary and a variable quarterly incentive bonus. The employee is entitled to a profit sharing of no less than one percent of TSMC's net income after deducting the losses of previous years and contributions to legal and special reserves. The purpose of this profit-sharing bonus is to reward employees' contributions appropriately, to encourage employees to work consistently to ensure the success of TSMC, and to link employees' interests with those of TSMC's shareholders. The amount and form of the distribution are determined by the Board of Directors based on the Compensation Committee's recommendation and are subject to shareholders' approval at the Annual General Meeting. The Company determines the amount of the profit-sharing bonus based on operating results and industry practice in the Republic of China. Individual awards are based on each employee's job responsibility, contribution and performance.

In addition to providing employees of TSMC's overseas subsidiaries with a locally competitive base salary, the Company grants short-term and long-term bonuses as a part of total compensation. The performance bonus is a short-term incentive and is granted in line with local regulations, market practices, and the overall operating performance of each subsidiary. The long-term incentive bonus is awarded based on TSMC's financial performance and is vested over the course of several years in order to encourage long-term employee commitment and development within the Company.

5.5.7 Retirement Policy

TSMC's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China.

5.5.8 Ethics and Business Conduct

TSMC's corporate image and professional reputation are among the Company's most important intangible assets. Honorable, honest and legitimate business practices are one of the cornerstones of TSMC's long-term success. TSMC has established an Ethics Code (the "Code") to assist its employees in understanding the meaning of honorable and honest business practices, and to provide employees with guidelines to follow and implement.

This Code covers the behavioral norms for all employees in their dealings with each other as well as with the Company, customers, suppliers, investors and the general public. In case of violations of the Code, the individual faces appropriate disciplinary action.

This Code and the relevant procedures and rules apply not only to all Employees (including managerial personnel) but also to all non-employee directors of TSMC.

5.6 Material Contracts

Technology Cooperation Agreement

Term of Agreement:

2004 - 2008

Contracting Party:

Koninklijke Philips Electronics N.V. (Philips)

(In September 2006, Philips assigned its rights and obligations under this agreement to Philips Semiconductors International B.V., which has now been renamed NXP B.V.)

Summary:

The parties cross license certain semiconductor patents under the agreement, and TSMC is obligated to pay Philips (now NXP B.V.) a fixed amount of license fees for patent license coverage obtained for TSMC's benefit.

Shareholders Agreement

Term of Agreement:

Effective as of 03/30/1999 and may be terminated as provided in the agreement

Contracting Parties:

Koninklijke Philips Electronics N.V. (Philips) and EDB Investments Pte Ltd. (EDBI)

(In September 2006, Philips assigned its rights and obligations under this agreement to Philips Semiconductors International B.V. which has now been renamed NXP B.V. In November 2006, NXP B.V. and TSMC purchased all SSMC shares owned by EDBI; EDBI is no longer a contracting party to this agreement.)

Summary:

TSMC, Philips and EDBI had formed a Singapore joint venture "Systems on Silicon Manufacturing Company Pte Ltd." (SSMC) for providing IC foundry services. Philips Semiconductor (now NXP B.V.) and TSMC are committed to purchasing a certain percentage of SSMC's capacity.

Technology Cooperation Agreement

Term of Agreement:

03/30/1999 - 03/29/2009

Contracting Party:

Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)

Summary:

TSMC agreed to transfer certain process technologies to SSMC, and SSMC agreed to pay TSMC a certain percentage of the net selling price of SSMC products.

Patent License Agreement

Term of Agreement:

12/20/2007 - 12/31/2017

Contracting Party:

A multinational company

Summary:

The parties entered into a cross licensing arrangement for certain semiconductor patents. TSMC pays license fees to the contracting company.

Manufacturing, License, and Technology Transfer Agreement

Term of Agreement:

04/01/2004 - 03/31/2006, automatically renewable for successive one-year terms until and unless both parties decide otherwise by mutual consent in writing.

Contracting Party:

Vanguard International Semiconductor Corporation (VIS)

Summary:

VIS reserves certain capacity to manufacture TSMC products on mutually agreed terms. TSMC may also transfer certain technologies to VIS, for which it will in return receive royalties from VIS.

Patent License Agreement

Term of Agreement:

11/01/2002 - 10/31/2012

Contracting Party:

A multinational company

Summary:

The parties entered into a cross licensing arrangement for certain semiconductor patents. TSMC pays license fees to the contracting party.

Patent License Agreement

Term of Agreement:

07/01/2002 - 06/30/2009

Contracting Party:

A multinational company

Summary:

The parties entered into a cross licensing arrangement for certain semiconductor patents. TSMC pays license fees to the contracting party.

Patent License Agreement

Term of Agreement:

01/01/2001 - 12/31/2011

Contracting Party:

A multinational company

Summary:

The parties entered into a cross licensing arrangement for certain semiconductor patents. TSMC pays license fees to the contracting party.

Settlement Agreement

Term of Agreement:

01/30/2005 - 12/31/2010

Contracting Parties:

Semiconductor Manufacturing International Corp. (SMIC) and certain of its subsidiaries

Summary:

The parties settled their patent infringement and trade secret misappropriation disputes, whereby SMIC agrees to pay TSMC US\$175 million over six years.

Research and Development Collaboration Agreement

Term of Agreement:

01/01/2007 - 12/31/2010

Contracting Party:

NXP B.V.

Summary:

The parties entered into research and development collaboration to develop advanced semiconductor technologies.

Asset Sale and Purchase Agreement

Effective Date of Agreement:

10/08/2007

Contracting Party:

Atmel North Tyneside Limited, Atmel Corporation

Summary:

The parties entered into an asset sale and purchase agreement, whereby TSMC purchases Atmel North Tynesides' semiconductor production equipment and tools for US\$82 million. TSMC has performed its obligations pursuant to this agreement.

Note: TSMC is not currently party to any other material contract, other than contracts entered into in the ordinary course of our business. The Company's "Significant Commitments and Contingencies" are disclosed in the "Financial Information" of Annual Report (II), page 69-70.



One of TSMC's competitive strengths is our financial capabilities. We have a solid balance sheet and a strong cash position. Meanwhile, we proactively managed risk management, which allows us to move steadily towards sustainable corporate development. We strive to minimize potential risks to TSMC for our shareholders, employees, and other stakeholders.

FINANCIAL HIGHLIGHTS

TSMC's trinity of strengths, technology leadership, manufacturing excellence, and customer partnership, are built on a foundation of financial strength. In 2008, we generated positive free cash flow (equal to operating cash flow minus capital expenditures) for the 7th consecutive year. We also returned a record amount of cash to our shareholders through cash dividends and share buybacks. With our strong balance sheet and our consistent profitability, we believe we are well positioned for our future growth and for delivering increasing long-term returns to our shareholders.

6.1 Financial Status and Operating Results

6.1.1 Financial Status

Unconsolidated

Unit: NT\$ thousands

Item	2008	2007	Difference	%
Current Assets	179,849,479	174,299,286	5,550,193	3%
Fixed Assets	219,282,502	234,564,558	(15,282,056)	-7%
Other Assets	17,242,603	19,017,626	(1,775,023)	-9%
Total Assets	540,559,247	551,772,623	(11,213,376)	-2%
Current Liabilities	53,099,467	43,800,810	9,298,657	21%
Long-term Liabilities	11,082,669	20,880,411	(9,797,742)	-47%
Total Liabilities	64,182,136	64,681,221	(499,085)	-1%
Capital Stock	256,254,373	264,271,037	(8,016,664)	-3%
Capital Surplus	49,875,255	53,732,682	(3,857,427)	-7%
Retained Earnings	170,053,667	218,864,571	(48,810,904)	-22%
Total Shareholders' Equity	476,377,111	487,091,402	(10,714,291)	-2%

• Analysis of Deviation over 20%

The increase in current liabilities was mainly due to an increase in bonuses payable to employees and directors (Effective January 1, 2008, the Company adopted the regulation that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than as an appropriation of earnings.).

The decrease in long-term liabilities was mainly due to the reclassification of bonds payable from long-term to current.

The decrease in retained earnings was mainly due to the cancellation of treasury stock.

• Major Impact on Financial Position

The above deviations over 20% had no major impact on TSMC's financial position.

• Future Plan on Financial Position: Not applicable.

Consolidated

Unit: NT\$ thousands

Item	2008	2007	Difference	%
Current Assets	252,618,431	249,822,329	2,796,102	1%
Fixed Assets	243,645,350	260,252,187	(16,606,837)	-6%
Other Assets	22,671,293	24,329,385	(1,658,092)	-7%
Total Assets	558,916,589	570,865,226	(11,948,637)	-2%
Current Liabilities	56,806,756	48,706,007	8,100,749	17%
Long-term Liabilities	21,737,366	31,473,648	(9,736,282)	-31%
Total Liabilities	78,544,122	80,179,655	(1,635,533)	-2%
Capital Stock	256,254,373	264,271,037	(8,016,664)	-3%
Capital Surplus	49,875,255	53,732,682	(3,857,427)	-7%
Retained Earnings	170,053,667	218,864,571	(48,810,904)	-22%
Equity Attributable to Shareholders of the Parent	476,377,111	487,091,402	(10,714,291)	-2%
Total Shareholders' Equity	480,372,467	490,685,571	(10,313,104)	-2%

• Analysis of Deviation over 20%

The decrease in long-term liabilities was mainly due to the reclassification of bonds payable from long-term to current.

The decrease in retained earnings was mainly due to the cancellation of treasury stock.

• Major Impact on Financial Position

The above deviations over 20% had no major impact on TSMC's financial position.

• Future Plan on Financial Position: Not applicable.

6.1.2 Operating Results

Unconsolidated

Unit: NT\$ thousands

Item	2008	2007	Difference	%
Gross Sales	330,228,027	319,167,299	11,060,728	3%
Sales Returns & Allowances	(8,460,944)	(5,519,655)	(2,941,289)	53%
Net Sales	321,767,083	313,647,644	8,119,439	3%
Cost of Sales	183,589,540	176,223,224	7,366,316	4%
Gross Profit	138,177,543	137,424,420	753,123	1%
Realized (Unrealized) Gross Profit from Affiliates	72	(265,106)	265,178	-100%
Realized Gross Profit	138,177,615	137,159,314	1,018,301	1%
Operating Expenses	31,887,383	24,907,267	6,980,116	28%
Income from Operations	106,290,232	112,252,047	(5,961,815)	-5%
Non-operating Income & Gains	6,725,625	11,105,792	(4,380,167)	-39%
Non-operating Expenses & Losses	2,257,039	2,606,433	(349,394)	-13%
Income before Income Tax	110,758,818	120,751,406	(9,992,588)	-8%
Income Tax Expenses	(10,825,650)	(11,574,313)	748,663	-6%
Income after Income Tax	99,933,168	109,177,093	(9,243,925)	-8%

● **Analysis of Deviation over 20%**

Increase in sales returns and allowance: The increase was the result of higher provision on the potential sales returns and allowances.

Decrease in unrealized gross profit from affiliates: The decrease was due to lower sales to the investee in 4Q 2008.

Increase in operating expenses: The increase mainly reflected the impact from expensing of employee profit sharing.

Decrease in non-operating income and gains: The decrease was primarily due to lower equity in earnings of equity method investees.

● **Sales Volume Forecast and Related Information**

For additional details, please refer to "Letter to Shareholders" on pages 5-7 of this Annual Report.

Consolidated

Unit: NT\$ thousands

Item	2008	2007	Difference	%
Gross Sales	341,983,355	328,336,172	13,647,183	4%
Sales Returns & Allowances	(8,825,695)	(5,705,576)	(3,120,119)	55%
Net Sales	333,157,660	322,630,596	10,527,064	3%
Cost of Sales	191,408,099	180,280,385	11,127,714	6%
Gross Profit	141,749,561	142,350,211	(600,650)	0%
Operating Expenses	37,314,193	30,628,304	6,685,889	22%
Income from Operations	104,435,368	111,721,907	(7,286,539)	-7%
Non-operating Income & Gains	10,821,449	11,933,803	(1,112,354)	-9%
Non-operating Expenses & Losses	3,784,571	2,013,684	1,770,887	88%
Income before Income Tax	111,472,246	121,642,026	(10,169,780)	-8%
Income Tax Expenses	(10,949,009)	(11,709,626)	760,617	-6%
Net Income	100,523,237	109,932,400	(9,409,163)	-9%
Net Income Attributable to Shareholders of the Parent	99,933,168	109,177,093	(9,243,925)	-8%

● **Analysis of Deviation over 20%**

Increase in sales returns and allowances: The increase was the result of higher provision on the potential sales returns and allowances.

Increase in operating expenses: The increase mainly reflected the impact from expensing of employee profit sharing.

Increase in non-operating expenses and losses: The increase was primarily due to more loss on impairment of financial assets and valuation loss on financial instruments, offset in part by a decrease in provision for litigation loss.

● **Sales Volume Forecast and Related Information**

For additional details, please refer to "Letter to Shareholders" on pages 5-7 of this Annual Report.

6.1.3 Cash Flow

Unconsolidated

Unit: NT\$ thousands

Cash Balance 12/31/2007	Net Cash Provided by Operating Activities in 2008	Net Cash Outflows from Investing and Financing Activities in 2008	Cash Balance 12/31/2008	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
72,422,102	211,949,947	(146,163,689)	138,208,360	-	-

• Analysis of Cash Flow

NT\$211.9 billion net cash provided by operating activities: Mainly from net income, depreciation/amortization and an increase in bonuses payable to employees and directors.

NT\$31.2 billion net cash used in investing activities: Primarily for capital expenditures, partially offset by a net decrease in financial instruments.

NT\$115.0 billion net cash used in financing activities: Mostly for the payout of cash dividends and repurchase of common shares.

• Remedial Actions for Cash Shortfall: As a result of positive cash flows and ample cash on-hand, remedial actions are not required.

• Cash Flow Projection for Next Year: Not applicable.

Consolidated

Unit: NT\$ thousands

Cash Balance 12/31/2007	Net Cash Provided by Operating Activities in 2008	Net Cash Outflows from Investing and Financing Activities in 2008	Cash Balance 12/31/2008	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
94,986,488	221,493,565	(121,866,301)	194,613,752	-	-

• Analysis of Cash Flow

NT\$221.5 billion net cash provided by operating activities: Mainly from net income, depreciation/amortization, and increase in bonuses payable to employees, directors and supervisors.

NT\$8.0 billion net cash used in investing activities: Primarily for capital expenditures, partially offset by a net decrease in financial instruments.

NT\$113.8 billion net cash used in financing activities: Mostly for the payout of cash dividends and repurchase of common shares.

• Remedial Actions for Cash Shortfall: As a result of positive cash flows and ample cash on-hand, remedial actions are not required.

• Cash Flow Projection for Next Year: Not applicable.

6.1.4 Major Capital Expenditure

Major Capital Expenditure and Sources of Funding

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Total Amount as of 12/31/2008	Status of Actual or Projected Use of Capital			
			2005	2006	2007	2008
Production Facilities and Equipments	Cash flow generated from operations	283,512,716	75,040,652	73,643,829	77,925,776	56,902,459
R&D Equipments	Cash flow generated from operations	14,654,165	3,869,192	3,746,173	5,401,157	1,637,643

Expected Future Benefits

With the above-mentioned capital expenditures, it is estimated that TSMC's annual production capacity will increase by approximately 0.5 million 8-inch equivalent wafers in 2009.

6.1.5 Investments Exceeding 5% of Company's Paid-in Capital in 2008: Not applicable.

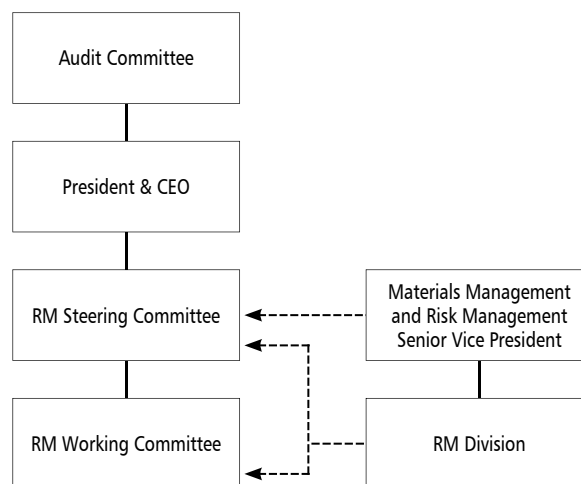
6.2 Risk Management

TSMC and its subsidiaries are committed to proactively and cost-effectively integrating and managing strategic, operational, financial and hazardous risks together with potential consequences to operations and revenue. TSMC established ERM (Enterprise Risk Management) program based on TSMC's corporate vision as well as its long-term sustainability and responsibility to both industry and society. The ERM program seeks to provide for TSMC's adequate management of risks on behalf of its stakeholders, shareholders and other interested parties.

In 2008, TSMC won several recognitions, such as: the National Safety and Health Award; outstanding performance in crisis management sector of Dow Jones Sustainability Indexes (DJSI); 1st LEED certificate in Taiwan by Fab14 Phase III factory building, selected as a component of the Carbon Disclosure Leadership Index (CDLI); hosting the first Taiwan Green Forum; and issuing 1st CSR report. TSMC not only manages its own risks, but also strives for long-term sustainability. To quote our Chief Executive Officer, "TSMC will continue to fulfill its responsibilities as a good corporate citizen and contribute to the sustainability of the Earth".

Although global uncertainty lies ahead in 2009, TSMC will continue to enhance cost and technological competitive advantages. These efforts include enhancement of the internal integration of risk management and audit, and the monitoring and mitigation of risks from external environment change.

6.2.1 Risk Management (RM) Organization Chart



Organization Description

- **RM Steering Committee:**

Report to Audit Committee
Is composed of functional heads;
Reviews risk control progress; and
Identifies and approves the prioritized risk lists.

- **RM Working Committee:**

Is composed of representatives from each function;
Aligns functional ERM activities; and
Follows up the risk control action plan.

- **RM Division:**

Coordinates the RM Working Committee activities;
Facilitates functional risk management activities; and
Consolidates ERM reports into the RM Steering Committee.

6.2.2 Strategic Risks

Industry Developments

The semiconductor market and microelectronics industries have historically been cyclical and subject to significant and often rapid increases and decreases in product demand. Our semiconductor foundry business is affected by market conditions in such highly cyclical semiconductor and microelectronics industries. Most of our customers operate in these industries. Variations in order levels from our customers result in volatility in our revenues and earnings. From time to time, the semiconductor and microelectronics industries have experienced significant, and sometimes prolonged periods of downturns and overcapacity. Because we are, and will continue to be, dependent on the requirements of semiconductor and microelectronics companies for our services, periods of downturns and overcapacity in the general semiconductor and microelectronics industries lead to reduced demand for overall semiconductor foundry services, including our services. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand, our revenues, margin and earnings will suffer during periods of downturns and overcapacity.

Changes in Technology

The semiconductor industry and the technologies used in it are constantly changing. We compete by developing process technologies using increasingly smaller nodes and on manufacturing products with multiple or more advanced functions. If we do not anticipate these changes in technologies and rapidly develop new and innovative technologies or our competitors unforeseeably gain sudden access to more advanced technologies, we may not be able to provide advanced foundry services on competitive terms. Although we have concentrated on maintaining a competitive edge in research and development, if we fail to achieve advances in technologies or processes, or to obtain access to advanced technologies or processes developed by others, we may become less competitive.

Decrease in Demand and Average Selling Price

A vast majority of our sales revenue is derived from customers who use our services in communication devices, personal computers and consumer electronics products. Any significant decrease in the demand for the products may decrease the demand for overall global semiconductor foundry services, including our services and may adversely affect our revenues. In addition, the historical and current trend of declining average selling prices of end use applications places downward pressure on the prices of the components that go into such applications. If the average selling prices of end use applications continue decreasing, the pricing

pressure on components produced by us may lead to a reduction of our revenues, margin and earnings.

Competition

We compete internationally and domestically with pure-play foundry service providers, as well as with integrated device manufacturers that devote a significant portion of their manufacturing capacity to foundry operations. Some of these companies may have access to more advanced technologies and greater financial and other resources than us, (such as the possibility of receiving direct or indirect government bailout/economic stimulus funds or other incentives that are unavailable to us). Our competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Competitive activities may cause us to lose customers or to decrease our customer base, or our average selling prices, or both.

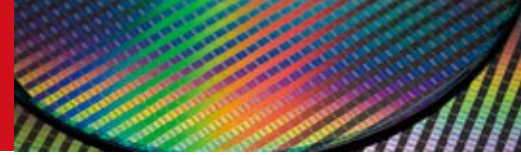
We compete primarily on the basis of process technology, quality and service. The level of competition differs according to the process technology involved. For example, in more mature technologies, the competition tends to be more intense. Some companies compete with us in selected geographic regions or application end markets. In recent years, substantial investments have been made by others to establish new pure-play foundry companies in mainland China and elsewhere.

Risks Associated with Changes in the Government Policies and Regulatory Environment

TSMC's management team closely monitors both domestic and foreign government policies and regulatory developments that could have a material impact on TSMC's business and financial operations, and establishes related risk management procedures. Government policies and regulatory developments did not have a material impact on TSMC during 2008.

For other government policies and regulatory developments, such as the amendments to the Statement of Financial Accounting Standards No. 10, "Accounting for Inventories", please refer to "Recent Accounting Pronouncements" in the "Financial Information" of Annual Report (II), page 55.

In addition, the Taiwan legislative authority is studying the relevant laws with regard to environmental protection, e.g. "Greenhouse Gas Reduction Act", and the new policy after the expiration of Article 70-1 of the "Statute for Upgrading Industries" on December 31, 2009. We will continue to monitor the possible impact that any new government policies and regulatory changes might bring to TSMC's business and financial operations.



6.2.3 Operational Risks

Risks Associated with Capacity Expansion

In response to customer demand, we have been ramping up the production of our 12-inch wafer fabs in the Hsinchu Science Park and Tainan Science Park, respectively, since 2004. In 2008, the capacity of our 12-inch wafer fabs increased from 130,700 wafer per month in 2007 to 154,300 wafer per month in 2008. Overall, TSMC increased its annual production capacity by approximately 1.09 million 8-inch equivalent wafers in 2008. The total average billing utilization rate for 2008 was 88% after a very down 4th quarter. Expansion and modification of our production facilities will, among other factors, increase our costs. For example, we will need to purchase additional equipment, train personnel to operate the new equipment or hire additional personnel. If we do not increase our net sales accordingly in order to offset these higher costs, our financial performance may be adversely affected.

As of the date of this Annual Report, the benefits brought about by such capacity expansion were in line with TSMC's expectations. TSMC has established systems to evaluate and forecast market demand and refers to these forecasts and evaluations when considering whether to expand or reduce capacity.

Risks Associated with Sales Concentration

While we generate revenue from hundreds of customers worldwide, our ten largest customers accounted for approximately 51% and 53% of our net sales in 2007 and 2008, respectively, and our largest customer accounted for approximately 11% and 14% of our net sales in 2007 and 2008, respectively. The loss of, or significant curtailment of purchases by, one or more of our top customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments, may adversely affect our results of operations and financial condition.

Risks Associated with Purchase Concentration

• Raw Materials

Our production operations require that we obtain adequate supplies of raw materials, such as silicon wafers, gases, chemicals, and photoresist, on a timely basis. Shortages in the supply of some materials experienced by specific vendors or by the semiconductor industry generally have in the past resulted in occasional industry-wide price adjustments and delivery delays. Also, since we procure some of our raw materials from sole-source suppliers, there is a risk that our need for such raw materials may not be timely met. Our revenue and earnings could decline if we are unable to obtain

adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that we cannot pass on to our customers.

• Equipment

Our operations and ongoing expansion plans depend on our ability to obtain an appropriate amount of equipment and related services from a limited number of suppliers in a market that is characterized by limited supply and long delivery cycles. During such times, supplier-specific or industry-wide lead times for delivery can be as long as nine months. To better manage our supply chain, we have implemented various business models and risk management contingencies with suppliers to shorten the procurement lead time. We also provide our projected demand for various items to many of our equipment suppliers to help them plan their production in advance. If we are unable to obtain equipment in a timely manner and at a reasonable cost, we may be unable to fulfill our customers' orders, which could negatively impact our financial condition and results of operations.

Risks Associated with Intellectual Property Rights

Our ability to compete successfully and to achieve future growth will depend in part on the continued strength of our intellectual property portfolio. While we actively enforce and protect our intellectual property rights, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of our proprietary technology, trade secrets, software or know-how. Also, we cannot assure you that, as our business or business models expand into new areas, we will be able to develop independently the technology, trade secrets, software or know-how necessary to conduct our business or that we can do so without infringing the intellectual property rights of others. As a result, we may have to rely increasingly on licensed technology from others. To the extent that we rely on licenses from others, there can be no assurance that we will be able to obtain any or all of the necessary licenses in the future on terms we consider reasonable or at all. The lack of necessary licenses could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify our customers against damages resulting from infringement claims.

We have received, from time-to-time, communications from third parties asserting that our technologies, manufacturing processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe their patents or other intellectual property rights. And, because of the nature of

the industry, we may continue to receive such communications in the future. In some instances, these disputes have resulted in litigation. If we fail to obtain or maintain certain government, technology or intellectual property licenses and, if litigation relating to alleged intellectual property matters occurs, it could prevent us from manufacturing or selling particular products or applying particular technologies, which could reduce our opportunities to generate revenues.

Risks Associated with Litigation

As is the case with many companies in the semiconductor industry, we have received from time to time communications from third parties asserting that our technologies, manufacturing processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe upon patents or other intellectual property rights of others. In some instances, these disputes have resulted in litigation by or against us and certain settlement payments by us in some cases. Irrespective of the validity of these claims, we could incur significant costs in the defense thereof or could suffer adverse effects on our operations.

In December 2003, we commenced legal action in several forums against SMIC and certain of its subsidiaries for several causes of action including but not limited to patent infringement and trade secret misappropriation. The dispute with SMIC was settled under a settlement agreement entered into in January 2005 and pursuant to which SMIC is paying us US\$175 million in installments over six years. Under its terms, we agreed not to sue SMIC for itemized acts of alleged trade secret misappropriation except in the event of breach. In addition, we and SMIC agreed to cross license each other's certain patents through December 2010. The settlement agreement also provided for the dismissal without prejudice of all pending legal actions between the two companies, including matters pending in the U.S. District Court for the Northern District of California, Superior Court of California for Alameda County, the U.S. International Trade Commission and Hsinchu District Court in Taiwan. The settlement does not grant a license to SMIC to use any of our trade secrets nor does it result in TSMC transferring any technology or providing any technical assistance to SMIC. In August 2006, we filed a lawsuit against SMIC in the Superior Court of California for Alameda County for breach of the aforementioned settlement agreement, breach of promissory notes and trade secret misappropriation seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against us in the

same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against us in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. In September 2007, the Superior Court of California for Alameda County issued an order based on our pre-trial motion and ordered that SMIC must provide advance notice and an opportunity for us to object before disclosing certain items to SMIC's third party partners. In January 2009, the court in the California action held a four-day bench trial to determine whether a Settlement Agreement existed between the parties, and if there were an agreement, the interpretation of certain terms. SMIC contended that there was no binding Settlement Agreement, and TSMC contended that the Settlement Agreement signed on January 30, 2005 and finalized shortly thereafter and repeatedly ratified bound the parties. On March 10, 2009, the Court issued its Statement of Decision. The Court rejected SMIC's contention, and found that the parties were bound by the Settlement Agreement identified by TSMC. The Court also interpreted the meaning of certain provisions within the Settlement Agreement.

The matters are pending in both courts. The specific outcome of the litigation matters cannot be determined at this time.

In April 2004, UniRAM Technology, Inc. (UniRAM) filed an action against MoSys Inc., TSMC and TSMC North America in the U.S. District Court for the Northern District of California, alleging patent infringement and trade secret misappropriation and seeking injunctive relief and damages. TSMC appealed after the United States District Court for the Northern District of California rendered judgment in favor of UniRAM in May 2008. In the third quarter of 2008, TSMC and TSMC North America reached agreement with UniRAM to settle the dispute. In accordance with the settlement, the judgment has been vacated and the claims asserted by UniRAM are fully and finally settled. As of December 31, 2008, TSMC had accounted for the result of the settlement in accordance with the terms of the settlement agreement. Other than the matters described above, we were not involved in any other material litigation in 2008 and are not currently involved in any material litigation.

Risks Associated with Mergers and Acquisitions

In 2008, and as of the date of this Annual Report, there were no such risks for TSMC.

Risks Associated with Recruiting and Retaining Qualified Personnel

We depend on the continued services and contributions of our executive officers and skilled technical and other personnel. Our business could suffer if we lose, for whatever reasons, the services and contributions of some of these personnel and we cannot adequately replace them. We may be required to increase the number of employees in connection with any business expansion, and since there is intense competition for the recruitment of these personnel, we cannot ensure that we will be able to fulfill our personnel requirements in a timely manner.

Future R&D Plans and Expected R&D Spending

For additional details, please refer to “*Future R&D Plans*” on page 51 of this Annual Report.

Changes in Corporate Image and Impact on Company’s Crisis Management

TSMC has established an excellent corporate image based on its firm belief in its core values, its rigorous corporate governance, its efforts in supporting environmental sustainability, and its outstanding operations. In the past, the Company has won recognition such as:

- The Executive Yuan’s Enterprise Sustainable Development Award;
- The Ministry of Economic Affairs’ Outstanding Innovation Achievement Award;
- Council of Labor Affairs, Executive Yuan’s National Safety and Health Award;
- The Environmental Protection Administration’s National Enterprise Environmental Protection Award;
- *Commonwealth Magazine*’s award for Most Admired Company in Taiwan;
- *Commonwealth Magazine*’s award for Best Corporate Citizenship for a large company;
- *GlobalViews Magazine*’s Corporate Social Responsibility award;
- Number one in the *Asian Wall Street Journal*’s survey of the top 10 companies in Taiwan;
- First place in *Cheers Magazine*’s survey of Company Most Admired by the New Generation;
- *IR Magazine*’s award for Best Corporate Governance in Taiwan and Hong Kong and Best Investor Relations in Taiwan.

We believe that these recognitions are the strongest proof of TSMC’s positive corporate image.

TSMC continues to improve its corporate image as well as prevent and control potential reputational risk through the work of departments including Brand Management, Customers Service, Public Relations, Employee Relations, Investor Relations, Risk Management, Internal Audit, and the TSMC Education and Culture Foundation.

Risks Associated with Change in Management

In 2008, and as of the date of this Annual Report, there were no such risks for TSMC.

6.2.4 Financial Risks

Internal Management of Economic Risks

• Interest Rate Fluctuation

TSMC’s exposure to interest rate risks derives primarily from long-term debt obligations that are incurred in the normal course of business. In order to limit its exposure to interest rate risks, TSMC finances its funding needs through internal generation of cash and the occasional issuance of long-term, fixed-rate debt. On the asset side, the primary objective of our investments in fixed income securities is to preserve principal in highly liquid markets. In order to maintain our liquidity profile, the majority of fixed income securities are at the short end of the yield curve.

• Foreign Exchange Volatility

Over half of our capital expenditures and manufacturing costs are denominated in currencies other than NT dollars, primarily in U.S. dollars, Japanese yen and Euros. More than 90% of our sales are denominated in U.S. dollars and currencies other than NT dollars. Therefore, any significant fluctuation to our disadvantage in such exchange rates would have an adverse effect on our financial condition. The current global economic crisis may cause increased volatility in such exchange rates. For example, during the period from January 1, 2008 to March 31, 2008, the U.S. dollar has depreciated 6.3% against the NT dollar, which had a negative impact on our results of operations. In addition, fluctuations in the exchange rate between the U.S. dollar and the NT dollar may affect the U.S. dollar value of our common shares and the market price of the ADSs and of any cash dividends paid in NT dollars on our common shares represented by ADSs. TSMC hedged its foreign exchange exposure resulting from its assets and liabilities mainly through cross currency swaps and currency forward contracts.

● Inflation & Deflation

Our most significant export market is North America and we do not believe that inflation or deflation in the R.O.C. or North America had a material impact on our results of operations in 2008. However, we cannot provide assurance that there will be no significant variations in the nature, extent or scope of inflation or deflation within any of our key markets in the future or any such variation or whether deflation possibly arising from the global economic crisis would not have a material impact on our results of operations.

Risks Associated with High-risk/High-leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions
TSMC did not make high-risk or high-leveraged financial investments during 2008 and up to the date of this report. Neither did TSMC provide lending, endorsements or guarantees for other parties in the period.

The financial transactions of a “derivative” nature that TSMC entered into were strictly for hedging purposes and not for any trading or speculative purpose. For more information, please refer to the “Financial Information” on page 55-56 of Annual Report (II).

The fair market value of our trading and available for sale financial investments are subject to fluctuation based on many factors, e.g., prevailing market conditions, and may be different from our carrying value, which may impact the returns of those investments. To control various types of financial transactions, the Company has established internal policies and procedures based on sound financial and business practices, all in compliance with the relevant rules and regulations issued by the Taiwan Securities and Futures Bureau. TSMC policies and procedures include “Policies and Procedures for Financial Derivative Transactions”, “Procedures for Lending Funds to Other Parties”, “Procedures for Acquisition or Disposal of Assets”, and “Procedures for Endorsement and Guarantee”.

Risks Associated with Impairment Charges

Under R.O.C. GAAP and U.S. GAAP, TSMC is required to evaluate our long-lived assets and intangible assets for impairment whenever there is an indication of impairment. If certain criteria are met, TSMC is required to record an impairment charge. TSMC is also required under R.O.C. GAAP and U.S. GAAP to evaluate goodwill for impairment at least on an annual basis or whenever a triggering event or an indication of impairment occurs.

We currently are not able to estimate the extent or timing of any impairment charge for future years. Any impairment charge required may have a material adverse effect on our net income.

The determination of an impairment charge at any given time is substantially based on the expected results of our operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when our operating results are otherwise already depressed. TSMC has established systems to closely monitor and evaluate capacity utilization and economic cycle.

6.2.5 Hazardous Risks

TSMC is committed to maintaining a comprehensive risk management system dedicated to the conservation of natural resources, safety of people, and protection of property. In order to effectively handle emergencies and natural disasters at each facility, management has developed comprehensive plans and procedures that focus on loss prevention, emergency response, crisis management, and business recovery. TSMC has adopted international standards for ESH management. All TSMC fabs have been ISO 14001 certified (Environmental Management System), OHSAS 18001 certified (Occupational Health and Safety Management System) and QC080000 certified (Hazardous Substance Process Management System).

TSMC pays special attention to emergency preparedness for disasters such as typhoon, flood, drought caused by climate change, earthquakes, environmental contamination, large-scale product returns, disruption of IT systems, strikes, and disruptions to the supply of raw materials or water, electricity, gases, and public utilities. We further strengthen business continuity plans, which include risk assessment, control implementation and the establishment of emergency task forces when necessary; the preparation of a thorough analysis of the emergency, its impact, alternatives, and solution for each possible scenario; and appropriate precautionary and/or recovery measures. Each task force is given the responsibility to ensure TSMC’s ability to conduct business while minimizing personal injuries, business disruption, and financial impact under the circumstances. TSMC customers are appreciated of TSMC’s strong business continuity plan to establish their supply chain resilience and insurance placement. For the year 2008 and up to the date of this Annual Report, there are no reportable material events that have necessitated the activation of such contingency plans. In 2008, we also conducted the continuous improvement



project for building anti-seismic capability evaluation and tool anchorage fixation and enhance TSMC business continuity procedures reference to BS 25999 business continuity management.

We use some combustible materials in manufacturing processes and are therefore subject to explosion and fire risk. We maintain many overlapping risk prevention and protection systems, as well as comprehensive fire and casualty insurance, including insurance for loss of property and loss of profit resulting from business interruption. Nonetheless, our risk management and insurance coverage may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of an explosion, fire, or environmental excursions, it could reduce our manufacturing capacity and might cause us to lose important customers, thereby having a potentially material adverse impact on our financial performance. In addition to periodic fire protection system inspection and fire fighting drills, we also carried out a corporate-wide fire risk mitigation project focused on management and hardware improvements.

6.2.6 Other Risks

Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by TSMC's Directors, and Major Shareholders Who Own 10% or More of TSMC's Total Outstanding Shares

The value of TSMC shareholders' investment may be reduced by possible future sales of TSMC shares owned by the major shareholders.

One or more of our existing shareholders may, from time to time, dispose of significant numbers of our common shares or ADSs. For example, the National Development Fund, who owned 6.4% of TSMC's outstanding shares as of February 28, 2009, has sold our shares in the form of ADSs in several transactions during the period between 1997 and 2005.

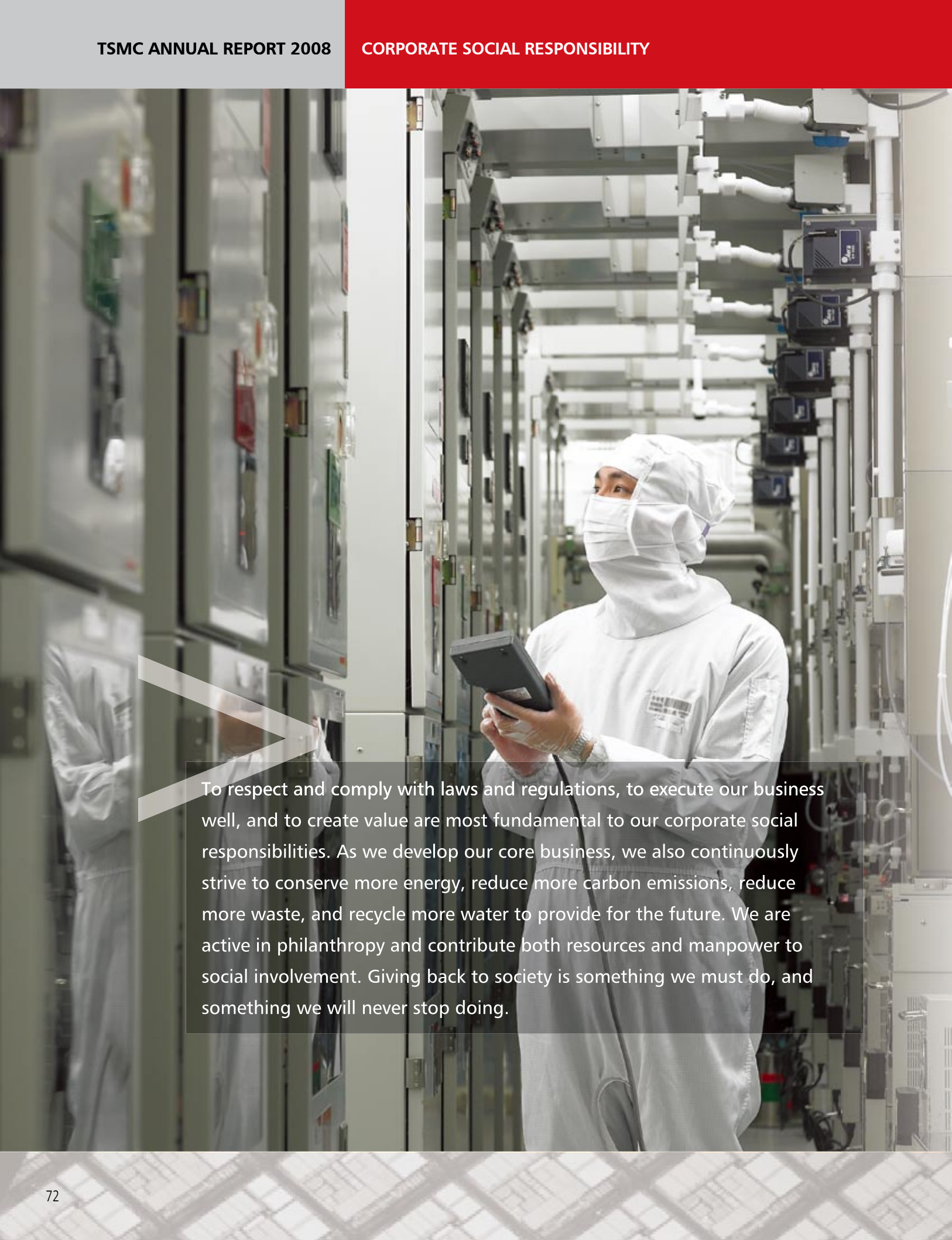
On August 14, 2008, Philips, which then was a major shareholder, completed its exit of shareholding in TSMC through a block trade to long-term financial investors mutually agreed by Philips and us. We and Philips have implemented a multi-phase plan for an exit in a way that minimized any adverse impact on TSMC and the market price of TSMC ADSs and common shares.

There is currently no other shareholder who owns 10% or more of TSMC's total outstanding shares.

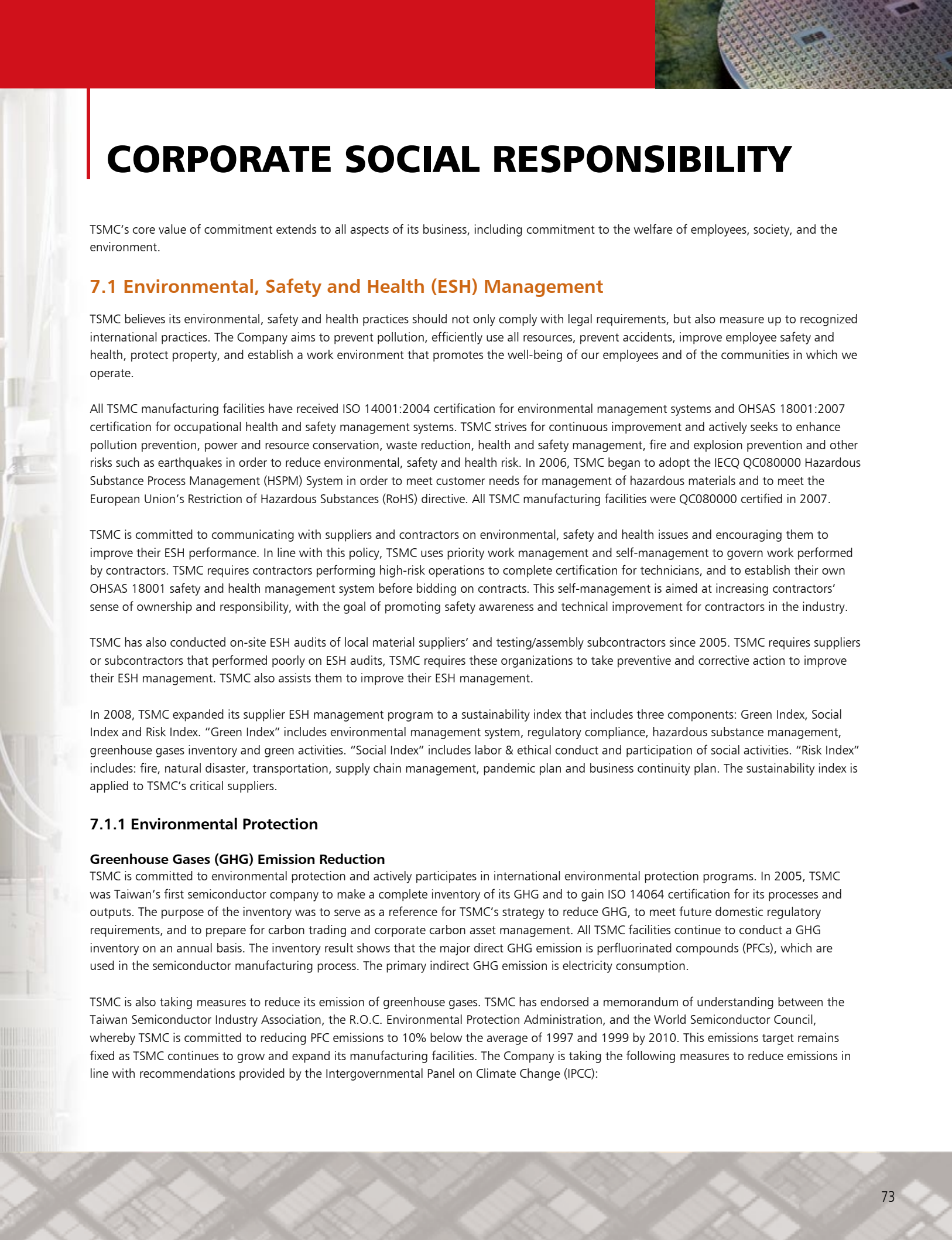
Other Material Risks

Recent global systemic economic and financial crisis could negatively affect our business, results of operations, and financial condition.

The recent systemic economic and financial crisis that has been affecting global business, banking and financial sectors has also been affecting the semiconductor market. The recent turmoil in global markets has resulted in sharp declines in electronic products sales from which TSMC generates its income through its goods and services. There could be a number of knock-on effects from such turmoil on TSMC's business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of TSMC's products and/or customer insolvencies; and counter party failures negatively impacting our treasury operations. We currently expect revenues for the semiconductor industry as a whole to decline around 20% in 2009 which is subject to change unexpectedly in response to fluctuating global market conditions. To minimize potential adverse impact, TSMC has taken actions to cut down capital expenditure, intensify cost reduction and expense control efforts, preserve cash by managing working capital effectively, endeavor after new business, and continue to invest significant amounts on research and development to remain a technology leader.

A photograph of a worker in a white cleanroom suit and mask, holding a handheld device, standing in a semiconductor manufacturing facility. The background shows rows of industrial equipment and pipes.

To respect and comply with laws and regulations, to execute our business well, and to create value are most fundamental to our corporate social responsibilities. As we develop our core business, we also continuously strive to conserve more energy, reduce more carbon emissions, reduce more waste, and recycle more water to provide for the future. We are active in philanthropy and contribute both resources and manpower to social involvement. Giving back to society is something we must do, and something we will never stop doing.



CORPORATE SOCIAL RESPONSIBILITY

TSMC's core value of commitment extends to all aspects of its business, including commitment to the welfare of employees, society, and the environment.

7.1 Environmental, Safety and Health (ESH) Management

TSMC believes its environmental, safety and health practices should not only comply with legal requirements, but also measure up to recognized international practices. The Company aims to prevent pollution, efficiently use all resources, prevent accidents, improve employee safety and health, protect property, and establish a work environment that promotes the well-being of our employees and of the communities in which we operate.

All TSMC manufacturing facilities have received ISO 14001:2004 certification for environmental management systems and OHSAS 18001:2007 certification for occupational health and safety management systems. TSMC strives for continuous improvement and actively seeks to enhance pollution prevention, power and resource conservation, waste reduction, health and safety management, fire and explosion prevention and other risks such as earthquakes in order to reduce environmental, safety and health risk. In 2006, TSMC began to adopt the IECQ QC080000 Hazardous Substance Process Management (HSPM) System in order to meet customer needs for management of hazardous materials and to meet the European Union's Restriction of Hazardous Substances (RoHS) directive. All TSMC manufacturing facilities were QC080000 certified in 2007.

TSMC is committed to communicating with suppliers and contractors on environmental, safety and health issues and encouraging them to improve their ESH performance. In line with this policy, TSMC uses priority work management and self-management to govern work performed by contractors. TSMC requires contractors performing high-risk operations to complete certification for technicians, and to establish their own OHSAS 18001 safety and health management system before bidding on contracts. This self-management is aimed at increasing contractors' sense of ownership and responsibility, with the goal of promoting safety awareness and technical improvement for contractors in the industry.

TSMC has also conducted on-site ESH audits of local material suppliers' and testing/assembly subcontractors since 2005. TSMC requires suppliers or subcontractors that performed poorly on ESH audits, TSMC requires these organizations to take preventive and corrective action to improve their ESH management. TSMC also assists them to improve their ESH management.

In 2008, TSMC expanded its supplier ESH management program to a sustainability index that includes three components: Green Index, Social Index and Risk Index. "Green Index" includes environmental management system, regulatory compliance, hazardous substance management, greenhouse gases inventory and green activities. "Social Index" includes labor & ethical conduct and participation of social activities. "Risk Index" includes: fire, natural disaster, transportation, supply chain management, pandemic plan and business continuity plan. The sustainability index is applied to TSMC's critical suppliers.

7.1.1 Environmental Protection

Greenhouse Gases (GHG) Emission Reduction

TSMC is committed to environmental protection and actively participates in international environmental protection programs. In 2005, TSMC was Taiwan's first semiconductor company to make a complete inventory of its GHG and to gain ISO 14064 certification for its processes and outputs. The purpose of the inventory was to serve as a reference for TSMC's strategy to reduce GHG, to meet future domestic regulatory requirements, and to prepare for carbon trading and corporate carbon asset management. All TSMC facilities continue to conduct a GHG inventory on an annual basis. The inventory result shows that the major direct GHG emission is perfluorinated compounds (PFCs), which are used in the semiconductor manufacturing process. The primary indirect GHG emission is electricity consumption.

TSMC is also taking measures to reduce its emission of greenhouse gases. TSMC has endorsed a memorandum of understanding between the Taiwan Semiconductor Industry Association, the R.O.C. Environmental Protection Administration, and the World Semiconductor Council, whereby TSMC is committed to reducing PFC emissions to 10% below the average of 1997 and 1999 by 2010. This emissions target remains fixed as TSMC continues to grow and expand its manufacturing facilities. The Company is taking the following measures to reduce emissions in line with recommendations provided by the Intergovernmental Panel on Climate Change (IPCC):

- Accurate measurement of PFC gas production and the effectiveness of exhaust gas abatement equipment in order to calculate actual PFC emission volumes.
- Evaluation of feasible alternatives to greenhouse gases and gradually replacement of greenhouse gases at all manufacturing facilities, 90% has been deployed in 2008.
- Evaluation and installation of PFC exhaust gas abatement equipment, in line with effectiveness and safety considerations. The installation will be carried out from 2008 to 2010, 25% of which was completed in 2008.

Coal-fired power generators are a major source of electricity in Taiwan and emit large amounts of carbon dioxide (CO₂). TSMC makes continuous efforts to conserve energy, which reduces both carbon dioxide gas emissions and costs. TSMC has not only adopted energy-conservative designs for both manufacturing fabs and offices, but has also improved the energy efficiency of facilities during operation.

Air and Water Pollution Control

TSMC has installed effective air and water pollution control equipment in each wafer fab to meet regulatory emissions standards. In addition, TSMC maintains backup pollution control systems, including emergency power supplies, to lower the risk of pollutant emission in the event of equipment breakdown. TSMC monitors the operations of air and water pollution control equipment centrally around the clock and tracks system effectiveness to ensure emitted air and discharged water quality.

Water Conservation

To make the most effective use of Taiwan's limited water resources, all TSMC fabs make efforts to increase water reclamation rates by adjusting the water usage of manufacturing equipment and improving wastewater reclamation systems. New fabs are able to reclaim more than 85% of process water, meeting or exceeding the standards of the Science Park Administration and outperforming most semiconductor fabs around the world. TSMC also strives to reduce non-manufacturing-related water consumption, including water used in air conditioning systems, sanitary facilities, cleaning, landscaping and kitchens.

Waste Management and Recycling

TSMC has established a designated unit responsible for waste recycling and disposal. To meet the goal of sustainable resource utilization, TSMC's first priority is to reduce process waste before considering recycling or disposal. TSMC carefully selects waste disposal and recycling contractors and performs annual audits of certification documents, site operations and transportation routes to ensure legal and proper disposal of waste. Waste recycling has improved from 86% in 2007 to 90% in 2008.

Other Environmental Protection Programs

TSMC has implemented an environmental accounting system, allowing each fab to calculate cost savings or profits created by each environmental program.

In addition, TSMC conducts "Product Life Cycle Assessments" (Product LCA), collecting and analyzing data from the entire semiconductor manufacturing chain from raw materials suppliers to finished products, including statistics for such items as energy, raw materials consumption, and pollution. The product LCA study has established "Eco-Profiles" for all TSMC fabs and will help the Company to meet future international regulations such as the European Union's "Energy-Using Product" directive. These "Eco-Profiles" can also be provided to customers who require such documentation. In 2008, TSMC cooperated with its assembly subcontractor-ASE (Advanced Semiconductor Engineering Group) to build up an "Eco-Profile" for IC assembly process. The Eco-Profile for wafer manufacturing and assembly process can be combined and provided to TSMC's turnkey service customers.

TSMC also maintains "green procurement" procedures, requiring raw materials suppliers to declare that the materials they supply to TSMC do not contain any prohibited substances. This ensures that products manufactured by TSMC comply with customer requirements and the regulatory requirements of the European Union's RoHS directive. TSMC also encourages employees to use "Green Mark" products in offices, such as recycled paper, desktop PCs, LCD monitors, and batteries.

TSMC has adopted the standards of Taiwan "Green Building" and U.S. LEED (Leadership in Energy and Environmental Design) to apply on future new fab and office building design, which may be more energy and resource efficient than usual designs. In the meantime, TSMC is planning to upgrade existing office buildings to comply with LEED standard year by year starting in 2008. In August 2008, TSMC Fab 14 Phase III facility based in Southern Taiwan Science Park won certification from the U.S. Green Building Council's Leadership in Energy and Environmental Design – New Construction (LEED-NC) green building rating system with a "gold class" score. Fab 14 Phase III is the first building in Taiwan to receive certification from the U.S. Green Building Council. In December 2008, Fab 14 Phase III also has passed Taiwan's "Diamond Class Ecology, Energy Saving, Waste Reduction, and Health (EEWH)" certification, which is the second "Diamond" class in Taiwan and the first recognized factory.

TSMC initiated a "Taiwan Corporate Sustainability Forum", which unites 20 Taiwan leading companies as founders. The forum also welcomes new members. TSMC's 2008 Green Forum is the first of a series of Taiwan Corporate Sustainability Forum events. At this meeting, TSMC shared its hands-on experience in obtaining the U.S.

Green Building Council's Leadership in Energy and Environmental Design (LEED) certification, and applying for Taiwan's Ecology, Energy Saving, Waste Reduction, and Health (EEWH) certification for its Fab 14 Phase III facility. TSMC also proposed working with green building experts to draft guidelines for green industrial buildings in Taiwan, helping more domestic companies construct their own green factories and promote green manufacturing.

Environmental Compliance Record

There were no environmental penalties or fines in 2008.

7.1.2 Safety and Health

Safety and Health Management

TSMC's safety and health management is built on the framework of the OHSAS 18001 system, and adheres to the management principle of "Plan, Do, Check, Act" to prevent accidents and protect employee safety and health as well as Company assets. In 2008, TSMC has been certified for compliance from OHSAS 18001:1999 to OHSAS 18001:2007 in routine annual 3rd party audit.

Besides accident prevention, TSMC has established emergency response procedures to protect the lives of employees and contractors if disasters should occur, as well as to minimize the negative impact on society and the environment. TSMC communicates to suppliers to reduce potential risks in the operation of production equipment and follows safety control procedures when installing production equipment. The Company places stringent controls on high-risk operations and also evaluates the seismic tolerance of facilities and equipment to reduce the risk of earthquake damage. In health management, TSMC maintains regular wellness and professional health programs and also establishes Company-level prevention committees when infectious diseases such as Severe Acute Respiratory Syndrome (SARS) or Avian Influenza pose a potential risk to the Company.

Working Environment and Employee Safety Protection

TSMC's ESH (Environmental, Safety and Health) policy commits to preventing adverse incidents, improving employees' safety and health, protecting property and establishing a secure working environment. TSMC safety and health management operations apply to:

- **Hardware Safety of Equipment Used by Process, Facilities, IT, and General Services Departments**

In addition to meeting regulatory and internal standards when building or rebuilding facilities, TSMC also maintains procedures governing new equipment and raw materials management, safety approvals for bringing new tools online, revising safety rules, seismic protection measures, and other safety measures.

- **General Safety Management, Training and Audit**

All TSMC manufacturing facilities hold environmental, safety and health committee meetings on a monthly basis. TSMC takes preventive measures such as controls on high-risk work, contractor management, chemical safety management, personal protective equipment requirements, and safety audit management. In addition, TSMC also maintains detailed disaster response procedures and performs regular drills to minimize harm to employees and property, as well as the impact on society and the environment in the event of a disaster.

- **Working Environment Measurement**

TSMC conducts working environment physical and chemical measurements every six months to safeguard employees' health, including measurement of factors such as noise, air quality, chemical exposure, and illumination. The measurement results for each item must be compliant with regulatory requirements; otherwise corrective action is undertaken.

- **Emergency Response**

Planning and execution of an effective emergency response requires big-picture thinking and continuous improvement and practice drills. TSMC's emergency response plans include procedures for rapid response to accidents and disaster recovery as well as establishing response procedures for potential disasters.

All TSMC fabs conduct major annual emergency response exercises and evacuation drills. TSMC's on-site service contractors also participate in emergency response planning and exercises to ensure cooperation in handling accidents and to effectively minimize damage caused by disasters.

In addition to regular emergency response drills held by engineering and facilities departments each quarter, the Company's laboratory, canteen, dormitory, and shuttle bus personnel also hold emergency response drills to prepare for events such as chemical leakage, ammonia release, fires, and automobile accidents.

- **Employee Health Enhancement**

TSMC provides healthcare and staff assistance services in every fab. TSMC employees enjoy health services such as 24-hour nursing care, annual physical examinations, psychological consultations, stress management programs, workshops, and staff assistance projects. In addition, the Company also provides subsidized or free clinical and dental care services, women's healthcare, acupuncture and massage services and programs.

Health enhancement activities include nutritional consultation, weight-loss classes, an acupuncture weight-loss program, carotid and thyroid ultrasound examinations, an endocrinology clinic, a

dermatology clinic, bone mineral densitometry examinations and cancer screenings. Canteens also provide healthy meals with high fiber and low fat, as well as all-fruit meals. TSMC fabs have fitness centers with treadmills, exercise equipment, and aerobics classrooms to encourage employees to participate in athletic activity. In addition, all employees can find health information through the Company's healthcare website.

Supplier and Contractor Management

For the purpose of enhancing its supply chain management, TSMC is committed to communicating with and encouraging its contractors and suppliers to improve their environmental, safety and health performance. By means of communication between senior managers, site audits and experience sharing, TSMC collaborates with major suppliers and contractors to enhance partnership and ensure continual improvement for increased joint contributions to society. Contractors performing high-risk activities must lay out clearly defined safety precautions and preventative measures. In addition, contractors working on high-risk engineering projects must establish OHSAS 18001 systems and the workers must successfully complete work skill training. In 2008 Supply Chain Management Forum, TSMC not only recognized the support and contributions of suppliers, but also highlighted the policies and practices of environment protection and waste management.

Environmental, Safety and Health-related Awards in 2008

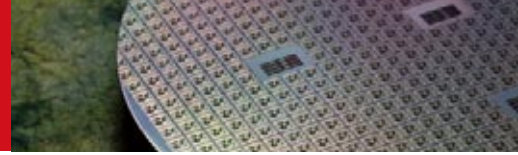
- Recognized by the Ministry of Economic Affairs Industry Development Bureau for "Excellence in Voluntary Greenhouse Gas Reduction"
- Recognized by the Executive Yuan, Council of Labor Affairs (CLA) for "National Industrial Safety and Health Award"
- Chosen for membership in the Dow Jones Sustainability World Index for a 8th consecutive year, and the only Taiwan member from 2003 to 2007
- Chosen for Carbon Disclosure Leadership Index (CDLI) by Carbon Disclosure Project, and is the only Taiwan company
- Fab 14 Phase III was recognized by the U.S. Green Building Council (USGBC) for "Golden Award for Leadership in Energy and Environmental Design of New Construction (LEED-NC)". TSMC is the only rewarded company in Taiwan
- Fab 14 Phase III has passed Taiwan's "Diamond Class Ecology, Energy Saving, Waste Reduction, and Health (EEWH)" certification, which is the second "Diamond" class in Taiwan and the first recognized factory
- Fab 14 was recognized by the Executive Yuan, Environmental Protection Administration (EPA) for "The Annual Enterprises Environmental Protection Award"
- Fab 12 was recognized by the Science Park Administration (SPA) for "Low Carbon Enterprise Award"

7.2 TSMC Education and Culture Foundation

TSMC established the Education and Culture Foundation in 1998 to coordinate the Company's sponsorship as part of its efforts in corporate social responsibility. The Foundation's resources are directed towards education, sponsorships of art and culture events, communities building, and the employee volunteer program. In 2008, with global warming becoming an urgent issue, TSMC not only continued its long-term commitment in education and culture, but also launched major energy saving and environmental protection programs. As a leader in corporate sustainability, TSMC has constantly pursued environmental conscious improvements in its business operation and manufacturing. To further increase environmental awareness and to start searching for solutions, in 2008 TSMC Foundation invited major corporations to form a Taiwan Corporate Sustainability Forum. In the meantime, TSMC Foundation started a new program of TSMC employees to form TSMC Energy Saving Volunteers.

7.2.1 Forming Platform to Share Sustainability

With global warming and the exhaustion of natural resources getting urgent, worldwide attention has turned towards measures in energy saving. There have been growing domestic efforts in promoting environmental protection. However, it will take more than the resources of a single company to get tangible improvements. TSMC Foundation, wishing to gather together the strength of a broad segment of the society, initiated a Taiwan Corporate Sustainability Forum in 2008. The joint forum was led by the Chairman of TSMC Foundation, Dr. F.C. Tseng, and received enthusiastic responses from over 300 representatives from industry, academia, research institutes and government officials. Participants shared information and technical know-how within specific industries, while discussion and integration were delivered among different industries. In the first round of the forum in October 2008, TSMC Green Forum made its debut. As the first company to receive the international certification by LEED, Leadership in Energy and Environmental Design, TSMC shared with hundreds of participants the practical know-how of building a green semiconductor fab. TSMC's objective is to encourage and help more companies to follow in the collective progress of corporate sustainability in Taiwan.



7.2.2 Commitment to Education

To enhance the public recognition and awareness of the art of Chinese calligraphy, TSMC Foundation organized the “TSMC Youth Chinese Calligraphy Contest” with China Times. The event provided high school students an opportunity to compete and learn both from masters and peers. There were more than 400 contestants registered and the winning pieces toured in several cities in Taiwan and gained enthusiastic response nationwide. This newly launched event successfully raised the appreciation of Chinese traditional culture by the public.

In the meantime, TSMC continued to devote resources to various programs to cultivate talents, including cooperation with top universities, financial aid to low-income students, sponsoring university lectures, and supporting the Wu Chien-Shiung and the Wu Ta-You Science Camps for talented science students to meet with world-class scholars. We also sponsored the 5th TSMC Youth Literature Award to encourage young writers; organizing the TSMC Aesthetic Tour to bring elementary students to visit museums for the 6th consecutive year; producing a TV program “An Enchanted Journey through the National Palace Museum” to educate young viewers; and continued to sponsor students from the remote region to visit the Millet Exhibit.

Donated by TSMC, the TSMC Hall in National Tsing Hua University was inaugurated in April 2008, and has become the cradle for cultivating talents in technology management in Taiwan.

7.2.3 Contributions to Communities

The Foundation continues to sponsor and organize arts and cultural activities in our site communities of Hsinchu and Tainan. In 2008, TSMC Hsinchu Arts Festival included over 40 art events and continued the tradition to host a charity concert in support of a shelter home for school dropouts in Hsinchu. Promoting Chinese Theatre as an important feature of the festival, the festival brought Contemporary Legend Theatre and other Chinese traditional theatric group to present the beauty of Chinese performing art. Also, the master violinist Midori with National Symphony Orchestra, and other distinguished musicians were invited to bring the local audience wonderful concerts. Meanwhile, TSMC continued to hold “TSMC Youth Piano Competition” offering the young music talents the opportunity to perform on stage. Entering the 6th year, the Hsinchu Arts Festival drew over 40,000 people from the community and the response was overwhelmingly positive.

7.2.4 Sponsorship of Arts

In 2008, TSMC Foundation was presented the 9th Arts and Business Special Award, the Grand Jury Prize, by the Council for Cultural Affairs. It is the highest national recognition for TSMC’s long-term commitment and achievement in supporting art and culture activities.

To promote the Chinese classics and culture, TSMC Foundation invited a master in Chinese philosophy, Professor Hsin, to lecture on the Analects of Confucius on IC Radio Station to revive and introduce the old wisdom of Confucius theory to the modern world. In addition, TSMC continues to support the Taiwan Literature Camp, which provides workshop and lectures by distinguished authors to people interested in literature. Noting the importance of preserving historic sites, the Foundation sponsored the Taipei Story House Literature Salon, which regularly invites authors to read on the site to add a new life to the old building. In 2008, TSMC Foundation also joined the restoration plan to rebuild the burnt-out dancing hall for the worldwide-renowned dance group Cloud Gate.

7.2.5 Employee Volunteer Program

In addition to sponsoring education and art programs, the Foundation encourages TSMC employees to devote themselves to society as volunteers. TSMC employees have served as guides to introduce the electronic industry at the National Science Museums during weekends, and read books to the elementary students in remote townships on weekdays. In 2008, a new team of Energy-Saving Volunteer was formed to help the local community in pursuing energy saving measures.

Several hundred of TSMC “Museum Touring” and “Book Reading” volunteers have already served for five consecutive years. The new Energy-Saving Volunteer team was formed by 26 highly trained TSMC employees with sufficient professional knowledge. In their first year, the team members helped two public high schools to evaluate the safety and efficiency in their power usage. The TSMC volunteers also provided the schools with counseling in energy-saving programs. It is the goal for the team to convey to high school students concepts and habits to help reduce carbon emission and to build a better and safer community.



Our affiliates allow us to provide more comprehensive service to customers. From semiconductor design services to back-end packaging and testing, the combined technology, capacity, marketing and services of our affiliate companies creates synergies for TSMC and helps us keep our leading position in the marketplace.

AFFILIATE INFORMATION AND OTHER SPECIAL NOTES

TSMC's affiliates support our core foundry business with related services such as design service and back-end assembly and test, enabling TSMC to provide customers with the most complete set of solutions for their needs.

8.1 Affiliates

8.1.1 TSMC Affiliated Companies Chart

As of 12/31/2008



Note: In 2008, Chi Cheng Investment Co., Ltd. was merged with Hsin Ruey Investment Co., Ltd., the surviving company. Hsin Ruey Investment Co., Ltd. was then merged into TSMC.

8.1.2 Business Scope of TSMC and Its Affiliated Companies

TSMC's affiliates support the Company's core business of providing dedicated foundry services to customers around the world. Several of TSMC's affiliated companies are focused on investing in companies involved in design, manufacturing, and other related businesses in the semiconductor industry. TSMC and its affiliates provide mutual support in technology, capacity, marketing and services to maximize synergy within the group, enabling TSMC to provide its customers with the most complete dedicated foundry services worldwide and ensure TSMC's leading position in the global foundry market.

8.1.3 TSMC Affiliated Companies

Unit: NT(US, EUR, JPY, KRW)\$ thousands

As of 12/31/2008

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
TSMC North America	Jan. 18, 1988	San Jose, California, USA	US\$ 11,000	Sales and marketing of integrated circuits and semiconductor devices
Taiwan Semiconductor Manufacturing Company Europe B.V.	Mar. 04, 1994	Amsterdam, The Netherlands	EUR 100.00	Marketing activities
TSMC Japan Limited	Sep. 10, 1997	Yokohama, Japan	JPY 300,000	Marketing activities
TSMC Korea Limited	May 02, 2006	Seoul, Korea	KRW 400,000	Customer service and technical support activities
TSMC China Company Limited	Aug. 04, 2003	Shanghai, China	US\$ 371,000	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers
TSMC International Investment Ltd.	Apr. 09, 1996	Tortola, British Virgin Islands	US\$ 987,968	Providing investment in companies involved in the design, manufacture, and other related business in the semiconductor industry
TSMC Technology, Inc.	Feb. 20, 1996	Delaware, USA	US\$ 0.001	Engineering support activities
InveStar Semiconductor Development Fund, Inc.	Sep. 10, 1996	Cayman Islands	US\$ 7,680	Investing in new start-up technology companies
InveStar Semiconductor Development Fund, Inc. (II) LDC.	Aug. 25, 2000	Cayman Islands	US\$ 32,289	Investing in new start-up technology companies
TSMC Development, Inc.	Feb. 16, 1996	Delaware, USA	US\$ 0.001	Investment activities
WaferTech, LLC	Jun. 03, 1996	Washington, USA	US\$ 380,000	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices
TSMC Partners, Ltd.	Mar. 26, 1998	Tortola, British Virgin Islands	US\$ 300	Investment activities
TSMC Design Technology Canada Inc.	May 28, 2007	Ontario, Canada	US\$ 2,300	Engineering support activities
TSMC Global Ltd.	Jul. 13, 2006	Tortola, British Virgin Islands	US\$ 1,284,000	Investment activities
Global Unichip Corporation	Jan. 22, 1998	Hsinchu, Taiwan	NT\$ 1,246,985	Researching, developing, manufacturing, testing and marketing of integrated circuits
Global Unichip Japan Co., Ltd.	Jun. 16, 2005	Yokohama, Japan	JPY 30,000	Consulting services in main products
Global Unichip Corporation-NA	Feb. 02, 2004	San Jose, California, USA	US\$ 800	Consulting services in main products
Global Unichip Europe B.V.	May 08, 2008	Amsterdam, The Netherlands	EUR 50	Consulting services in main products
XinTec Inc.	Sep. 11, 1998	Taoyuan, Taiwan	NT\$ 2,220,313	Wafer level chip size packaging service
Mutual-Pak Technology Co., Ltd.	Mar. 22, 2006	Taipei, Taiwan	NT\$ 90,000	Manufacturing and selling of electronic parts, and researching, developing and testing of RFID
Emerging Alliance Fund, L.P.	Jan. 10, 2001	Cayman Islands	US\$ 28,953	Investing in new start-up technology companies
VentureTech Alliance Fund II, L.P.	Feb. 27, 2004	Cayman Islands	US\$ 31,255	Investing in new start-up technology companies
VentureTech Alliance Fund III, L.P.	Mar. 25, 2006	Cayman Islands	US\$ 45,000	Investing in new start-up technology companies
Growth Fund Limited	May 30, 2007	Cayman Islands	US\$ 700	Investing in new start-up technology companies
VentureTech Alliance Holdings, L.L.C.	Apr. 25, 2007	Delaware, USA	N/A	Investing in new start-up technology companies

8.1.4 Common Shareholders of TSMC and Its Subsidiaries or Its Affiliates with Actual or Deemed Control:

None.

8.1.5 Rosters of Directors, Supervisors, and Presidents of TSMC's Affiliated Companies

Unit: NT(US/EUR)\$, except shareholding

As of 12/31/2008

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding %)
TSMC North America	Director Director President	Jason Chen Rick Cassidy Rick Cassidy	- - - TSMC holds 11,000,000 shares	- - - 100%
Taiwan Semiconductor Manufacturing Company Europe B.V.	Director Director Director President	Jason Chen Wendell Huang Maria Marced Maria Marced	- - - - TSMC holds 200 shares	- - - - 100%
TSMC Japan Limited	Chairman Director Director Supervisor President	Rick Tsai Jason Chen Makoto Onodera Lora Ho Makoto Onodera	- - - - - TSMC holds 6,000 shares	- - - - - 100%
TSMC Korea Limited	Director Director President	C.C. Pan (Note 1) Chih-Chun Tsai (Note 2)	- - TSMC holds 80,000 shares	- - 100%
TSMC China Company Limited	Chairman Director Director Supervisor President	F.C.Tseng C.C.Wei Y.C. Chao Lora Ho Y.C. Chao	- - - - - (TSMC's investment US\$371,000,000)	- - - - - (100%)
TSMC International Investment Ltd.	Director Director President	Lora Ho Richard Thurston Lora Ho	- - - TSMC holds 987,968,244 shares	- - - 100%
TSMC Technology, Inc.	Chairman Director President	Lora Ho Richard Thurston Lora Ho	- - - TSMC International Investment Ltd. holds 1,000 shares	- - - 100%
InveStar Semiconductor Development Fund, Inc.	Director President	Wendell Huang (Note 2)	- TSMC International Investment Ltd. holds 7,680,107 shares	- 97.09%
InveStar Semiconductor Development Fund, Inc. (II) LDC.	Director President	Wendell Huang (Note 2)	- TSMC International Investment Ltd. holds 32,288,922 shares	- 97.09%
TSMC Development, Inc.	Chairman Director President	Lora Ho Richard Thurston Lora Ho	- - - TSMC International Investment Ltd. holds 1,000 shares	- - - 100%
WaferTech, LLC	Chairman Director President	Rick Tsai Steve Tso Kuo-Chin Hsu	- - - TSMC Development, Inc. holds 293,636,833 shares	- - - 99.996%
TSMC Partners, Ltd.	Director Director President	Lora Ho Richard Thurston Lora Ho	- - - TSMC holds 300,000 shares	- - - 100%

(Continued)

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding %)
TSMC Design Technology Canada Inc.	Director Director Director President	Fu-Chieh Hsu Sreedhar Natarajan Richard Thurston Cliff Hou	- - - -	- - - -
			TSMC Partners, Ltd. holds 2,300,000 shares	100%
TSMC Global Ltd.	Director Director President	Lora Ho Richard Thurston (Note 2)	- - -	- - -
			TSMC holds 1,284 shares	100%
Global Unichip Corporation (GUC)	Chairman Vice Chairman Director Director Director Director Independent Director Independent Director Independent Director President	Representative of TSMC: F.C. Tseng Representative of Chuang Yi Investment Ltd.: K.C. Shih Representative of Chin Yu Investment Ltd.: C.C. Lu Representative of TSMC: Lora Ho Representative of TSMC: Jim Lai Representative of TSMC: Fu-Chieh Hsu C.W. Jen W.C. Liu W.Y. Wang Jim Lai	44,903,811 shares 5,479,435 shares 1,984,949 shares 44,903,811 shares 44,903,811 shares 44,903,811 shares - - - -	36.01% 4.39% 1.59% 36.01% 36.01% 36.01% - - - -
			912,530 shares	0.73%
Global Unichip Japan Co., Ltd.	Director Director Director Supervisor President	Representative of GUC: Jim Lai Representative of GUC: Chung-Lin Tsai Representative of GUC: S.H. Cheng Representative of GUC: K.C. Shih Chung-Lin Tsai	- - - - -	- - - - -
			GUC holds 600 shares	100%
Global Unichip Corporation-NA	Director Director Supervisor President	Representative of GUC: S.H. Cheng Representative of GUC: Jim Lai Representative of GUC: K.C. Shih Jim Lai	- - - -	- - - -
			GUC holds 800,000 shares	100%
Global Unichip Europe B.V.	Director President	Representative of GUC: Robert Ding (Note 2)	- -	- -
			(GUC's investment EUR\$50,000)	(100%)
XinTec Inc.	Chairman Director Director Director Director Supervisor Supervisor President	Representative of TSMC: Shang-Yi Chiang Representative of TSMC: C.C. Wei Representative of TSMC: Lora Ho Representative of OmniVision International Holding, Ltd.: XinPing He Tzun Zing Chen Representative of Cheng Xin Technology Development Corp.: Toang Chiou Lu Representative of VisEra Holding Company: W. M. Sheng Lidon Chen	92,619,866 shares 92,619,866 shares 92,619,866 shares 9,568,488 shares 1,615,981 shares 1,199,817 shares 36,321,396 shares 339,124 shares	41.71% 41.71% 41.71% 4.31% 0.73% 0.54% 16.36% 0.15%
Mutual-Pak Technology Co., Ltd.	Chairman Director Director Supervisor President	Hsu-Tung Chen Lewis Hwan Representative of VentureTech Alliance Fund III, L.P.: Kai Tseng Wei-Pong Lin Lewis Hwan	40,000 shares 1,424,000 shares 4,590,000 shares 20,000 shares 1,424,000 shares	0.44% 15.82% 51% 0.22% 15.82%
Emerging Alliance Fund, L.P.	None	None	(TSMC's investment US\$28,808,010)	(99.50%)
VentureTech Alliance Fund II, L.P.	None	None	(TSMC's investment US\$30,630,351)	(98%)
VentureTech Alliance Fund III, L.P.	None	None	(TSMC's investment US\$44,100,000)	(98%)
Growth Fund Limited	None	None	(VentureTech Alliance Fund III, L.P.'s investment US\$700,000)	(100%)
VentureTech Alliance Holdings, L.L.C.	None	None	None	(100%)

Note 1: On December 31, 2008, TSMC appointed Mr. C.C. Pan to replace Mr. W.C. Chang as a director.

Note 2: No President position listed

8.1.6 Operational Highlights of TSMC Affiliated Companies (Note)

Unit: NT\$ thousands, except EPS (\$)

As of 12/31/2008

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	Basic EPS (Net of Tax)*	Remark
TSMC North America	361,460	15,581,220	13,073,140	2,508,081	195,836,152	249,847	193,242	17.57	
Taiwan Semiconductor Manufacturing Company Europe B.V.	4,648	216,565	91,971	124,594	365,535	47,813	38,453	192,267.24	
TSMC Japan Limited	109,350	205,483	67,866	137,617	252,815	11,449	4,943	823.76	
TSMC Korea Limited	10,400	17,350	2,233	15,117	16,492	1,507	3,232	40.40	
TSMC China Company Limited	14,604,572	17,081,806	10,812,012	6,269,795	5,013,026	(2,827,462)	(2,904,565)	N/A	
TSMC International Investment, Ltd.	32,464,636	37,779,204	8,163,368	29,615,837	2,589,646	2,082,332	2,082,332	2.11	
TSMC Technology, Inc.	0.033	315,561	39,264	276,296	345,165	(606,212)	57,260	57,259.85	
InveStar Semiconductor Development Fund, Inc.	252,365	225,091	4,107	220,983	1,591	(67,984)	(67,984)	(8.59)	
InveStar Semiconductor Development Fund, Inc. (II) LDC.	1,061,017	866,405	411	865,995	325,947	9,903	7,583	0.23	
TSMC Development, Inc.	0.033	18,028,980	-	18,028,980	1,216,298	1,214,210	1,207,009	1,207,008.53	
WaferTech, LLC	12,636,904	7,453,654	582,063	6,871,591	8,011,259	845,531	854,136	2.91	
TSMC Partners, Ltd.	9,858	11,879,813	8,149,280	3,730,533	123,270	(973,153)	(973,153)	(3,243.84)	
TSMC Design Technology Canada, Inc.	75,578	100,604	16,143	84,461	167,914	15,265	9,012	3.92	
TSMC Global Ltd.	42,192,240	45,772,961	16,443	45,756,519	1,928,994	963,052	963,052	750,040.84	
Global Unichip Corporation	1,246,985	4,011,741	1,372,847	2,638,894	9,282,063	734,921	747,049	5.99	
Global Unichip Japan Co., Ltd.	10,935	13,796	1,912	11,884	28,770	1,370	475	791.67	
Global Unichip Corporation-NA	26,288	37,090	3,009	34,081	104,982	4,969	2,802	3.50	
Global Unichip Europe B.V.	2,324	2,905	330	2,575	5,352	248	252	N/A	
Xintec Inc.	2,220,313	5,090,047	1,629,039	3,461,008	3,112,489	234,929	198,178	0.89	
Mutual-Pak Technology Co., Ltd.	90,000	68,840	7,511	61,329	-	(26,504)	(17,161)	(1.91)	
Emerging Alliance Fund, L.P.	951,396	443,527	7,868	435,660	47,421	(6,643)	(6,643)	N/A	
VentureTech Alliance Fund II, L.P.	1,027,039	994,203	3,477	990,726	37,200	(132,150)	(132,150)	N/A	
VentureTech Alliance Fund III, L.P.	1,478,700	1,318,572	-	1,318,572	1,360	(92,095)	(92,095)	N/A	
Growth Fund Limited	23,002	3,284	-	3,284	21	(18,920)	(18,920)	N/A	
VentureTech Alliance Holdings, L.L.C.	-	-	-	-	-	-	-	N/A	

*Except Global Unichip Japan Co., Ltd., the basic EPS of each entity is calculated based on audited results.

Note: Foreign exchange rates for balance sheet amounts are as follows: \$1 USD = \$32.860 NT, \$1 EUR = \$46.48 NT, \$1 JPY = \$0.3645 NT, \$1 RMB = \$4.819 NT, \$1 KRW = \$0.0260 NT

Foreign exchange rates for income statement amounts are as follows: \$1 USD = \$31.531 NT, \$1 EUR = \$46.47 NT, \$1 JPY = \$0.3070 NT, \$1 RMB = \$4.540 NT, \$1 KRW = \$0.0300 NT

8.2 Status of TSMC Common Shares and ADRs Acquired, Disposed of, and Held by Subsidiaries

In 2008, Chi Cherng Investment Co., Ltd. was merged with Hsin Ruey Investment Co., Ltd., the surviving company. Hsin Ruey Investment Co., Ltd. was then merged into TSMC. As a result of the merger, 34,267,815 of TSMC shares previously held by Chi Cherng and Hsin Ruey Investment Co., Ltd. were cancelled upon merger with TSMC.

8.3 Special Notes

8.3.1 Private Placement Securities in 2008 and as of the Date of this Annual Report: None.

8.3.2 Regulatory Authorities' Legal Penalties to the Company or Its Employees, and the Company's Resulting Punishment on Its Employees for Violations of Internal Control System Provisions, Principal Deficiencies, and the State of Any Efforts to Make Improvements in 2008 and as of the Date of this Annual Report: One of TSMC's insiders was penalized by government authority for declaring incorrect number of shares disposed, which shall have been 20,000 shares instead of 2,000 shares. Since then, TSMC has emphasized the importance of data consistency and statutory compliance to insiders when declaring their change in shareholding. In addition, government authority has built-in a control mechanism within the declaration system which can avoid similar errors from occurring again.

8.3.3 Any Events in 2008 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

8.3.4 Other Necessary Supplement: None.

TSMC ANNUAL REPORT 2008 (II)

FINANCIAL INFORMATION

1. Condensed Balance Sheet

1.1 Condensed Balance Sheet from 2004 to 2008 (Unconsolidated)

Unit: NT\$ thousands

Item	2004	2005	2006	2007	2008
Current Assets	173,667,311	197,562,416	193,676,010	174,299,286	179,849,479
Long-term Investments	73,292,863	80,659,601	137,378,205	123,891,153	124,184,663
Fixed Assets	227,976,400	214,145,633	228,235,359	234,564,558	219,282,502
Other Assets	12,616,636	15,172,165	14,295,330	19,017,626	17,242,603
Current Liabilities					
Before Distribution	60,638,852	32,184,415	42,905,154	43,800,810	53,099,467
After Distribution	110,460,630	97,699,015	125,252,816	124,798,894	*
Long-term Liabilities	23,752,940	22,111,575	14,175,271	14,001,462	5,431,252
Other Liabilities	4,196,119	7,613,476	8,523,195	6,878,949	5,651,417
Capital Stock	232,519,637	247,300,246	258,296,879	264,271,037	256,254,373
Capital Surplus	56,537,259	57,117,886	54,107,498	53,732,682	49,875,255
Retained Earnings					
Before Distribution	113,730,016	142,771,034	197,124,532	218,864,571	170,053,667
After Distribution	49,195,999	70,114,801	109,687,478	133,414,062	*
Unrealized Loss on Long-term Investment	-	-	-	-	-
Cumulative Transaction Adjustments	(2,226,427)	(640,742)	(1,191,165)	(1,072,853)	481,158
Unrealized Gains on Financial Instruments	-	-	561,615	680,997	(287,342)
Total Assets	487,553,210	507,539,815	573,584,904	551,772,623	540,559,247
Total Liabilities					
Before Distribution	88,587,911	61,909,466	65,603,620	64,681,221	64,182,136
After Distribution	138,409,689	127,424,066	147,951,282	145,679,305	*
Total Equity					
Before Distribution	398,965,299	445,630,349	507,981,284	487,091,402	476,377,111
After Distribution	349,143,521	380,115,749	425,633,622	406,093,318	*

*Subject to change based on shareholders' meeting resolution

1.2 Condensed Balance Sheet from 2004 to 2008 (Consolidated)

Unit: NT\$ thousands

Item	2004	2005	2006	2007	2008
Current Assets	184,449,082	212,300,790	260,317,168	249,822,329	252,618,431
Long-term Investments	38,101,849	42,382,494	53,895,151	36,461,325	39,981,515
Fixed Assets	258,911,326	244,823,292	254,094,190	260,252,187	243,645,350
Other Assets	17,991,834	20,003,013	19,178,650	24,329,385	22,671,293
Current Liabilities					
Before Distribution	63,919,308	35,122,227	46,860,531	48,706,007	56,806,756
After Distribution	113,741,086	100,636,827	129,208,193	129,704,091	*
Long-term Liabilities	32,264,210	30,410,171	22,873,542	24,284,470	16,191,041
Other Liabilities	4,229,537	7,738,483	8,612,970	7,189,178	5,546,325
Capital Stock	232,519,637	247,300,246	258,296,879	264,271,037	256,254,373
Capital Surplus	56,537,259	57,117,886	54,107,498	53,732,682	49,875,255
Retained Earnings					
Before Distribution	113,730,016	142,771,034	197,124,532	218,864,571	170,053,667
After Distribution	49,195,999	70,114,801	109,687,478	133,414,062	*
Cumulative Transaction Adjustments	(2,226,427)	(640,742)	(1,191,165)	(1,072,853)	481,158
Unrealized Gains on Financial Instruments	-	-	561,615	680,997	(287,342)
Total Assets	499,454,091	519,509,589	587,485,159	570,865,226	558,916,589
Total Liabilities					
Before Distribution	100,413,055	73,270,881	78,347,043	80,179,655	78,544,122
After Distribution	150,234,833	138,785,481	160,694,705	161,177,739	*
Equity Attributable to Shareholders of the Parent					
Before Distribution	398,965,299	445,630,349	507,981,284	487,091,402	476,377,111
After Distribution	349,143,521	380,115,749	425,633,622	406,093,318	*
Minority Interest	75,737	608,359	1,156,832	3,594,169	3,995,356
Total Equity					
Before Distribution	399,041,036	446,238,708	509,138,116	490,685,571	480,372,467
After Distribution	349,219,258	380,724,108	426,790,454	409,687,487	*

*Subject to change based on shareholders' meeting resolution

2. Condensed Statement of Income

2.1 Condensed Statement of Income from 2004 to 2008 (Unconsolidated)

Unit: NT\$ thousands (Except EPS: NT\$)

Item	2004	2005	2006	2007	2008
Net Sales	255,992,427	264,588,364	313,881,635	313,647,644	321,767,083
Gross Profit	110,160,584	115,244,049	149,718,400	137,159,314	138,177,615
Income from Operations	86,822,778	93,013,824	126,299,859	112,252,047	106,290,232
Non-operating Income and Gains	9,275,672***	7,381,360***	11,562,877***	11,105,792***	6,725,625
Non-operating Expenses and Losses	4,319,866***	6,575,761***	3,056,237***	2,606,433***	2,257,039
Interest Revenue	1,687,681***	2,506,769***	3,382,868	2,634,636	2,728,892
Interest Expense	1,189,746***	1,180,484***	661,200	584,736	355,056
Income from Operations of Continued Segments-before Tax	91,778,584	93,819,423	134,806,499	120,751,406	110,758,818
Income from Operations of Continued Segments-after Tax	92,316,115	93,575,035	127,255,917	109,177,093	99,933,168
Net Income	92,316,115	93,575,035	127,009,731	109,177,093	99,933,168
Earnings Per Share	3.97*	3.79*	4.93*	4.14*	3.86*
Adjusted Earnings Per Share	3.43**	3.48**	4.72**	4.06**	-
Capitalized Interest	262,109	-	-	-	-

* Based on weighted average shares outstanding in each year

** Retroactively adjusted for capitalization of unappropriated earnings and bonus to employees

*** Certain accounts have been reclassified to conform to year 2008 classifications

2.2 Condensed Statement of Income from 2004 to 2008 (Consolidated)

Unit: NT\$ thousands (Except EPS: NT\$)

Item	2004	2005	2006	2007	2008
Net Sales	257,212,618	266,565,070	317,407,171	322,630,596	333,157,660
Gross Profit	115,819,183	118,202,874	155,810,090	142,350,211	141,749,561
Income from Operations	88,481,674	90,968,559	127,264,694	111,721,907	104,435,368
Non-operating Income and Gains	8,506,182***	9,399,360***	9,839,081***	11,933,803	10,821,449
Non-operating Expenses and Losses	5,022,269***	6,104,672***	3,741,567***	2,013,684	3,784,571
Interest Revenue	1,783,693***	2,806,226***	4,542,149	5,651,700	5,373,823
Interest Expense	1,365,916***	1,413,374***	890,602	842,242	614,988
Income from Operations of Continued Segments-before Tax	91,965,587	94,263,247	133,362,208	121,642,026	111,472,246
Income from Operations of Continued Segments-after Tax	92,329,013	93,632,668	125,588,497	109,932,400	100,523,237
Net Income	92,329,013	93,632,668	127,195,246	109,932,400	100,523,237
Net Income Attributable to Shareholders of the Parent	92,316,115	93,575,035	127,009,731	109,177,093	99,933,168
Earnings Per Share	3.97*	3.79*	4.93*	4.14*	3.86*
Adjusted Earnings Per Share	3.43**	3.48**	4.72**	4.06**	-
Capitalized Interest	278,334	-	-	-	-

* Based on weighted average shares outstanding in each year

** Retroactively adjusted for capitalization of unappropriated earnings and bonus to employees

*** Certain accounts have been reclassified to conform to year 2008 classifications

3. Financial Analysis

3.1 Financial Analysis from 2004 to 2008 (Unconsolidated)

		2004	2005	2006	2007	2008
Capital Structure Analysis	Debt Ratio (%)	18.17	12.20	11.44	11.72	11.87
	Long-term Fund to Fixed Assets Ratio (%)	185.42	218.42	228.78	213.63	219.72
Liquidity Analysis	Current Ratio (%)	286.40	613.84	451.40	397.94	338.70
	Quick Ratio (%)	261.92	560.93	404.49	348.53	312.83
	Times Interest Earned (Times)	57.67	80.48	204.39	207.51	312.95
Operating Performance Analysis	Average Collection Turnover (Times)	9.35	8.08	9.26	8.82	11.08
	Days Sales Outstanding	39.04	45.18	39.40	41.40	32.93
	Average Inventory Turnover (Times)	11.63	9.82	9.27	8.78	10.86
	Average Inventory Turnover Days	31.39	37.19	39.37	41.57	33.59
	Average Payment Turnover (Times)	14.39	14.24	15.81	16.05	20.40
	Fixed Assets Turnover (Times)	1.12	1.24	1.38	1.34	1.47
	Total Assets Turnover (Times)	0.53	0.52	0.55	0.57	0.60
Profitability Analysis	Return on Total Assets (%)	21.16	19.01	23.60	19.49	18.35
	Return on Equity (%)	25.36	22.16	26.64	21.94	20.74
	Operating Income to Paid-in Capital Ratio (%)	37.34	37.61	48.90	42.48	41.48
	Pre-tax Income to Paid-in Capital Ratio (%)	39.47	37.94	52.06	45.69	43.22
	Net Margin (%)	36.06	35.37	40.46	34.81	31.06
	Basic Earnings Per Share (NT\$) (Note 1)	3.43	3.48	4.72	4.06	3.86
	Earnings Per Share (NT\$) (Note 1)	3.43	3.48	4.72	4.06	3.83
Cash Flow	Cash Flow Ratio (%)	236.94	468.02	457.01	397.52	399.16
	Cash Flow Adequacy Ratio (%)	149.94	150.88	153.75	139.35	134.79
	Cash Flow Reinvestment Ratio (%)	18.12	12.50	14.18	9.73	12.95
Leverage	Operating Leverage	2.46	2.30	2.04	2.23	2.50
	Financial Leverage	1.02	1.01	1.01	1.01	1.00
Analysis of Deviation over 20% for 2008 vs. 2007: 1. The times interest earned increased by 51%, which was primarily due to a decrease in interest expense. 2. The average collection turnover increased by 26% and days sales outstanding decreased by 20%, which were primarily due to a decrease in accounts receivable. 3. The average inventory turnover increased by 24%, which was attributed to a decrease in inventory. 4. The average payment turnover increased by 27%, which was attributed to a decrease in materials purchased. 5. The cash flow reinvestment ratio increased by 33%, which was primarily due to an increase in cash provided by operating activities.						

Note 1: Retroactively adjusted for capitalization of unappropriated earnings and bonuses to employees.
 Note 2: Certain accounts of year 2005 have been reclassified to conform to year 2006 classifications.

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (5) Average Payment Turnover = Cost of Sales / Average Trade Payables

- (6) Fixed Assets Turnover
- (7) Total Assets Turnover

4. Profitability Analysis

- (1) Return on Total Assets
- (2) Return on Equity
- (3) Operating Income to Paid-in Capital Ratio
- (4) Pre-tax Income to Paid-in Capital Ratio
- (5) Net Margin
- (6) Earnings Per Share

5. Cash Flow

- (1) Cash Flow Ratio
- (2) Cash Flow Adequacy Ratio

- = Net Sales / Net Fixed Assets
- = Net Sales / Total Assets

- = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
- = Net Income / Average Shareholders' Equity
- = Operating Income / Paid-in Capital

- = Income before Tax / Paid-in Capital
- = Net Income / Net Sales
- = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

- = Net Cash Provided by Operating Activities / Current Liabilities
- = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio

- 6. Leverage
- (1) Operating Leverage
- (2) Financial Leverage

- = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital)

- = (Net Sales - Variable Cost) / Income from Operations
- = Income from Operations / (Income from Operations - Interest Expenses)

3.2 Financial Analysis from 2004-2008 (Consolidated)

		2004	2005	2006	2007	2008
Capital Structure Analysis	Debts Ratio (%)	20.10	14.10	13.34	14.05	14.05
	Long-term Fund to Fixed Assets (%)	166.58	194.69	209.38	197.87	203.81
Liquidity Analysis	Current Ratio (%)	288.57	604.46	555.51	512.92	444.70
	Quick Ratio (%)	261.62	549.94	506.39	461.11	415.32
	Times Interest Earned (Times)	53.92	67.69	152.46	145.43	182.26
Operating Performance Analysis	Average Collection Turnover (Times)	9.22	7.84	8.84	8.55	10.73
	Days Sales Outstanding	39.60	46.54	41.28	42.69	34.01
	Average Inventory Turnover (Times)	10.21	8.91	8.25	7.96	9.88
	Average Inventory Turnover Days	35.74	40.94	44.22	45.85	36.94
	Average Payment Turnover (Times)	14.75	14.37	15.41	15.76	20.02
	Fixed Assets Turnover (Times)	0.99	1.09	1.25	1.24	1.37
	Total Assets Turnover (Times)	0.51	0.51	0.54	0.57	0.60
Profitability Analysis	Return on Total Assets (%)	20.68	18.89	23.12	19.10	17.89
	Return on Equity (%)	25.36	22.16	26.64	21.94	20.74
	Operating Income to Paid-in Capital Ratio (%)	38.05	36.78	49.27	42.28	40.75
	Pre-tax Income to Paid-in Capital Ratio (%)	39.55	38.12	52.22	46.03	43.50
	Net Margin (%)	35.90	35.13	40.07	34.07	30.17
	Basic Earnings Per Share (NT\$) (Note 1)	3.43	3.48	4.72	4.06	3.86
	Earnings Per Share (NT\$) (Note 1)	3.43	3.48	4.72	4.06	3.83
Cash Flow	Cash Flow Ratio (%)	239.60	447.65	437.46	377.30	389.91
	Cash Flow Adequacy Ratio (%)	146.18	154.53	156.75	142.46	139.50
	Cash Flow Reinvestment Ratio (%)	18.54	12.64	14.36	10.07	12.98
Leverage	Operating Leverage	2.38	2.31	1.99	2.21	2.53
	Financial Leverage	1.02	1.02	1.01	1.01	1.01
Industry Specific Key Performance Indicator	Billing Utilization Rate (%)	105	94	102	93 (Note2)	88 (Note2)
	Advanced Technologies (0.13-micron and below) Percentage of Wafer Sales (%)	28	45	49	55	64
	Sales Growth (%)	26.7	3.6	19.1	1.6	3.3
	Net Income Growth (%)	95.3	1.4	35.7	-14.0	-8.5

Analysis of Deviation over 20% - 2008 vs. 2007:

1. The times interest earned increased by 25%, which was primarily due to a decrease in interest expense.
2. The average collection turnover increased by 26% and days sales outstanding decreased by 20%, which was primarily due to a decrease in accounts receivable.
3. The average inventory turnover increased by 24%, which was attributed to a decrease in inventory.
4. The average payment turnover increased by 27%, which was attributed to a decrease in materials purchased.
5. The cash flow reinvestment ratio increased by 29%. It was primarily due to an increase in cash provided by operating activities.

Note 1: Retroactive adjustment for capitalization of unappropriated earnings and bonus to employees.
Note 2: Capacity includes wafers committed by Vanguard.

Note 3: Certain accounts of prior years have been reclassified to conform to current year classifications.

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
(2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables

- (2) Days Sales Outstanding
(3) Average Inventory Turnover
(4) Average Inventory Turnover Days
(5) Average Payment Turnover
(6) Fixed Assets Turnover
(7) Total Assets Turnover

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
(2) Return on Equity = Net Income / Average Shareholders' Equity
(3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
(4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
(5) Net Margin = Net Income / Net Sales
(6) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

4. Auditors' Opinions from 2004 to 2008

Year	CPA	Audit Opinion
2004	Hung-Wen Huang, Ming-Cheng Chang	An Unqualified Opinion
2005	Hung-Wen Huang, Ming-Cheng Chang	An Unqualified Opinion
2006	Hung-Wen Huang, Ming-Cheng Chang	An Unqualified Opinion
2007	Hung-Wen Huang, Ming-Cheng Chang	An Unqualified Opinion
2008	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion with explanatory paragraph referring to adoption of new accounting standards

Deloitte & Touche
12F, No. 156, Sec. 3, Min-Sheng E. Rd., Taipei, Taiwan, R.O.C.
Tel: 886-2-2545-9988

5. Audit Committee's Report

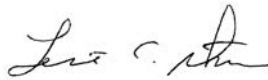
The Board of Directors has prepared the Company's 2008 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Deloitte & Touche was retained to audit TSMC's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the undersigned, the Audit Committee members of Taiwan Semiconductor Manufacturing Company Limited. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Taiwan Semiconductor Manufacturing Company Limited

Independent Director Sir Peter Leahy Bonfield



Independent Director Lester Carl Thurow



Independent Director Stan Shih



Independent Director Carleton (Carly) S. Fiorina



February 10, 2009

6. Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2008 and as of the date of this Annual Report: None.

7. Financial Statements for the Years Ended December 31, 2008 and 2007 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 December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity and cash flows for the years 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 December 31, 2008 and 2007, and the results of its operations and its cash flows for the years 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, 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 years ended December 31, 2008 and 2007, and expressed an unqualified opinion with an explanatory paragraph relating to the adoption of Interpretation 2007-052 and an unqualified opinion, respectively, on such consolidated financial statements.

Deloitte & Touche

January 17, 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 jurisdiction. 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

DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008		2007		LIABILITIES AND SHAREHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 138,208,360	26	\$ 72,422,102	13	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23)	\$ 83,618	-	\$ 247,646	-
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	42,460	-	42,083	-	Accounts payable	4,314,265	1	9,485,818	2
Available-for-sale financial assets (Notes 2, 6 and 23)	-	-	22,267,223	4	Payables to related parties (Note 24)	1,202,350	-	2,999,630	-
Held-to-maturity financial assets (Notes 2, 7 and 23)	5,881,999	1	11,526,946	2	Income tax payable (Notes 2 and 17)	9,222,811	2	10,977,963	2
Receivables from related parties (Note 24)	11,728,204	2	26,701,648	5	Bonuses payable to employees and directors (Notes 3 and 19)	15,148,057	3	-	-
Notes and accounts receivable	11,441,176	2	17,911,328	3	Payables to contractors and equipment suppliers	7,574,891	1	5,389,740	1
Allowance for doubtful receivables (Notes 2 and 8)	(436,746)	-	(688,972)	-	Accrued expenses and other current liabilities (Note 15)	7,553,475	1	14,700,013	3
Allowance for sales returns and others (Notes 2 and 8)	(5,868,582)	(1)	(3,856,685)	-	Current portion of bonds payable (Note 14)	8,000,000	2	-	-
Other receivables from related parties (Note 24)	489,742	-	525,308	-					
Other financial assets	711,755	-	331,698	-	Total current liabilities	53,099,467	10	43,800,810	8
Inventories, net (Notes 2 and 9)	12,807,936	2	20,987,142	4					
Deferred income tax assets (Notes 2 and 17)	3,650,700	1	5,268,000	1	LONG-TERM LIABILITIES				
Prepaid expenses and other current assets	1,192,475	-	861,465	-	Bonds payable (Note 14)	4,500,000	1	12,500,000	3
					Other long-term payables (Note 15)	931,252	-	1,501,462	-
Total current assets	179,849,479	33	174,299,286	32					
					Total long-term liabilities	5,431,252	1	14,001,462	3
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 23)									
Investments accounted for using equity method	109,871,178	20	113,048,081	21	OTHER LIABILITIES				
Available-for-sale financial assets	2,032,658	1	1,397,186	-	Accrued pension cost (Notes 2 and 16)	3,710,009	1	3,657,679	1
Held-to-maturity financial assets	11,761,325	2	8,697,726	2	Guarantee deposits (Note 26)	1,479,152	-	2,240,677	-
Financial assets carried at cost	519,502	-	748,160	-	Deferred credits (Notes 2 and 24)	462,256	-	980,593	-
Total long-term investments	124,184,663	23	123,891,153	23	Total other liabilities	5,651,417	1	6,878,949	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)					Total liabilities	64,182,136	12	64,681,221	12
Cost									
Buildings	114,014,588	21	101,907,892	18	CAPITAL STOCK - NT\$10 PAR VALUE (Notes 19 and 21)				
Machinery and equipment	635,008,261	118	589,131,625	107	Authorized: 28,050,000 thousand shares				
Office equipment	9,748,869	2	9,167,107	2	Issued: 25,625,437 thousand shares in 2008				
	758,771,718	141	700,206,624	127	26,427,104 thousand shares in 2007	256,254,373	47	264,271,037	48
Accumulated depreciation	(557,247,254)	(103)	(486,725,019)	(88)					
Advance payments and construction in progress	17,758,038	3	21,082,953	4	CAPITAL SURPLUS (Notes 2 and 19)	49,875,255	9	53,732,682	10
Net property, plant and equipment	219,282,502	41	234,564,558	43	RETAINED EARNINGS (Note 19)				
					Appropriated as legal capital reserve	67,324,393	13	56,406,684	10
INTANGIBLE ASSETS					Appropriated as special capital reserve	391,857	-	629,550	-
Goodwill (Note 2)	1,567,756	-	1,567,756	-	Unappropriated earnings	102,337,417	19	161,828,337	29
Deferred charges, net (Notes 2, 13 and 24)	6,401,461	1	7,172,413	1					
Total intangible assets	7,969,217	1	8,740,169	1					
					OTHERS (Notes 2, 21 and 23)				
OTHER ASSETS					Cumulative translation adjustments	481,158	-	(1,072,853)	-
Deferred income tax assets (Notes 2 and 17)	6,497,972	1	7,241,933	1	Unrealized gain (loss) on financial instruments	(287,342)	-	680,997	-
Refundable deposits	2,719,737	1	2,741,538	-	Treasury stock: 834,096 thousand shares	-	-	(49,385,032)	(9)
Others (Note 2)	55,677	-	293,986	-		193,816	-	(49,776,888)	(9)
Total other assets	9,273,386	2	10,277,457	1	Total shareholders' equity	476,377,111	88	487,091,402	88
TOTAL	\$ 540,559,247	100	\$ 551,772,623	100	TOTAL	\$ 540,559,247	100	\$ 551,772,623	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 24)	\$ 330,228,027		\$ 319,167,299	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	<u>8,460,944</u>		<u>5,519,655</u>	
NET SALES	321,767,083	100	313,647,644	100
COST OF SALES (Notes 18 and 24)	<u>183,589,540</u>	<u>57</u>	<u>176,223,224</u>	<u>56</u>
GROSS PROFIT	138,177,543	43	137,424,420	44
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2)	<u>72</u>	-	<u>(265,106)</u>	-
REALIZED GROSS PROFIT	<u>138,177,615</u>	<u>43</u>	<u>137,159,314</u>	<u>44</u>
OPERATING EXPENSES (Notes 18 and 24)				
Research and development	19,737,038	6	15,913,834	5
General and administrative	9,895,617	3	7,660,776	3
Marketing	<u>2,254,728</u>	<u>1</u>	<u>1,332,657</u>	-
Total operating expenses	<u>31,887,383</u>	<u>10</u>	<u>24,907,267</u>	<u>8</u>
INCOME FROM OPERATIONS	<u>106,290,232</u>	<u>33</u>	<u>112,252,047</u>	<u>36</u>
NON-OPERATING INCOME AND GAINS				
Interest income (Note 2)	2,728,892	1	2,634,636	1
Foreign exchange gain, net (Note 2)	1,113,406	1	71,128	-
Settlement income (Note 26)	951,180	-	985,114	-
Technical service income (Notes 24 and 26)	619,237	-	712,162	-
Gain on settlement and disposal of financial assets, net (Notes 2 and 23)	452,159	-	271,094	-
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 24)	298,772	-	305,201	-
Equity in earnings of equity method investees, net (Notes 2 and 10)	72,568	-	5,468,230	2
Others (Note 24)	<u>489,411</u>	-	<u>658,227</u>	-
Total non-operating income and gains	<u>6,725,625</u>	<u>2</u>	<u>11,105,792</u>	<u>3</u>

(Continued)

	2008		2007	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Valuation loss on financial instruments, net (Notes 2, 5 and 23)	\$ 1,230,966	1	\$ 924,316	-
Interest expense	355,056	-	584,736	-
Loss on impairment of financial assets (Notes 2 and 11)	247,488	-	-	-
Loss on impairment of idle assets (Note 2)	210,477	-	-	-
Provision for litigation loss (Note 26h)	99,126	-	1,008,635	-
Others (Note 2)	<u>113,926</u>	-	<u>88,746</u>	-
Total non-operating expenses and losses	<u>2,257,039</u>	<u>1</u>	<u>2,606,433</u>	-
INCOME BEFORE INCOME TAX	110,758,818	34	120,751,406	39
INCOME TAX EXPENSE (Notes 2 and 17)	<u>(10,825,650)</u>	<u>(3)</u>	<u>(11,574,313)</u>	<u>(4)</u>
NET INCOME	<u>\$ 99,933,168</u>	<u>31</u>	<u>\$ 109,177,093</u>	<u>35</u>
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 22)				
Basic earnings per share	\$ 4.27	\$ 3.86	\$ 4.49	\$ 4.06
Diluted earnings per share	\$ 4.24	\$ 3.83	\$ 4.49	\$ 4.06
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 (Notes 2 and 21):				
	2008		2007	
NET INCOME	\$ 100,035,447		\$ 109,278,855	
EARNINGS PER SHARE (NT\$)				
Basic earnings per share	\$ 3.86		\$ 4.06	
Diluted earnings per share	\$ 3.83		\$ 4.06	

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock - Common Stock		Capital Surplus	Retained Earnings				Others			Total Shareholders' Equity
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock	
BALANCE, JANUARY 1, 2007	25,829,688	\$ 258,296,879	\$ 54,107,498	\$ 43,705,711	\$ 640,742	\$ 152,778,079	\$ 197,124,532	\$ (1,191,165)	\$ 561,615	\$ (918,075)	\$ 507,981,284
Appropriations of prior year's earnings											
Legal capital reserve	-	-	-	12,700,973	-	(12,700,973)	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	(11,192)	11,192	-	-	-	-	-
Bonus to employees - in cash	-	-	-	-	-	(4,572,798)	(4,572,798)	-	-	-	(4,572,798)
Bonus to employees - in stock	457,280	4,572,798	-	-	-	(4,572,798)	(4,572,798)	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,489,064)	(77,489,064)	-	-	-	(77,489,064)
Stock dividends to shareholders - NT\$0.02 per share	51,659	516,594	-	-	-	(516,594)	(516,594)	-	-	-	-
Bonus to directors and supervisors	-	-	-	-	-	(285,800)	(285,800)	-	-	-	(285,800)
Capital surplus transferred to capital stock	77,489	774,891	(774,891)	-	-	-	-	-	-	-	-
Net income in 2007	-	-	-	-	-	109,177,093	109,177,093	-	-	-	109,177,093
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	(28,639)	-	-	-	-	-	-	-	(28,639)
Translation adjustments	-	-	-	-	-	-	-	118,312	-	-	118,312
Issuance of stock from exercising stock options	10,988	109,875	326,952	-	-	-	-	-	-	-	436,827
Cash dividends received by subsidiaries from the Company	-	-	101,762	-	-	-	-	-	-	-	101,762
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	24,325	-	24,325
Equity in the valuation gain on available-for-sale financial assets held by equity method investees	-	-	-	-	-	-	-	-	95,057	-	95,057
Treasury stock repurchased	-	-	-	-	-	-	-	-	-	(48,466,957)	(48,466,957)
BALANCE, DECEMBER 31, 2007	26,427,104	264,271,037	53,732,682	56,406,684	629,550	161,828,337	218,864,571	(1,072,853)	680,997	(49,385,032)	487,091,402
Appropriations of prior year's earnings											
Legal capital reserve	-	-	-	10,917,709	-	(10,917,709)	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	(237,693)	237,693	-	-	-	-	-
Bonus to employees - in cash	-	-	-	-	-	(3,939,883)	(3,939,883)	-	-	-	(3,939,883)
Bonus to employees - in stock	393,988	3,939,883	-	-	-	(3,939,883)	(3,939,883)	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(76,881,311)	(76,881,311)	-	-	-	(76,881,311)
Stock dividends to shareholders - NT\$0.02 per share	51,254	512,542	-	-	-	(512,542)	(512,542)	-	-	-	-
Bonus to directors	-	-	-	-	-	(176,890)	(176,890)	-	-	-	(176,890)
Capital surplus transferred to capital stock	76,881	768,813	(768,813)	-	-	-	-	-	-	-	-
Net income in 2008	-	-	-	-	-	99,933,168	99,933,168	-	-	-	99,933,168
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	(137,063)	-	-	-	-	-	-	-	(137,063)
Translation adjustments	-	-	-	-	-	-	-	1,554,011	-	-	1,554,011
Issuance of stock from exercising stock options	6,027	60,266	166,884	-	-	-	-	-	-	-	227,150
Cash dividends received by subsidiaries from the Company	-	-	102,279	-	-	-	-	-	-	-	102,279
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(233,915)	-	(233,915)
Equity in the valuation loss on available-for-sale financial assets held by equity method investees	-	-	-	-	-	-	-	-	(734,424)	-	(734,424)
Treasury stock repurchased	-	-	-	-	-	-	-	-	-	(30,427,413)	(30,427,413)
Treasury stock retired	(1,329,817)	(13,298,168)	(3,220,714)	-	-	(63,293,563)	(63,293,563)	-	-	79,812,445	-
BALANCE, DECEMBER 31, 2008	25,625,437	\$ 256,254,373	\$ 49,875,255	\$ 67,324,393	\$ 391,857	\$ 102,337,417	\$ 170,053,667	\$ 481,158	\$ (287,342)	\$ -	\$ 476,377,111

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 99,933,168	\$ 109,177,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,569,562	72,820,579
Unrealized (realized) gross profit from affiliates	(72)	265,106
Amortization of premium/discount of financial assets	(97,381)	(117,159)
Loss on impairment of financial assets	247,488	-
Gain on disposal of available-for-sale financial assets, net	(443,404)	(271,094)
Gain on disposal of financial assets carried at cost, net	(8,755)	-
Equity in earnings of equity method investees, net	(72,568)	(5,468,230)
Dividends received from equity method investees	1,804,351	677,147
Gain on disposal of property, plant and equipment and other assets, net	(298,769)	(300,387)
Loss on impairment of idle assets	210,477	-
Deferred income tax	2,361,261	1,083,194
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(164,405)	239,413
Receivables from related parties	14,973,444	(9,832,139)
Notes and accounts receivable	6,470,152	(1,633,164)
Allowance for doubtful receivables	(252,226)	(1,959)
Allowance for sales returns and others	2,011,897	1,105,620
Other receivables from related parties	43,835	(76,042)
Other financial assets	(380,057)	321,762
Inventories	8,179,206	(1,834,928)
Prepaid expenses and other current assets	(330,664)	359,734
Increase (decrease) in:		
Accounts payable	(5,171,553)	3,342,139
Payables to related parties	(1,797,280)	(327,286)
Income tax payable	(1,766,153)	3,127,545
Bonuses payable to employees and directors	15,148,057	-
Accrued expenses and other current liabilities	(3,142,500)	1,259,738
Accrued pension cost	52,330	127,563
Deferred credits	(129,494)	72,747
Net cash provided by operating activities	<u>211,949,947</u>	<u>174,116,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(56,766,192)	(81,303,047)
Available-for-sale financial assets	(23,697,000)	(9,547,253)
Held-to-maturity financial assets	(12,371,965)	-
Investments accounted for using equity method	(494,765)	(7,358,685)
Financial assets carried at cost	(20,681)	(36,333)
Cash from merger of subsidiaries	270,650	-
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	45,584,934	18,844,520
Held-to-maturity financial assets	15,004,000	17,325,120
Financial assets carried at cost	10,606	-
Property, plant and equipment and other assets	2,042,899	54,509

(Continued)

	2008	2007
Proceeds from return of capital by investees	\$ 2,465,293	\$ 433,551
Increase in deferred charges	(3,199,813)	(2,685,610)
Decrease (increase) in refundable deposits	21,801	(1,435,304)
Increase in other assets	-	(232,575)
Net cash used in investing activities	<u>(31,150,233)</u>	<u>(65,941,107)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds payable	-	(7,000,000)
Decrease in guarantee deposits	(761,525)	(1,569,284)
Proceeds from exercise of employee stock options	227,150	436,827
Cash dividends	(76,881,311)	(77,489,064)
Cash bonus paid to employees	(3,939,883)	(4,572,798)
Bonus to directors and supervisors	(176,890)	(285,800)
Repurchase of treasury stock	<u>(33,480,997)</u>	<u>(45,413,373)</u>
Net cash used in financing activities	<u>(115,013,456)</u>	<u>(135,893,492)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,786,258	(27,717,607)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>72,422,102</u>	<u>100,139,709</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 138,208,360</u>	<u>\$ 72,422,102</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 355,056	\$ 661,200
Income tax paid	<u>\$ 10,282,464</u>	<u>\$ 7,330,401</u>
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant, and equipment	\$ 58,951,343	\$ 76,023,264
Decrease (increase) in payables to contractors and equipment suppliers	(2,185,151)	5,279,783
Cash paid	<u>\$ 56,766,192</u>	<u>\$ 81,303,047</u>
Disposal of property, plant and equipment and other assets	\$ 2,051,168	\$ 54,509
Increase in other receivables from related parties	(8,269)	-
Cash received	<u>\$ 2,042,899</u>	<u>\$ 54,509</u>
Repurchase of treasury stock	\$ 30,427,413	\$ 48,466,957
Decrease (increase) in accrued expenses and other current liabilities	3,053,584	(3,053,584)
Cash paid	<u>\$ 33,480,997</u>	<u>\$ 45,413,373</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	<u>\$ 8,000,000</u>	<u>\$ -</u>
Current portion of other long-term payable (under accrued expenses and other current liabilities)	<u>\$ 1,026,421</u>	<u>\$ 3,673,182</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(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 as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. 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).

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.

As of December 31, 2008 and 2007, the Company had 20,425 and 20,555 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 asset-backed commercial papers 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.

The fair value of structured time deposits is estimated using valuation techniques. Fair value of open-end mutual funds is determined using the net assets value at the end of the year. For debt securities, fair value is determined using the average of bid and asked prices at the end of the year.

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 year 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 stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for work in process and finished goods. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Year-end inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

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. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, "Long-term Investments Accounted for Using the Equity Method", 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). The accounting treatment for the investment premiums paid before January 1, 2006 is the same as that for goodwill which is no longer being amortized; while investment discounts continue to be amortized over the remaining periods. 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 year 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. Prior to January 1, 2006, goodwill was amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised Statement of Financial Accounting Standards No. 25, "Business Combinations - Accounting Treatment under Purchase Method", 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 year'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 employee stock options since January 1, 2008.

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.

Recent Accounting Pronouncements

The Accounting Research and Development Foundation (ARDF) of the R.O.C. revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories" (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009.

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

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) of NT\$12,627,332 thousand and NT\$0.49, respectively, for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards 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 year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash and deposits in banks	\$ 129,538,047	\$ 61,832,143
Repurchase agreements collateralized by government bonds	8,670,313	10,067,843
Asset-backed commercial papers	-	522,116
	<u>\$ 138,208,360</u>	<u>\$ 72,422,102</u>

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

	December 31	
	2008	2007
<u>Tradings financial assets</u>		
Forward exchange contracts	\$ 28,411	\$ 6,516
Cross currency swap contracts	14,049	35,567
	<u>\$ 42,460</u>	<u>\$ 42,083</u>
<u>Tradings financial liabilities</u>		
Forward exchange contracts	\$ 34,243	\$ 183,916
Cross currency swap contracts	49,375	63,730
	<u>\$ 83,618</u>	<u>\$ 247,646</u>

The Company entered into derivative contracts during the years ended December 31, 2008 and 2007 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)
<u>December 31, 2008</u>		
Sell US\$/buy NT\$	January 2009 to February 2009	US\$135,000/NT\$4,430,925
Sell EUR/buy NT\$	January 2009	EUR1,500/NT\$63,150
<u>December 31, 2007</u>		
Sell US\$/buy NT\$	January 2008	US\$100,000/NT\$3,250,952
Sell EUR/buy NT\$	February 2008 to July 2008	EUR48,000/NT\$2,090,589

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
<u>December 31, 2008</u>			
January 2009	US\$307,000/NT\$10,061,232	0.54% - 5.00%	0.00% - 3.83%
<u>December 31, 2007</u>			
January 2008 to February 2008	US\$975,000/NT\$31,630,180	3.53% - 5.60%	0.02% - 3.01%

For the years ended December 31, 2008 and 2007, valuation loss on financial instruments arising from derivative financial instruments was NT\$1,230,966 thousand and NT\$924,316 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds	\$ 2,032,658	\$ 4,052,242
Open-end mutual funds	-	14,966,675
Government bonds	-	4,146,082
Structured time deposits	-	499,410
	2,032,658	23,664,409
Current portion	-	(22,267,223)
	<u>\$ 2,032,658</u>	<u>\$ 1,397,186</u>

Structured time deposits categorized as available-for-sale financial assets consisted of the following:

	Principal Amount	Carrying Amount	Interest Rate	Maturity Date
<u>December 31, 2007</u>				
Step-up callable deposits				
Domestic deposits	<u>\$ 500,000</u>	<u>\$ 499,410</u>	1.76%	March 2008

The interest rate of the step-up callable deposits was pre-determined by the Company and the banks.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds	\$ 16,136,752	\$ 10,900,247
Government bonds	1,506,572	7,824,425
Structured time deposits	<u>-</u>	<u>1,500,000</u>
	17,643,324	20,224,672
Current portion	<u>(5,881,999)</u>	<u>(11,526,946)</u>
	<u>\$ 11,761,325</u>	<u>\$ 8,697,726</u>

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

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
<u>December 31, 2007</u>				
Step-up callable deposits				
Domestic deposits	<u>\$ 1,500,000</u>	<u>\$ 5,585</u>	1.77% - 1.83%	April 2008 to October 2008

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 688,972	\$ 690,931
Write-off	<u>(252,226)</u>	<u>(1,959)</u>
Balance, end of year	<u>\$ 436,746</u>	<u>\$ 688,972</u>

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

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 3,856,685	\$ 2,751,065
Provision	8,460,944	5,519,655
Write-off	<u>(6,449,047)</u>	<u>(4,414,035)</u>
Balance, end of year	<u>\$ 5,868,582</u>	<u>\$ 3,856,685</u>

9. INVENTORIES

	December 31	
	2008	2007
Finished goods	\$ 5,196,063	\$ 3,811,212
Work in process	7,694,458	15,867,005
Raw materials	737,494	1,428,592
Supplies and spare parts	<u>529,360</u>	<u>612,128</u>
	14,157,375	21,718,937
Allowance for losses	<u>(1,349,439)</u>	<u>(731,795)</u>
	<u>\$ 12,807,936</u>	<u>\$ 20,987,142</u>

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2008		2007	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
TSMC Global Ltd. (TSMC Global)	\$ 45,756,519	100	\$ 44,204,188	100
TSMC International Investment Ltd. (TSMC International)	29,637,057	100	27,688,565	100
Vanguard International Semiconductor Corporation (VIS)	9,787,275	37	11,024,568	36
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,808,192	39	9,092,741	39
TSMC (Shanghai) Company Limited (TSMC Shanghai)	6,267,128	100	8,622,715	100
TSMC Partners, Ltd. (TSMC Partners)	3,730,913	100	4,734,180	100
TSMC North America	2,435,666	100	2,255,647	100
XinTec Inc. (XinTec)	1,506,384	42	1,501,521	43
VentureTech Alliance Fund III, L.P. (VTAF III)	1,305,605	98	906,536	98
VentureTech Alliance Fund II, L.P. (VTAF II)	975,367	98	1,170,841	98
Global UniChip Corporation (GUC)	950,263	36	823,552	37
Emerging Alliance Fund, L.P. (Emerging Alliance)	433,481	99	467,873	99
TSMC Japan Limited (TSMC Japan)	137,617	100	104,929	100
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe)	124,594	100	88,702	100
TSMC Korea Limited (TSMC Korea)	15,117	100	16,436	100
Chi Cherng Investment Co., Ltd. (Chi Cherng)	-	-	173,429	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	-	-	171,658	36
	<u>\$ 109,871,178</u>		<u>\$ 113,048,081</u>	

In August 2007, the Company acquired additional 169,600 thousand shares in VIS for NT\$4,927,865 thousand; after the acquisition, the Company's percentage of ownership in VIS increased from 27% to 36%.

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 years ended December 31, 2008 and 2007, net equity in earnings of equity method investees of NT\$72,568 thousand and NT\$5,468,230 thousand were recognized, respectively. The related equity in earnings of equity method investees were determined based on the audited financial statements of the investees for the same periods as the Company.

As of December 31, 2008 and 2007, fair values of publicly traded stocks in investments accounted for using equity method (VIS and GUC) was NT\$9,889,107 thousand and NT\$24,319,275 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:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 2,677,388	\$ 943,277
Addition	-	2,081,282
Amortization	(624,135)	(347,171)
Balance, end of year	<u>\$ 2,053,253</u>	<u>\$ 2,677,388</u>

Movements of the aforementioned difference allocated to goodwill were as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 987,349	\$ 213,984
Addition	74,536	773,365
Balance, end of year	<u>\$ 1,061,885</u>	<u>\$ 987,349</u>

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2008	2007
Non-publicly traded stocks	\$ 357,509	\$ 364,913
Mutual funds	161,993	383,247
	<u>\$ 519,502</u>	<u>\$ 748,160</u>

For the years ended December 31, 2008 and 2007, the loss on impairment of financial assets carried at cost was recognized NT\$247,488 thousand and nil, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2008				
	Balance, Beginning of Year	Addition (Deductions)	Disposals	Reclassification	Balance, End of Year
Cost					
Buildings	\$ 101,907,892	\$ 12,115,531	\$ (8,524)	\$ (311)	\$ 114,014,588
Machinery and equipment	589,131,625	49,396,313	(3,385,502)	(134,175)	635,008,261
Office equipment	9,167,107	764,414	(182,709)	57	9,748,869
	<u>700,206,624</u>	<u>\$ 62,276,258</u>	<u>\$ (3,576,735)</u>	<u>\$ (134,429)</u>	<u>758,771,718</u>
Accumulated depreciation					
Buildings	57,349,828	\$ 8,010,214	\$ (8,524)	\$ (4)	65,351,514
Machinery and equipment	422,278,071	63,145,978	(1,258,542)	(119,347)	484,046,160
Office equipment	7,097,120	935,140	(182,706)	26	7,849,580
	<u>486,725,019</u>	<u>\$ 72,091,332</u>	<u>\$ (1,449,772)</u>	<u>\$ (119,325)</u>	<u>557,247,254</u>
Advance payments and construction in progress	<u>21,082,953</u>	<u>\$ (3,324,915)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>17,758,038</u>
Net	<u>\$ 234,564,558</u>				<u>\$ 219,282,502</u>

	Year Ended December 31, 2007				
	Balance, Beginning of Year	Addition	Disposals	Reclassification	Balance, End of Year
Cost					
Buildings	\$ 96,961,851	\$ 5,025,296	\$ (31,835)	\$ (47,420)	\$ 101,907,892
Machinery and equipment	527,850,728	61,793,498	(487,386)	(25,215)	589,131,625
Office equipment	8,659,225	936,003	(328,555)	(99,566)	9,167,107
	<u>633,471,804</u>	<u>\$ 67,754,797</u>	<u>\$ (847,776)</u>	<u>\$ (172,201)</u>	<u>700,206,624</u>
Accumulated depreciation					
Buildings	49,595,917	\$ 7,783,832	\$ (30,957)	\$ 1,036	57,349,828
Machinery and equipment	361,401,800	61,492,223	(459,113)	(156,839)	422,278,071
Office equipment	6,469,533	958,315	(328,363)	(2,365)	7,097,120
	<u>417,467,250</u>	<u>\$ 70,234,370</u>	<u>\$ (818,433)</u>	<u>\$ (158,168)</u>	<u>486,725,019</u>
Advance payments and construction in progress	<u>12,230,805</u>	<u>\$ 8,268,467</u>	<u>\$ -</u>	<u>\$ 583,681</u>	<u>21,082,953</u>
Net	<u>\$ 228,235,359</u>				<u>\$ 234,564,558</u>

No interest was capitalized during the years ended December 31, 2008 and 2007.

13. DEFERRED CHARGES, NET

	Year Ended December 31, 2008					
	Balance, Beginning of Year	Addition	Amortization	Disposals	Reclassification	Balance, End of Year
Technology license fees	\$ 5,349,937	\$ -	\$ (1,563,686)	\$ -	\$ -	\$ 3,786,251
Software and system design costs	1,309,272	945,279	(680,474)	(14,279)	59	1,559,857
Patent and others	513,204	733,342	(191,193)	-	-	1,055,353
	<u>\$ 7,172,413</u>	<u>\$ 1,678,621</u>	<u>\$ (2,435,353)</u>	<u>\$ (14,279)</u>	<u>\$ 59</u>	<u>\$ 6,401,461</u>

	Year Ended December 31, 2007					
	Balance, Beginning of Year	Addition	Amortization	Disposals	Reclassification	Balance, End of Year
Technology license fees	\$ 4,038,551	\$ 3,263,950	\$ (1,656,113)	\$ -	\$ (296,451)	\$ 5,349,937
Software and system design costs	1,517,575	1,181,579	(820,183)	(51)	(569,648)	1,309,272
Patent and others	36,942	283,990	(104,179)	-	296,451	513,204
	<u>\$ 5,593,068</u>	<u>\$ 4,729,519</u>	<u>\$ (2,580,475)</u>	<u>\$ (51)</u>	<u>\$ (569,648)</u>	<u>\$ 7,172,413</u>

14. BONDS PAYABLE

	December 31	
	2008	2007
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	\$ 12,500,000	\$ 12,500,000
Current portion	(8,000,000)	-
	<u>\$ 4,500,000</u>	<u>\$ 12,500,000</u>

As of December 31, 2008, future principal repayments for the bonds payable were as follows:

Year of Repayment	Amount
2009	\$ 8,000,000
2012	4,500,000
	<u>\$ 12,500,000</u>

15. OTHER LONG-TERM PAYABLES

Most of the payables resulted from license agreements for certain semiconductor-related patents. As of December 31, 2008, future payments for other long-term payables were as follows:

Year of Payment	Amount
2009	\$ 1,026,421
2010	504,072
2011	427,180
	1,957,673
Current portion (classified under accrued expenses and other current liabilities)	(1,026,421)
	<u>\$ 931,252</u>

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\$657,870 thousand and NT\$616,548 thousand for the years ended December 31, 2008 and 2007, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's service years 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 (originally the Central Trust of China, which was dissolved after merger with the Bank of Taiwan on July 1, 2007).

Pension information on the defined benefit plan is summarized as follows:

a. Components of net periodic pension cost for the year

	2008	2007
Service cost	\$ 151,603	\$ 184,232
Interest cost	170,025	155,297
Projected return on plan assets	(67,315)	(50,326)
Amortization	3,776	35,596
Net periodic pension cost	<u>\$ 258,089</u>	<u>\$ 324,799</u>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2008 and 2007

	2008	2007
Benefit obligation		
Vested benefit obligation	\$ 114,930	\$ 120,146
Nonvested benefit obligation	4,146,366	3,450,818
Accumulated benefit obligation	4,261,296	3,570,964
Additional benefits based on future salaries	3,245,483	2,428,786
Projected benefit obligation	7,506,779	5,999,750
Fair value of plan assets	(2,441,687)	(2,199,189)
Funded status	5,065,092	3,800,561
Unrecognized net transition obligation	(99,591)	(107,891)
Prior service cost	169,216	-
Unrecognized net loss	(1,424,708)	(34,991)
Accrued pension cost	<u>\$ 3,710,009</u>	<u>\$ 3,657,679</u>
Vested benefit	<u>\$ 126,259</u>	<u>\$ 125,443</u>

c. Actuarial assumptions at December 31, 2008 and 2007

	2008	2007
Discount rate used in determining present values	2.00%	2.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.25%	3.00%

d. Contributions to the Funds for the year

	2008	2007
	<u>\$ 202,263</u>	<u>\$ 200,732</u>

e. Payments from the Funds for the year

	2008	2007
	<u>\$ 28,990</u>	<u>\$ 15,003</u>

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:

	Years Ended December 31	
	2008	2007
Income tax expense based on "income before income tax" at statutory rate (25%)	\$ 27,689,695	\$ 30,187,852
Tax effect of the following:		
Tax-exempt income	(9,610,935)	(7,602,675)
Temporary and permanent differences	1,815,594	(789,073)
Others	41,235	-
Additional tax at 10% on unappropriated earnings	-	2,686,561
Income tax credits used	<u>(10,967,795)</u>	<u>(13,740,683)</u>
Income tax currently payable	<u>\$ 8,967,794</u>	<u>\$ 10,741,982</u>

b. Income tax expense consisted of the following:

	Years Ended December 31	
	2008	2007
Income tax currently payable	\$ 8,967,794	\$ 10,741,982
Other income tax adjustments	(503,405)	(250,863)
Net change in deferred income tax assets		
Investment tax credits	1,224,537	5,120,137
Temporary differences	(1,792,789)	(302,847)
Valuation allowance	<u>2,929,513</u>	<u>(3,734,096)</u>
Income tax expense	<u>\$ 10,825,650</u>	<u>\$ 11,574,313</u>

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

	December 31	
	2008	2007
Current deferred income tax assets		
Investment tax credits	\$ 2,791,000	\$ 5,268,000
Temporary differences	<u>859,700</u>	<u>-</u>
	<u>\$ 3,650,700</u>	<u>\$ 5,268,000</u>
Noncurrent deferred income tax assets		
Investment tax credits	\$ 10,821,218	\$ 9,568,755
Temporary differences	2,076,400	1,143,311
Valuation allowance	<u>(6,399,646)</u>	<u>(3,470,133)</u>
	<u>\$ 6,497,972</u>	<u>\$ 7,241,933</u>

d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2008 and 2007 was NT\$521,634 thousand and NT\$3,012,848 thousand, respectively.

The estimated creditable ratio for distribution of earnings of 2008 and 2007 was 0.51% 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 December 31, 2008, 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	\$ 219,587	\$ -	2009
		6,063,320	-	2010
		4,597,477	4,597,477	2011
		<u>2,661,596</u>	<u>2,661,596</u>	2012
		<u>\$ 13,541,980</u>	<u>\$ 7,259,073</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,000,000	\$ -	2008
		1,127,051	-	2009
		3,163,784	627,742	2010
		2,687,841	2,687,841	2011
		<u>2,977,848</u>	<u>2,977,848</u>	2012
		<u>\$ 10,956,524</u>	<u>\$ 6,293,431</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 21,795	\$ -	2009
		23,146	23,146	2010
		<u>36,568</u>	<u>36,568</u>	2011
		<u>\$ 81,509</u>	<u>\$ 59,714</u>	

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.

18. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2008		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 17,088,512	\$ 11,989,661	\$ 29,078,173
Labor and health insurance	677,817	379,196	1,057,013
Pension	587,281	328,669	915,950
Meal	437,910	174,906	612,816
Welfare	174,641	100,989	275,630
Others	<u>190,323</u>	<u>15,979</u>	<u>206,302</u>
	<u>\$ 19,156,484</u>	<u>\$ 12,989,400</u>	<u>\$ 32,145,884</u>
Depreciation	<u>\$ 68,373,886</u>	<u>\$ 3,701,241</u>	<u>\$ 72,075,127</u>
Amortization	<u>\$ 1,771,919</u>	<u>\$ 663,434</u>	<u>\$ 2,435,353</u>

	Year Ended December 31, 2007		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	\$ 9,201,605	\$ 4,392,243	\$ 13,593,848
Labor and health insurance	608,748	337,124	945,872
Pension	605,879	335,596	941,475
Meal	434,106	167,962	602,068
Welfare	183,463	110,894	294,357
Others	<u>175,781</u>	<u>12,011</u>	<u>187,792</u>
	<u>\$ 11,209,582</u>	<u>\$ 5,355,830</u>	<u>\$ 16,565,412</u>
Depreciation	<u>\$ 66,375,152</u>	<u>\$ 3,816,399</u>	<u>\$ 70,191,551</u>
Amortization	<u>\$ 1,801,193</u>	<u>\$ 778,185</u>	<u>\$ 2,579,378</u>

19. SHAREHOLDERS' EQUITY

As of December 31, 2008, 1,092,053 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs is 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. Also the capital surplus from long-term investments may not be used for any purpose.

Capital surplus consisted of the following:

	December 31	
	2008	2007
From merger	\$ 22,805,390	\$ 24,003,546
Additional paid-in capital	17,962,468	19,526,492
From convertible bonds	8,893,190	9,360,424
From long-term investments	214,152	351,215
Donations	55	55
From treasury stock transactions	<u>-</u>	<u>490,950</u>
	<u>\$ 49,875,255</u>	<u>\$ 53,732,682</u>

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:

- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company's paid-in capital;
- 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 shareholder's approval in the following year.

For the year ended December 31, 2008, the Company has recorded bonuses to employees and directors with a charge to earnings of approximately 15% of net income. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the Board of Directors, 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 cash and stock 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 2007 and 2006 had been approved in the shareholders' meetings held on June 13, 2008 and May 7, 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2007	For Fiscal Year 2006	For Fiscal Year 2007	For Fiscal Year 2006
Legal capital reserve	\$ 10,917,709	\$ 12,700,973		
Special capital reserve	(237,693)	(11,192)		
Bonus to employees - in cash	3,939,883	4,572,798		
Bonus to employees - in stock	3,939,883	4,572,798		
Cash dividends to shareholders	76,881,311	77,489,064	\$ 3.00	\$ 3.00
Stock dividends to shareholders	512,542	516,594	0.02	0.02
Bonus to directors and supervisors	176,890	285,800		
	<u>\$ 96,130,525</u>	<u>\$ 100,126,835</u>		

The shareholders' meeting held on June 13, 2008 and May 7, 2007 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$768,813 thousand and NT\$774,891 thousand, respectively.

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on February 19, 2008 and February 6, 2007, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2007 and 2006, the basic earnings per share (after income tax) for the years ended December 31, 2007 and 2006 shown in the respective financial statements would have decreased from NT\$4.14 to NT\$3.84 and NT\$4.93 to NT\$4.56, respectively. The shares distributed as a bonus to employees represented 1.49% and 1.77% of the Company's total outstanding common shares as of December 31, 2007 and 2006, respectively.

As of January 17, 2009, the Board of Directors has not resolved the appropriation for earnings of 2008.

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

Under the Integrated Income Tax System that became effective on January 1, 1998, 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, consisting 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 equal to the closing price of the Company's common shares listed on the TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2008.

Information about outstanding options for the years ended December 31, 2008 and 2007 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2008</u>		
Balance, beginning of year	41,875	\$ 35.6
Options granted	767	35.2
Options exercised	(6,027)	37.7
Options canceled	(381)	46.5
Balance, end of year	<u>36,234</u>	35.3
<u>Year ended December 31, 2007</u>		
Balance, beginning of year	52,814	\$ 37.9
Options granted	1,094	37.9
Options exercised	(10,988)	39.8
Options canceled	(1,045)	45.9
Balance, end of year	<u>41,875</u>	37.4

The numbers of outstanding options and exercise prices have been adjusted to reflect the appropriations of earnings in accordance with the plans. The options granted were the result of the aforementioned adjustment.

As of December 31, 2008, information about outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
\$24.2 - \$33.9	25,633	4.15	\$ 31.0	25,633	\$ 31.0
38.2 - 50.4	<u>10,601</u>	5.89	45.8	<u>8,669</u>	45.5
	<u>36,234</u>		35.3	<u>34,302</u>	34.6

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2008 and 2007. Had the Company used the fair value based method to evaluate the options, using the Black-Scholes model, the assumptions and pro forma results of the Company for the years ended December 31, 2008 and 2007 would have been as follows:

	Years Ended December 31	
	2008	2007
Assumptions:		
Expected dividend yield	1.00% - 3.44%	1.00% - 3.44%
Expected volatility	43.77% - 46.15%	43.77% - 46.15%
Risk free interest rate	3.07% - 3.85%	3.07% - 3.85%
Expected life	5 years	5 years
Net income:		
Net income as reported	\$ 99,933,168	\$ 109,177,093
Pro forma net income	100,037,622	109,054,923
Earnings per share (EPS) - after income tax (NT\$):		
Basic EPS as reported	\$ 3.86	\$ 4.06
Pro forma basic EPS	3.86	4.06
Diluted EPS as reported	3.83	4.06
Pro forma diluted EPS	3.83	4.06

21. TREASURY STOCK

(Shares in Thousands)

	Beginning Shares	Addition	Stock Dividends	Retirement	Ending Shares
<u>Year ended December 31, 2008</u>					
Parent company stock held by subsidiaries	34,096	-	171	34,267	-
Repurchase under share buyback plan	<u>800,000</u>	<u>495,549</u>	<u>-</u>	<u>1,295,549</u>	<u>-</u>
	<u>834,096</u>	<u>495,549</u>	<u>171</u>	<u>1,329,816</u>	<u>-</u>
<u>Year ended December 31, 2007</u>					
Parent company stock held by subsidiaries	33,926	-	170	-	34,096
Repurchase under share buyback plan	<u>-</u>	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>800,000</u>
	<u>33,926</u>	<u>800,000</u>	<u>170</u>	<u>-</u>	<u>834,096</u>

As of December 31, 2007, the book value of the treasury stock was NT\$49,385,032 thousand; the market value was NT\$51,713,947 thousand. The Company's common shares held by subsidiaries were treated as treasury stock and the holders are entitled to the rights of shareholders, with the exception of voting rights.

The Company held a meeting of the Board of Directors on November 13, 2007 and approved a share buyback plan to repurchase the Company's common shares up to 800,000 thousand shares listed on the TSE during the period from November 14, 2007 to January 13, 2008 for the buyback price in the range from NT\$43.2 to NT\$94.2. The Company had repurchased 800,000 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in February 2008.

The Company held a meeting of the Board of Directors on May 13, 2008 and approved a share buyback plan to repurchase the Company's common shares up to 500,000 thousand shares listed on the TSE during the period from May 14, 2008 to July 13, 2008 for the buyback price in the range from NT\$48.25 to NT\$100.50. The Company had repurchased 216,674 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in August 2008.

The Company held a meeting of the Board of Directors on August 12, 2008 and approved a share buyback plan to repurchase the Company's common shares up to 283,000 thousand shares listed on the TSE during the period from August 13, 2008 to October 12, 2008 for the buyback price in the range from NT\$42.85 to NT\$86.20. The Company had repurchased 278,875 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in November 2008.

As discussed in Note 10, the Company merged Chi Cherng and Hsin Ruey in the third quarter of 2008. The Company's common shares held by Chi Cherng and Hsin Ruey in the number of 34,267 thousand shares were retired in August 2008.

22. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2008</u>					
Basic EPS					
Earnings available to common shareholders	\$ 110,758,818	\$ 99,933,168	25,909,643	<u>\$ 4.27</u>	<u>\$ 3.86</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	181,943		
Stock options	-	-	<u>15,090</u>		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 110,758,818</u>	<u>\$ 99,933,168</u>	<u>26,106,676</u>	<u>\$ 4.24</u>	<u>\$ 3.83</u>
<u>Year ended December 31, 2007</u>					
Basic EPS					
Earnings available to common shareholders	\$ 120,751,406	\$ 109,177,093	26,870,684	<u>\$ 4.49</u>	<u>\$ 4.06</u>
Effect of dilutive potential common shares					
Stock options	-	-	<u>21,652</u>		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 120,751,406</u>	<u>\$ 109,177,093</u>	<u>26,892,336</u>	<u>\$ 4.49</u>	<u>\$ 4.06</u>

As discussed in Note 3, effective January 1, 2008, the Company adopted Interpretation 2007-052 that requires companies to record bonuses paid to employees as an expense rather than as an appropriation of earnings. If the Company may settle the obligation by cash, by issuing share, or in combination of both cash and shares, potential shares from bonus to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price (after consideration of the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of employee bonus are resolved in the shareholders' meeting in the following year.

The average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses. This adjustment caused both of the basic and diluted after income tax EPS for the year ended December 31, 2007 to decrease from NT\$4.14 to NT\$4.06.

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 42,460	\$ 42,460	\$ 42,083	\$ 42,083
Available-for-sale financial assets	2,032,658	2,032,658	23,664,409	23,664,409
Held-to-maturity financial assets	17,643,324	17,674,733	20,224,672	20,192,188
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	83,618	83,618	247,646	247,646
Bonds payable (including current portion)	12,500,000	12,612,423	12,500,000	12,669,987
Other long-term payables (including current portion)	1,957,673	1,957,673	5,174,644	5,174,644

b. Methods and assumptions used in the estimation of fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, payables, payables to contractors and equipment suppliers and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) For those financial assets/liabilities at fair value through profit or loss with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 3) Fair values of available-for-sale and held-to-maturity financial assets were based on their quoted market prices, except for structured time deposits of which the fair values were estimated using valuation techniques.

- 4) Fair value of bonds payable was based on their quoted market price.
- 5) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.
- c. The changes in fair value of derivatives contracts which were outstanding as of December 31, 2008 and 2007 estimated using valuation techniques were recognized as valuation losses of NT\$41,158 thousand and NT\$205,563 thousand, respectively.
- d. As of December 31, 2008 and 2007, financial assets exposed to fair value interest rate risk were NT\$19,718,442 thousand and NT\$43,931,164 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$12,583,618 thousand and NT\$12,747,646 thousand; and financial assets exposed to cash flow interest rate risk were both nil.
- e. Movements of the unrealized gain/loss on financial instruments for the years ended December 31, 2008 and 2007 were as follows:

	Year Ended December 31, 2008		
	From Available-for-sale Financial Assets	From Available-for-sale Financial Assets Held by Investees	Total
Balance, beginning of year	\$ 266,573	\$ 414,424	\$ 680,997
Recognized directly in shareholders' equity	209,489	(734,424)	(524,935)
Removed from shareholders' equity and recognized in earnings	(443,404)	-	(443,404)
Balance, end of year	<u>\$ 32,658</u>	<u>\$ (320,000)</u>	<u>\$ (287,342)</u>

	Year Ended December 31, 2007		
	From Available-for-sale Financial Assets	From Available-for-sale Financial Assets Held by Investees	Total
Balance, beginning of year	\$ 242,248	\$ 319,367	\$ 561,615
Recognized directly in shareholders' equity	295,419	95,057	390,476
Removed from shareholders' equity and recognized in earnings	(271,094)	-	(271,094)
Balance, end of year	<u>\$ 266,573</u>	<u>\$ 414,424</u>	<u>\$ 680,997</u>

f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets held by the Company are mainly fixed-interest-rate debt securities; therefore, the fluctuations in market interest rates will result in changes in fair values of these debt securities. Subject to recent turmoil in the global financial market, the Company had evaluated its financial instruments and the Company believed the exposure to market risk as of December 31, 2008 was not significant.

- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. Subject to recent turmoil in the global financial market, the Company evaluated whether the financial instruments for any possible counter-party or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company's exposure to credit risk as of December 31, 2008 was not significant.

- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments and bonds payable. Therefore, the liquidity risk is low.

- 4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

24. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

- a. Subsidiaries
- TSMC North America
 - TSMC Shanghai
 - TSMC Europe
 - TSMC Japan
 - TSMC Korea
- b. Investees
- GUC (with a controlling financial interest)
 - VIS (accounted for using equity method)
 - SSMC (accounted for using equity method)
- c. Indirect subsidiaries
- WaferTech, LLC (WaferTech)
 - TSMC Technology, Inc. (TSMC Technology)
 - TSMC Design Technology Canada, Inc. (TSMC Canada)
- d. Indirect investee
- VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using equity method.
- e. Others
- Related parties over which the Company has control or exercises significant influence but with which the Company had no material transactions.

Transactions with the aforementioned parties, other than those disclosed in other notes, are summarized as follows:

	2008		2007	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
TSMC North America	\$ 192,986,719	58	\$ 192,846,641	61
Others	<u>1,814,440</u>	<u>1</u>	<u>1,072,708</u>	<u>-</u>
	<u>\$ 194,801,159</u>	<u>59</u>	<u>\$ 193,919,349</u>	<u>61</u>
Purchases				
WaferTech	\$ 8,207,876	22	\$ 8,774,750	18
TSMC Shanghai	4,717,676	12	5,828,541	12
SSMC	4,441,795	12	5,468,410	11
VIS	3,209,028	8	4,188,107	9
Others	<u>-</u>	<u>-</u>	<u>1,028</u>	<u>-</u>
	<u>\$ 20,576,375</u>	<u>54</u>	<u>\$ 24,260,836</u>	<u>50</u>
Manufacturing expenses - outsourcing				
VisEra	<u>\$ 72,174</u>	<u>-</u>	<u>\$ 39,078</u>	<u>-</u>
Marketing expenses - commission				
TSMC Europe	\$ 367,846	16	\$ 316,748	24
TSMC Japan	251,367	11	220,858	16
TSMC Korea	<u>16,408</u>	<u>1</u>	<u>26,818</u>	<u>2</u>
	<u>\$ 635,621</u>	<u>28</u>	<u>\$ 564,424</u>	<u>42</u>
General and administrative expenses - rental				
GUC	<u>\$ 1,050</u>	<u>-</u>	<u>\$ 6,139</u>	<u>-</u>
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 352,900	2	\$ 354,423	2
TSMC Canada (primarily consulting fee)	172,291	1	129,665	1
GUC	18,940	-	56,887	1
Others	<u>994</u>	<u>-</u>	<u>44,168</u>	<u>-</u>
	<u>\$ 545,125</u>	<u>3</u>	<u>\$ 585,143</u>	<u>4</u>
Sales of property, plant and equipment				
TSMC Shanghai	\$ 1,849,317	91	\$ 3,295	6
Other	<u>10,843</u>	<u>-</u>	<u>546</u>	<u>1</u>
	<u>\$ 1,860,160</u>	<u>91</u>	<u>\$ 3,841</u>	<u>7</u>
Non-operating income and gains				
TSMC Shanghai	\$ 297,418	5	\$ 338,038	3
VIS (primarily technical service income, see Note 26f)	296,250	4	346,260	3
SSMC (primarily technical service income, see Note 26e)	244,865	4	290,586	3
VisEra	100,821	1	321,799	3
Others	<u>178</u>	<u>-</u>	<u>1,731</u>	<u>-</u>
	<u>\$ 939,532</u>	<u>14</u>	<u>\$ 1,298,414</u>	<u>12</u>
<u>As of December 31</u>				
Receivables				
TSMC North America	\$ 11,512,777	98	\$ 26,626,880	100
Others	<u>215,427</u>	<u>2</u>	<u>74,768</u>	<u>-</u>
	<u>\$ 11,728,204</u>	<u>100</u>	<u>\$ 26,701,648</u>	<u>100</u>

(Continued)

	2008		2007	
	Amount	%	Amount	%
Other receivables				
TSMC North America	\$ 256,624	52	\$ 98,885	19
TSMC Shanghai	112,933	23	151,037	29
SSMC	56,949	12	84,778	16
VIS	42,969	9	118,749	22
VisEra	-	-	40,101	8
Others	<u>20,267</u>	<u>4</u>	<u>31,758</u>	<u>6</u>
	<u>\$ 489,742</u>	<u>100</u>	<u>\$ 525,308</u>	<u>100</u>
Payables				
TSMC North America	\$ 327,250	28	\$ 13,392	-
VIS	317,491	26	838,584	28
WaferTech	171,089	14	784,280	26
SSMC	162,807	14	655,029	22
TSMC Shanghai	117,417	10	596,581	20
Others	<u>106,296</u>	<u>8</u>	<u>111,764</u>	<u>4</u>
	<u>\$ 1,202,350</u>	<u>100</u>	<u>\$ 2,999,630</u>	<u>100</u>
Deferred credits				
TSMC Shanghai	\$ 183,896	40	\$ 510,564	52
VisEra	<u>-</u>	<u>-</u>	<u>62,175</u>	<u>6</u>
	<u>\$ 183,896</u>	<u>40</u>	<u>\$ 572,739</u>	<u>58</u>

(Concluded)

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

The Company deferred the net gains (classified under the deferred credits) derived from sales of property, plant and equipment to TSMC Shanghai and VisEra, and then recognized such gains (classified under non-operating income and gains) over the depreciable lives of the disposed assets.

The Company leased part of its office space from GUC and also leased certain buildings and facilities to VisEra. The rental expense and income were classified under operating expenses and non-operating income, respectively. The lease terms and prices were determined in accordance with mutual agreements. The lease agreement between the Company and VisEra expired in April 2008.

Compensation of directors and management personnel:

	Years Ended December 31	
	2008	2007
Salaries, incentives and special compensation	\$ 272,325	\$ 275,081
Bonus	<u>705,376</u>	<u>1,096,233</u>
	<u>\$ 977,701</u>	<u>\$ 1,371,314</u>

The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting. Total compensation expense for the year ended December 31, 2008 includes estimated bonuses to employees and directors of the Company that relate to 2008 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2009. The total compensation for the year ended December 31, 2007 included the bonuses appropriated from earnings of 2007 which was approved by the shareholders' meeting held in 2008.

25. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from December 2009 to December 2028 and can be renewed upon expiration.

As of December 31, 2008, future lease payments were as follows:

Year	Amount
2009	\$ 340,443
2010	291,245
2011	289,664
2012	289,664
2013	268,019
2014 and thereafter	<u>2,047,777</u>
	<u>\$ 3,526,812</u>

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2008, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, the Company and Philips (Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006) amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between the Company and Philips (now NXP B.V.) will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, the Company will pay Philips (now NXP B.V.) royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the Company's annual net sales. The Company and Philips (now NXP B.V.) agreed to cross license the patents owned by each party. The Company also obtained through Philips (now NXP B.V.) a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity if the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of December 31, 2008, the Company had a total of US\$43,421 thousand of guarantee deposits.
- d. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips

(now NXP) committed to buy specific percentages of the production capacity of SSMC. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase up to 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.

- e. The Company provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) effective March 30, 1999. The Company receives compensation for such services computed at a specific percentage of net selling price of all products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each unless pre-terminated by either party under certain conditions.
- f. The Company provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into on April 1, 2004. The Company receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for the Company certain products at prices as agreed by the parties.
- g. TSMC, TSMC North America and WaferTech filed a series of lawsuits in late 2003 and 2004 against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referring to as "SMIC"). The lawsuits alleged that SMIC infringed multiple TSMC, TSMC North America and WaferTech patents and misappropriated TSMC, TSMC North America and WaferTech's trade secrets. These suits were settled out of court on January 30, 2005. As part of the settlement, Semiconductor Manufacturing International Corporation shall pay US\$175 million over six years to resolve TSMC, TSMC North America and WaferTech's claims. As of December 31, 2008, SMIC had paid US\$120 million in accordance with the terms of this settlement agreement. In August 2006, TSMC, TSMC North America and WaferTech filed a lawsuit against SMIC in Alameda County Superior Court in California for breach of aforementioned settlement agreement, breach of promissory notes and trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC, TSMC North America and WaferTech in the same court, alleging TSMC, TSMC North America and WaferTech of breach of the settlement agreement and implied covenant of good faith and fair dealing, in response to TSMC, TSMC North America and WaferTech's August complaint. In November 2006, SMIC filed a complaint with Beijing People's High Court against TSMC, TSMC North America and WaferTech alleging defamation and breach of good faith. The California State Superior Court of Alameda County issued an Order on TSMC, TSMC North America and WaferTech's pre-trial motion for a preliminary injunction against SMIC on September 7, 2007. In the Order, the Court found "TSMC has demonstrated a significant likelihood that it will ultimately prevail on the merits of its claim for breach of certain paragraphs of the (2005) Settlement Agreement" with SMIC. The Court also found "TSMC has demonstrated a significant probability of establishing that SMIC retains and is using TSMC Information in SMIC's 0.13um and smaller technologies, and there is significant threat of serious irreparable harm to TSMC if SMIC were to disclose or transfer that information before final resolution of the case." Therefore, the Court ordered that, effective immediately, SMIC must provide advance notice and an opportunity for TSMC, TSMC North America and WaferTech to object before disclosing items enumerated in the Court Order to SMIC's third party partners. The Court, however, did not grant a preliminary injunction as requested by TSMC, TSMC North America and WaferTech. The result of the above-mentioned litigation cannot be determined at this time.
- h. In April 2004, UniRAM Technology, Inc. ("UniRAM") filed an action against MoSys Inc., TSMC and TSMC North America in the U.S. District Court for the Northern District of California, alleging patent infringement and trade secret misappropriation and seeking injunctive relief and damages. TSMC

appealed after the United States District Court for the Northern District of California rendered judgment in favor of UniRAM in May 2008. In the third quarter of 2008, TSMC and TSMC North America had reached agreement with UniRAM to settle the dispute. In accordance with the settlement, the judgment has been vacated and the claims asserted by UniRAM are fully and finally settled. As of December 31, 2008, the Company had accounted for the result of the settlement in accordance with the aforementioned settlement agreement.

27. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for the Company and its investees:

- a. Financing provided: None;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 1 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 2 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 6 attached;
- j. Information about derivatives of investees over which the Company has a controlling interest:
TSMC Shanghai entered into forward exchange contracts during the year ended December 31, 2008 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2008:

	Maturity Date	Contract Amount (In Thousands)
Sell RMB/buy US\$	January 2009 to April 2009	RMB55,010/US\$8,000
Sell US\$/buy JPY	January 2009 to February 2009	US\$131/JPY11,800

For the year ended December 31, 2008, net losses arising from forward exchange contracts of TSMC Shanghai were NT\$8,208 thousand.

XinTec entered into forward exchange contracts during the year ended December 31, 2008 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2008:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/buy NT\$	February 2009	US\$3,900/NT\$127,747

For the year ended December 31, 2008, net losses arising from forward exchange contracts of XinTec were NT\$9,957 thousand.

k. Information on investment in Mainland China

- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 7 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: Please see Note 24.

28. SEGMENT FINANCIAL INFORMATION

a. Industry financial information

The Company operates in one industry. Therefore, the disclosure of industry financial information is not applicable to the Company.

b. Geographic information

The Company has no significant foreign operations. Therefore, the disclosure of geographic information is not applicable to the Company.

c. Export sales

Area	Years Ended December 31	
	2008	2007
Americas	\$ 199,512,258	\$ 208,590,323
Asia	49,386,819	43,149,191
Europe and others	37,622,148	27,944,270
	<u>\$ 286,521,225</u>	<u>\$ 279,683,784</u>

The export sales information is based on the amounts billed to customers within the areas.

d. Major customers representing at least 10% of gross sales

	Years Ended December 31			
	2008		2007	
	Amount	%	Amount	%
Customer A	<u>\$ 192,986,719</u>	58	<u>\$ 192,846,641</u>	61

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES HELD

DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
The Company	Corporate bond							
	Taiwan Mobile Co., Ltd.	-	Available-for-sale financial assets	-	\$ 2,032,658	N/A	\$ 2,032,658	
	Taiwan Power Company	-	Held-to-maturity financial assets	-	4,209,629	N/A	4,215,260	
	Formosa Petrochemical Corporation	-	"	-	3,554,908	N/A	3,540,418	
	Nan Ya Plastics Corporation	-	"	-	3,487,804	N/A	3,512,202	
	Formosa Plastic Corporation	-	"	-	2,385,285	N/A	2,391,955	
	CPC Corporation, Taiwan	-	"	-	1,000,124	N/A	999,740	
	China Steel Corporation	-	"	-	1,000,000	N/A	990,897	
	Shanghai Commercial & Saving Bank	-	"	-	299,092	N/A	298,988	
	Formosa Chemicals & Fiber Corporation	-	"	-	199,910	N/A	199,890	
	Government bond							
	2003 Asian Development Bank Govt. Bond	-	Held-to-maturity financial assets	-	873,237	N/A	875,103	
	European Investment Bank Bonds	-	"	-	383,387	N/A	400,000	
	2004 Government Bond Series B	-	"	-	249,948	N/A	250,280	
	Stocks							
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	45,756,519	100	45,756,519	
	TSMC International	Subsidiary	"	987,968	29,637,057	100	29,637,057	
	VIS	Investee accounted for using equity method	"	628,223	9,787,275	37	4,680,265	
	SSMC	Investee accounted for using equity method	"	314	6,808,192	39	6,036,045	
	TSMC Partners	Subsidiary	"	300	3,730,913	100	3,730,913	
	TSMC North America	Subsidiary	"	11,000	2,435,666	100	2,435,666	
	XinTec	Investee with a controlling financial interest	"	92,620	1,506,384	42	1,443,752	
	GUC	Investee with a controlling financial interest	"	44,904	950,263	36	5,208,842	
	TSMC Japan	Subsidiary	"	6	137,617	100	137,617	
	TSMC Europe	Subsidiary	"	-	124,594	100	124,594	
	TSMC Korea	Subsidiary	"	80	15,117	100	15,117	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	16,783	193,584	10	292,902	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	384,157	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	38,479	
	Hontung Venture Capital Co., Ltd.	-	"	2,633	18,925	10	18,816	
	Fund							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	103,992	12	103,992	
	Crimson Asia Capital	-	"	-	58,001	1	58,001	
	Capital							
	TSMC Shanghai	Subsidiary	Investments accounted for using equity method	-	6,267,128	100	6,269,794	
	VTAF III	Subsidiary	"	-	1,305,605	98	1,291,057	
	VTAF II	Subsidiary	"	-	975,367	98	970,912	
	Emerging Alliance	Subsidiary	"	-	433,481	99	433,481	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
TSMC North America	<u>Preferred stock</u> NeXen, Inc.	-	Financial assets carried at cost	328	US\$ 656	1	US\$ 1,912	
TSMC International	<u>Corporate bond</u> General Elec Cap Corp. Mtn	-	Held-to-maturity financial assets	-	US\$ 20,791	N/A	US\$ 20,671	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 20,294	N/A	US\$ 20,050	
TSMC Development	<u>Stocks</u> TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 690,095	100	US\$ 690,095	
	InveStar Semiconductor Development Fund, Inc.(II) LDC. (ISDF II)	Subsidiary	"	32,289	US\$ 25,586	97	US\$ 25,586	
	TSMC Technology	Subsidiary	"	1	US\$ 8,408	100	US\$ 8,408	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary	"	7,680	US\$ 6,529	97	US\$ 6,529	
	<u>Corporate bond</u> GE Capital Corp.	-	Held-to-maturity financial assets	-	US\$ 20,447	N/A	US\$ 20,050	
TSMC Partners	<u>Stocks</u> WaferTech	Subsidiary	Investments accounted for using equity method	293,637	US\$ 204,558	100	US\$ 204,558	
	<u>Common stock</u> VisEra Holding Company	Investee accounted for using equity method	Investments accounted for using equity method	43,000	US\$ 69,298	49	US\$ 69,298	
Emerging Alliance	TSMC Canada	Subsidiary	"	2,300	US\$ 2,570	100	US\$ 2,570	
	<u>Common stock</u> Pixim, Inc.	-	Financial assets carried at cost	203	US\$ 54	-	US\$ 54	
Emerging Alliance	RichWave Technology Corp.	-	"	4,247	US\$ 1,648	10	US\$ 1,648	
	Global Investment Holding Inc.	-	"	10,800	US\$ 3,065	6	US\$ 3,065	
	<u>Preferred stock</u> Audience, Inc.	-	Financial assets carried at cost	1,654	US\$ 250	1	US\$ 250	
	Axiom Microdevices, Inc.	-	"	1,000	US\$ 1,000	1	US\$ 1,000	
	GemFire Corporation	-	"	-	US\$ 31	-	US\$ 31	
	Miradia, Inc.	-	"	3,040	US\$ 1,000	2	US\$ 1,000	
	Mosaic Systems, Inc.	-	"	2,481	US\$ 12	6	US\$ 12	
	Next IO, Inc.	-	"	800	US\$ 500	1	US\$ 500	
	Optichron, Inc.	-	"	714	US\$ 1,000	2	US\$ 1,000	
	Optimal Corporation	-	"	-	US\$ 229	-	US\$ 229	
	Pixim, Inc.	-	"	4,439	US\$ 1,083	2	US\$ 1,083	
	QST Holding, LLC	-	"	-	US\$ 131	4	US\$ 131	
	Teknovus, Inc.	-	"	6,977	US\$ 1,327	2	US\$ 1,327	
	<u>Capital</u> VentureTech Alliance Holdings, L.L.C. (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	8	-	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
VTAF II	<u>Common stock</u>							
	Sentelic	-	Financial assets carried at cost	1,200	US\$ 2,040	15	US\$ 2,040	
	Aquantia	-	"	2,108	US\$ 2,573	5	US\$ 2,573	
	Leadtrend	-	"	1,265	US\$ 660	5	US\$ 660	
	<u>Preferred stock</u>							
	SV Technologies, Inc.	-	Financial assets carried at cost	2,890	US\$ 2,168	15	US\$ 2,168	
	Audience, Inc.	-	"	5,335	US\$ 1,390	2	US\$ 1,390	
	Axiom Microdevices, Inc.	-	"	5,046	US\$ 2,481	5	US\$ 2,481	
	Beceem Communications	-	"	650	US\$ 1,600	1	US\$ 1,600	
	GemFire Corporation	-	"	600	US\$ 68	1	US\$ 68	
	Impinj, Inc.	-	"	475	US\$ 1,000	-	US\$ 1,000	
	Miradia, Inc.	-	"	3,416	US\$ 3,106	3	US\$ 3,106	
	Next IO, Inc.	-	"	2,775	US\$ 756	2	US\$ 756	
	Optichron, Inc.	-	"	1,050	US\$ 1,844	4	US\$ 1,844	
	Pixim, Inc.	-	"	6,348	US\$ 1,141	2	US\$ 1,141	
	Power Analog Microelectronics	-	"	5,232	US\$ 2,790	18	US\$ 2,790	
	QST Holding, LLC	-	"	-	US\$ 415	13	US\$ 415	
	RichWave Technology Corp.	-	"	1,043	US\$ 730	1	US\$ 730	
	Teknovus, Inc.	-	"	1,599	US\$ 454	-	US\$ 454	
	Tzero Technologies, Inc.	-	"	1,167	US\$ 569	2	US\$ 569	
	Xceive	-	"	870	US\$ 1,177	2	US\$ 1,177	
	<u>Capital</u>							
	VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	24	-	
VTAF III	<u>Common stock</u>							
	Mutual-pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	4,590	US\$ 1,705	51	US\$ 1,705	
	Acionn Technology Corporation	Investee accounted for using equity method	"	4,500	US\$ 1,052	44	US\$ 1,052	
	Auramicro, Inc.	-	Financial assets carried at cost	3,816	US\$ 1,145	20	US\$ 1,145	
	InvenSence, Inc.	-	"	816	US\$ 1,000	1	US\$ 1,000	
	<u>Preferred stock</u>							
	Advasense Sensors, Inc.	-	Financial assets carried at cost	1,929	US\$ 1,834	6	US\$ 1,834	
	BridgeLux, Inc.	-	"	3,333	US\$ 5,000	3	US\$ 5,000	
	Exclara, Inc. (Formerly SynDitec, Inc.)	-	"	21,708	US\$ 4,568	18	US\$ 4,568	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
	M2000, Inc.	-	"	3,000	US\$ 3,000	5	US\$ 3,000	
	Neoconix, Inc.	-	"	2,458	US\$ 4,000	6	US\$ 4,000	
	Powervation, Ltd.	-	"	191	US\$ 2,930	19	US\$ 2,930	
	Quellan, Inc.	-	"	3,106	US\$ 3,500	6	US\$ 3,500	
	Silicon Technical Services, LLC	-	"	1,055	US\$ 1,208	2	US\$ 1,208	
	Tilera, Inc.	-	"	1,698	US\$ 2,360	3	US\$ 2,360	
	Validity Sensors, Inc.	-	"	6,424	US\$ 2,545	3	US\$ 2,545	
	<u>Capital</u>							
	Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 100	100	US\$ 100	
	VTA Holdings	Subsidiary	"	-	-	68	-	
Growth Fund	<u>Common stock</u>							
	Staccato	-	Financial assets carried at cost	10	US\$ 25	-	US\$ 25	
ISDF	<u>Common stock</u>							
	Capella Microsystems (Taiwan), Inc.	-	Financial assets carried at cost	530	US\$ 154	2	US\$ 154	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
ISDF II	<u>Preferred stock</u> Memsc, Inc.	-	Available-for-sale financial assets	1,364	US\$ 2,250	6	US\$ 2,250	
	Integrated Memory Logic, Inc.	-	Financial assets carried at cost	2,872	US\$ 1,221	9	US\$ 1,221	
	IP Unity, Inc.	-	"	1,008	US\$ 290	1	US\$ 290	
	NanoAmp Solutions, Inc.	-	"	541	US\$ 541	2	US\$ 541	
	Sonics, Inc.	-	"	230	US\$ 1,843	2	US\$ 1,843	
	<u>Common stock</u> Rich Tek Technology Corp.	-	Financial assets at fair value through profit or loss	101	US\$ 403	-	US\$ 403	
	Rich Tek Technology Corp.	-	Available-for-sale financial assets	288	US\$ 1,148	-	US\$ 1,148	
	Ralink Technology (Taiwan), Inc.	-	"	1,512	US\$ 3,232	1	US\$ 3,232	
	eLCOS Microdisplay Technology, Ltd.	-	Financial assets carried at cost	270	US\$ 27	1	US\$ 27	
	EoNEX Technologies, Inc.	-	"	55	US\$ 305	5	US\$ 305	
	Sonics, Inc.	-	"	278	US\$ 1,597	3	US\$ 1,597	
	Epic Communication, Inc.	-	"	191	US\$ 23	1	US\$ 23	
	EON Technology, Corp.	-	"	2,494	US\$ 691	3	US\$ 691	
	Goyatek Technology, Corp.	-	"	2,088	US\$ 545	12	US\$ 545	
	Trendchip Technologies Corp.	-	"	1,020	US\$ 574	3	US\$ 574	
	Capella Microsystems (Taiwan), Inc.	-	"	534	US\$ 210	2	US\$ 210	
	Auden Technology MFG. Co., Ltd.	-	"	1,049	US\$ 223	3	US\$ 223	
	<u>Preferred stock</u> Memsc, Inc.	-	Available-for-sale financial assets	1,145	US\$ 1,888	5	US\$ 1,888	
	Alchip Technologies Limited	-	Financial assets carried at cost	6,979	US\$ 3,664	19	US\$ 3,664	
	eLCOS Microdisplay Technology, Ltd.	-	"	3,500	US\$ 878	8	US\$ 878	
	FangTek, Inc.	-	"	7,064	US\$ 3,428	16	US\$ 3,428	
	Kilopass Technology, Inc.	-	"	3,887	US\$ 1,746	5	US\$ 1,746	
	NanoAmp Solutions, Inc.	-	"	375	US\$ 375	1	US\$ 375	
	Sonics, Inc.	-	"	264	US\$ 1,517	3	US\$ 1,517	
GUC	<u>Common stock</u> GUC-NA	Subsidiary	Investments accounted for using equity method	800	\$ 34,019	100	\$ 34,019	
	GUC-Japan	Subsidiary	"	1	11,854	100	11,854	
	GUC-Europe	Subsidiary	"	-	2,563	100	2,563	
XinTec	<u>Capital</u> Compositech Ltd.	-	Financial assets carried at cost	587	-	3	-	
TSMC Global	<u>Agency bonds</u> Fed Hm Ln Pc Pool 1b1225	-	Available-for-sale financial assets	-	US\$ 75	N/A	US\$ 75	
	Fed Hm Ln Pc Pool 1b2566	-	"	-	US\$ 118	N/A	US\$ 118	
	Fed Hm Ln Pc Pool 1b2632	-	"	-	US\$ 145	N/A	US\$ 145	
	Fed Hm Ln Pc Pool 1b2642	-	"	-	US\$ 195	N/A	US\$ 195	
	Fed Hm Ln Pc Pool 1b2776	-	"	-	US\$ 282	N/A	US\$ 282	
	Fed Hm Ln Pc Pool 1b2792	-	"	-	US\$ 193	N/A	US\$ 193	
	Fed Hm Ln Pc Pool 1b2810	-	"	-	US\$ 246	N/A	US\$ 246	
	Fed Hm Ln Pc Pool 1b7453	-	"	-	US\$ 2,302	N/A	US\$ 2,302	
	Fed Hm Ln Pc Pool 1g0038	-	"	-	US\$ 243	N/A	US\$ 243	
	Fed Hm Ln Pc Pool 1g0053	-	"	-	US\$ 289	N/A	US\$ 289	
	Fed Hm Ln Pc Pool 1g0104	-	"	-	US\$ 119	N/A	US\$ 119	
	Fed Hm Ln Pc Pool 1g1282	-	"	-	US\$ 3,285	N/A	US\$ 3,285	
	Fed Hm Ln Pc Pool 1g1411	-	"	-	US\$ 2,979	N/A	US\$ 2,979	
	Fed Hm Ln Pc Pool 1h2520	-	"	-	US\$ 2,152	N/A	US\$ 2,152	
	Fed Hm Ln Pc Pool 1h2524	-	"	-	US\$ 1,614	N/A	US\$ 1,614	
	Fed Hm Ln Pc Pool 780870	-	"	-	US\$ 481	N/A	US\$ 481	
	Fed Hm Ln Pc Pool 781959	-	"	-	US\$ 2,841	N/A	US\$ 2,841	
	Fed Hm Ln Pc Pool 782785	-	"	-	US\$ 198	N/A	US\$ 198	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
	Fed Hm Ln Pc Pool 782837	-	Available-for-sale financial assets	-	US\$ 390	N/A	US\$ 390	
	Fed Hm Ln Pc Pool 783022	-	"	-	US\$ 443	N/A	US\$ 443	
	Fed Hm Ln Pc Pool 783026	-	"	-	US\$ 239	N/A	US\$ 239	
	Fed Hm Ln Pc Pool B19205	-	"	-	US\$ 5,501	N/A	US\$ 5,501	
	Fed Hm Ln Pc Pool E01492	-	"	-	US\$ 1,544	N/A	US\$ 1,544	
	Fed Hm Ln Pc Pool E89857	-	"	-	US\$ 1,152	N/A	US\$ 1,152	
	Fed Hm Ln Pc Pool G11295	-	"	-	US\$ 911	N/A	US\$ 911	
	Fed Hm Ln Pc Pool M80855	-	"	-	US\$ 2,526	N/A	US\$ 2,526	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 348	N/A	US\$ 348	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 187	N/A	US\$ 187	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,108	N/A	US\$ 3,108	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,603	N/A	US\$ 1,603	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,727	N/A	US\$ 1,727	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,185	N/A	US\$ 1,185	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,782	N/A	US\$ 2,782	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,383	N/A	US\$ 1,383	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,358	N/A	US\$ 2,358	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,233	N/A	US\$ 2,233	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,880	N/A	US\$ 2,880	
	Federal National Mort Assoc	-	"	-	US\$ 2,049	N/A	US\$ 2,049	
	Federal National Mortgage Asso	-	"	-	US\$ 2,879	N/A	US\$ 2,879	
	Federal Natl Mtg Assn	-	"	-	US\$ 1,328	N/A	US\$ 1,328	
	Federal Natl Mtg Assn	-	"	-	US\$ 1,315	N/A	US\$ 1,315	
	Federal Natl Mtg Assn	-	"	-	US\$ 1,372	N/A	US\$ 1,372	
	Federal Natl Mtg Assn	-	"	-	US\$ 2,868	N/A	US\$ 2,868	
	Federal Natl Mtg Assn Gtd	-	"	-	US\$ 1,298	N/A	US\$ 1,298	
	Fnma Pool 255883	-	"	-	US\$ 2,724	N/A	US\$ 2,724	
	Fnma Pool 257245	-	"	-	US\$ 3,513	N/A	US\$ 3,513	
	Fnma Pool 555549	-	"	-	US\$ 1,184	N/A	US\$ 1,184	
	Fnma Pool 555715	-	"	-	US\$ 142	N/A	US\$ 142	
	Fnma Pool 632399	-	"	-	US\$ 337	N/A	US\$ 337	
	Fnma Pool 662401	-	"	-	US\$ 451	N/A	US\$ 451	
	Fnma Pool 667766	-	"	-	US\$ 1,068	N/A	US\$ 1,068	
	Fnma Pool 680932	-	"	-	US\$ 952	N/A	US\$ 952	
	Fnma Pool 681393	-	"	-	US\$ 2,045	N/A	US\$ 2,045	
	Fnma Pool 685116	-	"	-	US\$ 489	N/A	US\$ 489	
	Fnma Pool 691283	-	"	-	US\$ 3,039	N/A	US\$ 3,039	
	Fnma Pool 694287	-	"	-	US\$ 17	N/A	US\$ 17	
	Fnma Pool 703711	-	"	-	US\$ 402	N/A	US\$ 402	
	Fnma Pool 725095	-	"	-	US\$ 865	N/A	US\$ 865	
	Fnma Pool 730033	-	"	-	US\$ 138	N/A	US\$ 138	
	Fnma Pool 740934	-	"	-	US\$ 889	N/A	US\$ 889	
	Fnma Pool 742232	-	"	-	US\$ 13	N/A	US\$ 13	
	Fnma Pool 750798	-	"	-	US\$ 18	N/A	US\$ 18	
	Fnma Pool 773246	-	"	-	US\$ 183	N/A	US\$ 183	
	Fnma Pool 793932	-	"	-	US\$ 367	N/A	US\$ 367	
	Fnma Pool 794040	-	"	-	US\$ 579	N/A	US\$ 579	
	Fnma Pool 795548	-	"	-	US\$ 133	N/A	US\$ 133	
	Fnma Pool 799664	-	"	-	US\$ 77	N/A	US\$ 77	
	Fnma Pool 799868	-	"	-	US\$ 26	N/A	US\$ 26	
	Fnma Pool 804764	-	"	-	US\$ 303	N/A	US\$ 303	
	Fnma Pool 804852	-	"	-	US\$ 264	N/A	US\$ 264	
	Fnma Pool 804962	-	"	-	US\$ 323	N/A	US\$ 323	
	Fnma Pool 805163	-	"	-	US\$ 347	N/A	US\$ 347	
	Fnma Pool 806642	-	"	-	US\$ 457	N/A	US\$ 457	
	Fnma Pool 806721	-	"	-	US\$ 548	N/A	US\$ 548	
	Fnma Pool 814418	-	"	-	US\$ 297	N/A	US\$ 297	
	Fnma Pool 815626	-	"	-	US\$ 1,833	N/A	US\$ 1,833	
	Fnma Pool 819423	-	"	-	US\$ 453	N/A	US\$ 453	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
	Fnma Pool 821129	-	Available-for-sale financial assets	-	US\$ 430	N/A	US\$ 430	
	Fnma Pool 888499	-	"	-	US\$ 1,588	N/A	US\$ 1,588	
	Fnma Pool 888502	-	"	-	US\$ 204	N/A	US\$ 204	
	Fnma Pool 888507	-	"	-	US\$ 783	N/A	US\$ 783	
	Fnma Pool 888515	-	"	-	US\$ 847	N/A	US\$ 847	
	Fnma Pool 888519	-	"	-	US\$ 99	N/A	US\$ 99	
	Fnma Pool 888527	-	"	-	US\$ 57	N/A	US\$ 57	
	Fnma Pool 888738	-	"	-	US\$ 3,776	N/A	US\$ 3,776	
	Fnma Pool 888793	-	"	-	US\$ 4,242	N/A	US\$ 4,242	
	Fnma Pool 900296	-	"	-	US\$ 2,415	N/A	US\$ 2,415	
	Gnma li Pool 081150	-	"	-	US\$ 331	N/A	US\$ 331	
	Gnma li Pool 081153	-	"	-	US\$ 1,030	N/A	US\$ 1,030	
	Gnma Pool 646061	-	"	-	US\$ 2,468	N/A	US\$ 2,468	
	Government Natl Mtg Assn Gtd	-	"	-	US\$ 1,861	N/A	US\$ 1,861	
	Fed Home Ln Bank	-	"	-	US\$ 5,305	N/A	US\$ 5,305	
	Federal Farm Cr Bks	-	"	-	US\$ 3,610	N/A	US\$ 3,610	
	Federal Farm Credit Bank	-	"	-	US\$ 3,433	N/A	US\$ 3,433	
	Federal Home Ln Bks	-	"	-	US\$ 3,854	N/A	US\$ 3,854	
	Federal Home Ln Bks	-	"	-	US\$ 5,320	N/A	US\$ 5,320	
	Federal Home Ln Bks	-	"	-	US\$ 4,148	N/A	US\$ 4,148	
	Federal Home Ln Mtg	-	"	-	US\$ 5,340	N/A	US\$ 5,340	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,428	N/A	US\$ 3,428	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,560	N/A	US\$ 3,560	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,743	N/A	US\$ 3,743	
	Federal Home Loan Bank	-	"	-	US\$ 4,710	N/A	US\$ 4,710	
	Federal Natl Mtg Assn	-	"	-	US\$ 4,134	N/A	US\$ 4,134	
	Federal Natl Mtg Assn	-	"	-	US\$ 3,713	N/A	US\$ 3,713	
	Federal Natl Mtg Assn	-	"	-	US\$ 4,169	N/A	US\$ 4,169	
	Federal Natl Mtg Assn	-	"	-	US\$ 3,809	N/A	US\$ 3,809	
	Federal Natl Mtg Assn Mtn	-	"	-	US\$ 3,108	N/A	US\$ 3,108	
	<u>Corporate issued asset-backed securities</u>							
	Banc Amer Coml Mtg Inc.	-	Available-for-sale financial assets	-	US\$ 4,584	N/A	US\$ 4,584	
	Banc Amer Fdg 2006 I Tr	-	"	-	US\$ 2,066	N/A	US\$ 2,066	
	Bear Stearns Adjustable Rate	-	"	-	US\$ 60	N/A	US\$ 60	
	Bear Stearns Arm Tr	-	"	-	US\$ 1,909	N/A	US\$ 1,909	
	Bear Stearns Arm Tr	-	"	-	US\$ 1,160	N/A	US\$ 1,160	
	Bear Stearns Arm Tr	-	"	-	US\$ 129	N/A	US\$ 129	
	Bear Stearns Coml Mtg Secs Inc.	-	"	-	US\$ 96	N/A	US\$ 96	
	Bear Stearns Coml Mtg Secs Inc.	-	"	-	US\$ 2,690	N/A	US\$ 2,690	
	Cbass Tr	-	"	-	US\$ 709	N/A	US\$ 709	
	Chase Mtg Fin Tr	-	"	-	US\$ 576	N/A	US\$ 576	
	Chase Mtg Fin Tr	-	"	-	US\$ 1,171	N/A	US\$ 1,171	
	Chase Mtg Fin Tr	-	"	-	US\$ 1,704	N/A	US\$ 1,704	
	Chase Mtge Finance Corp.	-	"	-	US\$ 865	N/A	US\$ 865	
	Cit Equip Coll Tr	-	"	-	US\$ 3,884	N/A	US\$ 3,884	
	Credit Suisse First Boston Mtg	-	"	-	US\$ 439	N/A	US\$ 439	
	Credit Suisse First Boston Mtg	-	"	-	US\$ 1,513	N/A	US\$ 1,513	
	Credit Suisse First Boston Mtg	-	"	-	US\$ 4,349	N/A	US\$ 4,349	
	First Franklin Mtg Ln Tr	-	"	-	US\$ 413	N/A	US\$ 413	
	First Horizon	-	"	-	US\$ 29	N/A	US\$ 29	
	First Un Natl Bk Coml Mtg Tr	-	"	-	US\$ 1,051	N/A	US\$ 1,051	
	First Un Natl Bk Coml Mtg Tr	-	"	-	US\$ 4,715	N/A	US\$ 4,715	
	First Un Natl Bk Coml Mtg Tr	-	"	-	US\$ 2,019	N/A	US\$ 2,019	
	Gs Mtg Secs Corp.	-	"	-	US\$ 991	N/A	US\$ 991	
	Home Equity Mortgage Trust	-	"	-	US\$ 1,237	N/A	US\$ 1,237	
	Home Equity Mtg Tr 2006 4	-	"	-	US\$ 485	N/A	US\$ 485	
	JP Morgan Mtg Tr	-	"	-	US\$ 588	N/A	US\$ 588	
	JP Morgan Mtg Tr	-	"	-	US\$ 630	N/A	US\$ 630	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
	JP Morgan Mtg Tr	-	Available-for-sale financial assets	-	US\$ 559	N/A	US\$ 559	
	Lb Ubs Coml Mtg Tr	-	"	-	US\$ 3,495	N/A	US\$ 3,495	
	Nomura Asset Accep Corp.	-	"	-	US\$ 660	N/A	US\$ 660	
	Residential Asset Mtg Prods	-	"	-	US\$ 1,515	N/A	US\$ 1,515	
	Residential Fdg Mtg Secs I Inc.	-	"	-	US\$ 1,074	N/A	US\$ 1,074	
	Residential Fdg Mtg Secs I Inc.	-	"	-	US\$ 2,331	N/A	US\$ 2,331	
	Sequoia Mtg Tr	-	"	-	US\$ 288	N/A	US\$ 288	
	Sequoia Mtg Tr	-	"	-	US\$ 158	N/A	US\$ 158	
	Sequoia Mtg Tr	-	"	-	US\$ 147	N/A	US\$ 147	
	Terwin Mtg Tr	-	"	-	US\$ 1,041	N/A	US\$ 1,041	
	Tiaa Seasoned Coml Mtg Tr	-	"	-	US\$ 3,163	N/A	US\$ 3,163	
	Wamu Mtg	-	"	-	US\$ 2,925	N/A	US\$ 2,925	
	Wamu Mtg Pass Through Ctf	-	"	-	US\$ 114	N/A	US\$ 114	
	Wamu Mtg Pass Through Ctf	-	"	-	US\$ 1,521	N/A	US\$ 1,521	
	Washington Mut Mtg Secs Corp.	-	"	-	US\$ 1,641	N/A	US\$ 1,641	
	Wells Fargo Mtg Backed Secs	-	"	-	US\$ 2,405	N/A	US\$ 2,405	
	Wells Fargo Mtg Backed Secs	-	"	-	US\$ 2,632	N/A	US\$ 2,632	
	Wells Fargo Mtg Backed Secs	-	"	-	US\$ 2,391	N/A	US\$ 2,391	
	Wells Fargo Mtg Bkd Secs	-	"	-	US\$ 845	N/A	US\$ 845	
	Wells Fargo Mtg Bkd Secs	-	"	-	US\$ 2,088	N/A	US\$ 2,088	
	<u>Corporate bonds</u>							
	American Gen Fin Corp. Mtn	-	Available-for-sale financial assets	-	US\$ 1,156	N/A	US\$ 1,156	
	Chase Manhattan Corp. New	-	"	-	US\$ 1,505	N/A	US\$ 1,505	
	Chase Manhattan Corp. New	-	"	-	US\$ 2,066	N/A	US\$ 2,066	
	Chase Manhattan Corp. New	-	"	-	US\$ 3,353	N/A	US\$ 3,353	
	Credit Suisse First Boston USA	-	"	-	US\$ 347	N/A	US\$ 347	
	Deutsche Bank Ag London	-	"	-	US\$ 3,013	N/A	US\$ 3,013	
	Fleet Boston Corp.	-	"	-	US\$ 2,589	N/A	US\$ 2,589	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 2,988	N/A	US\$ 2,988	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 673	N/A	US\$ 673	
	Goldman Sachs Group	-	"	-	US\$ 2,029	N/A	US\$ 2,029	
	JP Morgan Chase	-	"	-	US\$ 1,994	N/A	US\$ 1,994	
	Mellon Fdg Corp.	-	"	-	US\$ 2,669	N/A	US\$ 2,669	
	Morgan Stanley	-	"	-	US\$ 4,552	N/A	US\$ 4,552	
	U S Bancorp Mtn Bk Ent	-	"	-	US\$ 1,369	N/A	US\$ 1,369	
	Wachovia Corp. New	-	"	-	US\$ 3,135	N/A	US\$ 3,135	
	Wells Fargo + Co. New Med Trm	-	"	-	US\$ 4,493	N/A	US\$ 4,493	
	<u>Money market funds</u>							
	Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	-	US\$ 30,435	N/A	US\$ 30,435	
	<u>Government bonds</u>							
	United States Treas Nts	-	Available-for-sale financial assets	-	US\$ 10,374	N/A	US\$ 10,374	

(Concluded)

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Investees**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
The Company	Open-end mutual funds													
	NITC Bond Fund	Available-for-sale financial assets	National Investment Trust Co., Ltd.	-	12,239	\$ 2,045,935	6,257	\$ 1,058,000	18,496	\$ 3,119,140	\$ 3,047,038	\$ 72,102	-	\$ -
	Fuh Hwa Bond Fund	"	Fuh Hwa Investment Trust Co., Ltd.	-	132,997	1,801,674	129,864	1,775,000	262,861	3,598,480	3,543,862	54,618	-	-
	NITC Taiwan Bond Fund	"	National Investment Trust Co., Ltd.	-	103,016	1,474,856	153,113	2,214,000	256,129	3,703,023	3,656,443	46,580	-	-
	ING Taiwan Bond Fund	"	ING Securities Investment Trust Co., Ltd.	-	85,581	1,310,030	140,522	2,170,000	226,103	3,497,877	3,470,000	27,877	-	-
	Prudential Financial Bond Fund	"	Prudential Financial Securities Investment Trust Enterprise	-	83,306	1,236,728	-	-	83,306	1,245,214	1,204,418	40,796	-	-
	Uni-President James Bond Fund	"	Uni-President Assets Management Corp.	-	77,128	1,208,799	120,183	1,900,000	197,311	3,125,566	3,100,000	25,566	-	-
	JF Taiwan Bond Fund	"	JF Asset Management (Taiwan) Ltd.	-	59,049	915,252	45,425	712,000	104,474	1,635,181	1,612,083	23,098	-	-
	ING Taiwan Income Bond Fund	"	ING Securities Investment Trust Co., Ltd.	-	54,621	878,682	60,839	988,000	115,460	1,877,230	1,842,149	35,081	-	-
	Taishin Lucky Investment Trust Fund	"	Taishin Investment Trust Co., Ltd.	-	68,945	718,556	-	-	68,945	724,340	701,524	22,816	-	-
	AIG Taiwan Bond Fund	"	AIG Global Asset Management Corporation (Taiwan) Ltd.	-	54,469	705,033	-	-	54,469	708,863	700,000	8,863	-	-
	Cathay Bond Fund	"	Cathay Securities Investment Trust Co., Ltd.	-	60,126	703,824	-	-	60,126	709,289	700,000	9,289	-	-
	Dresdner Bond DAM Fund	"	Allianz Global Investors Taiwan Ltd.	-	54,319	639,542	-	-	54,319	644,310	624,828	19,482	-	-
	JF Taiwan First Bond Fund	"	JF Asset Management (Taiwan) Ltd.	-	35,324	504,206	-	-	35,324	508,184	500,342	7,842	-	-
	HSBC NTD Money Management Fund	"	HSBC Asset Management (Taiwan) Ltd.	-	27,416	413,504	-	-	27,416	416,788	402,614	14,174	-	-
	INVESCO Bond Fund	"	INVESCO Taiwan Limited	-	27,176	410,054	-	-	27,176	412,892	403,727	9,165	-	-
	IBT Ta-Chong Bond Fund	"	IBT Asset Management Co., Ltd.	-	-	-	74,771	1,000,000	74,771	1,002,474	1,000,000	2,474	-	-
	PCA Well Pool Fund	"	PCA Securities Investment Trust Co., Ltd.	-	-	-	187,050	2,400,000	187,050	2,411,016	2,400,000	11,016	-	-
	Capital Income Fund	"	Capital Investment Trust Corporation	-	-	-	228,072	3,480,000	228,072	3,491,264	3,480,000	11,264	-	-
	Government bond													
	2004 Government Bond Series B	Available-for-sale financial assets	Grand Cathay Securities Corp. and several financial institutions	-	-	1,197,121	-	-	-	1,203,434	1,201,660	1,774	-	-
	2004 Government Bond Series G	"	"	-	-	200,065	-	-	-	201,301	200,841	460	-	-
	2004 Government Bond Series B	Held-to-maturity financial assets	Sinopac Securities Corp. and several financial institutions	-	-	-	-	249,603	-	-	-	-	-	249,948
	2003 Government Bond Series H	"	"	-	-	400,709	-	299,852	-	-	-	-	-	-
	Corporate bond													
	Taiwan Mobile Co., Ltd	Available-for-sale financial assets	Grand Cathay Securities Corp. and several financial institutions	-	-	-	-	2,000,000	-	-	-	-	-	2,032,658
	Formosa Chemicals & Fiber Corporation	Held-to-maturity financial assets	"	-	-	-	-	198,914	-	-	-	-	-	199,910
	Formosa Petrochemical Corporation	"	"	-	-	3,581,667	-	959,827	-	-	-	-	-	3,554,908
	Taiwan Power Company	"	"	-	-	2,630,064	-	3,192,915	-	-	-	-	-	4,209,629
	Formosa Plastic Corporation	"	"	-	-	391,134	-	1,984,471	-	-	-	-	-	2,385,285
	Nan Ya Plastics Corporation	"	"	-	-	1,804,346	-	2,486,383	-	-	-	-	-	3,487,804

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
	<u>Capital</u> VTAF III	Investments accounted for using equity method	-	Subsidiary	-	\$ 906,536	-	\$ 466,783	-	\$ -	\$ -	\$ -	-	\$ 1,305,605
TSMC International	<u>Corporate bond</u> General Elec Cap Corp. Mtn	Held-to-maturity financial assets	BNP PARIBAS, London	-	-	-	-	US\$ 20,864	-	-	-	-	-	US\$ 20,791
	General Elec Cap Corp. Mtn	"	"	-	-	-	-	US\$ 20,316	-	-	-	-	-	US\$ 20,294
TSMC Development	<u>Corporate bond</u> GE Capital Corp.	Held-to-maturity financial assets	BNP PARIBAS, London	-	-	-	-	US\$ 20,478	-	-	-	-	-	US\$ 20,447
GUC	<u>Open-end mutual funds</u> PCA Well Pool Fund	Available-for-sale financial assets	PCA Securities Investment Trust Co., Ltd.	-	-	-	19,654	252,000	19,654	252,536	252,000	536	-	-
	Prudential Financial Bond Fund	"	Prudential Financial Securities Investment Trust Enterprise	-	-	-	18,087	271,000	18,087	271,331	271,000	331	-	-
	Uni-President James Bond Fund	"	Uni-President Assets Management Corp.	-	-	-	17,430	275,000	17,430	275,390	275,000	390	-	-
	Cathay Bond Fund	"	Cathay Securities Investment Trust Co., Ltd.	-	-	-	16,096	190,000	16,096	190,077	190,000	77	-	-
	NITC Taiwan Bond Fund	"	National Investment Trust Co., Ltd.	-	-	-	15,575	225,000	15,575	225,206	225,000	206	-	-
	IBT 1699 Bond Fund	"	IBT Asset Management Co., Ltd.	-	-	-	13,383	170,000	13,383	170,333	170,000	333	-	-
	ING Taiwan Bond Fund	"	ING Securities Investment Trust Co., Ltd.	-	-	-	13,262	205,000	13,262	205,393	205,000	393	-	-
	IBT Ta-Chong Bond Fund	"	IBT Asset Management Co., Ltd.	-	-	-	11,631	155,000	11,631	155,255	155,000	255	-	-
	Fuh Hwa Bond Fund	"	Fuh Hwa Investment Trust Co., Ltd.	-	-	-	12,602	172,000	12,602	172,353	172,000	353	-	-
	Mega Diamond Bond Fund	"	Mega International Investment Trust Co., Ltd.	-	-	-	12,484	147,000	12,484	147,117	147,000	117	-	-
	Polaris De-Li Fund	"	Polaris Securities Investment Trust Co., Ltd.	-	-	-	10,042	154,000	10,042	154,298	154,000	298	-	-
	NITC Bond Fund	"	National Investment Trust Co., Ltd.	-	-	-	796	135,000	796	135,133	135,000	133	-	-
TSMC Global	<u>Agency bonds</u> Fnma Pool 257245	Available-for-sale financial assets	-	-	-	-	3,716	US\$ 3,741	-	-	-	-	3,716	US\$ 3,513
	Federal Home Ln Bks	"	-	-	9,000	US\$ 8,977	-	-	9,000	US\$ 9,002	US\$ 8,716	US\$ 286	-	-
	Federal Home Ln Bks	"	-	-	-	-	9,000	US\$ 8,783	9,000	US\$ 9,162	US\$ 8,783	US\$ 379	-	-
	Federal Home Ln Bks	"	-	-	9,000	US\$ 8,939	-	-	9,000	US\$ 9,003	US\$ 8,735	US\$ 268	-	-
	Federal Home Ln Bks	"	-	-	-	-	3,725	US\$ 3,721	-	-	-	-	3,725	US\$ 3,854
	Federal Home Ln Bks	"	-	-	5,000	US\$ 4,965	-	-	5,000	US\$ 5,003	US\$ 4,850	US\$ 153	-	-
	Federal Home Ln Bks	"	-	-	5,000	US\$ 4,980	-	-	5,000	US\$ 4,999	US\$ 4,882	US\$ 117	-	-
	Federal Home Ln Bks	"	-	-	-	-	7,100	US\$ 7,204	7,100	US\$ 7,420	US\$ 7,204	US\$ 216	-	-
	Federal Home Ln Bks	"	-	-	-	-	12,100	US\$ 12,464	8,100	US\$ 8,399	US\$ 8,328	US\$ 71	4,000	US\$ 4,148
	Federal Home Ln Bks	"	-	-	18,665	US\$ 19,023	-	-	18,665	US\$ 19,403	US\$ 18,951	US\$ 452	-	-
	Federal Home Ln Bks	"	-	-	21,900	US\$ 22,342	-	-	21,900	US\$ 22,473	US\$ 21,985	US\$ 488	-	-
	Federal Home Ln Mtg	"	-	-	-	-	5,000	US\$ 5,186	-	-	-	-	5,000	US\$ 5,340
	Federal Farm Credit Bank	"	-	-	-	-	7,200	US\$ 7,241	7,200	US\$ 7,475	US\$ 7,241	US\$ 234	-	-
	Federal Farm Credit Bank	"	-	-	-	-	3,375	US\$ 3,370	-	-	-	-	3,375	US\$ 3,433
	Federal Home Ln Mtg Corp.	"	-	-	-	-	6,700	US\$ 6,690	6,700	US\$ 6,841	US\$ 6,690	US\$ 151	-	-
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,340	US\$ 3,336	-	-	-	-	3,340	US\$ 3,428
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,500	US\$ 3,494	-	-	-	-	3,500	US\$ 3,560
	Federal Home Ln Mtg Corp.	"	-	-	-	-	7,000	US\$ 7,572	3,500	US\$ 3,712	US\$ 3,786	US\$ (74)	3,500	US\$ 3,743
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,391	US\$ 3,389	-	-	-	-	3,391	US\$ 3,108
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,083	US\$ 3,170	-	-	-	-	3,083	US\$ 2,880
	Federal Home Loan Banks	"	-	-	21,000	US\$ 21,500	-	-	21,000	US\$ 21,646	US\$ 21,356	US\$ 290	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
	Federal Natl Mtg Assn	Available-for-sale financial assets	-	-	-	US\$ -	7,200	US\$ 7,248	7,200	US\$ 7,424	US\$ 7,248	US\$ 176	-	US\$ -
	Federal Natl Mtg Assn	"	-	-	-	-	3,700	US\$ 3,700	-	-	-	-	3,700	US\$ 3,713
	Federal Natl Mtg Assn	"	-	-	-	-	10,000	US\$ 10,291	6,000	US\$ 6,138	US\$ 6,174	US\$ (36)	4,000	US\$ 4,169
	Federal Natl Mtg Assn	"	-	-	5,000	US\$ 5,169	-	-	5,000	US\$ 5,196	US\$ 5,102	US\$ 94	-	-
	Federal Natl Mtg Assn	"	-	-	-	-	3,500	US\$ 3,645	-	-	-	-	3,500	US\$ 3,809
	Federal Natl Mtg Assn	"	-	-	-	-	3,750	US\$ 4,151	-	-	-	-	3,750	US\$ 4,134
	Federal Natl Mtg Assoc	"	-	-	-	-	3,450	US\$ 3,463	3,450	US\$ 3,450	US\$ 3,463	US\$ (13)	-	-
	Federal Natl Mtg Assn Mtn	"	-	-	3,000	US\$ 2,982	-	-	3,000	US\$ 3,006	US\$ 2,909	US\$ 97	-	-
	Federal Natl Mtg Assn Mtn	"	-	-	3,200	US\$ 3,171	-	-	3,200	US\$ 3,201	US\$ 3,090	US\$ 111	-	-
	Gnma Pool 646061	"	-	-	-	-	4,173	US\$ 4,352	-	-	-	-	4,173	US\$ 2,468
	<u>Corporate issued asset-backed securities</u>													
	Capital One Multi Asset Exec	Available-for-sale financial assets	-	-	9,000	US\$ 9,118	-	-	9,000	US\$ 8,710	US\$ 8,998	US\$ (288)	-	-
	Capital One Prime Auto Receiva	"	-	-	3,500	US\$ 3,498	-	-	3,500	US\$ 3,414	US\$ 3,500	US\$ (86)	-	-
	Daimlerchrysler Auto Tr	"	-	-	4,335	US\$ 4,337	-	-	4,335	US\$ 3,596	US\$ 4,333	US\$ (737)	-	-
	Usaa Auto Owner Tr	"	-	-	5,000	US\$ 4,998	-	-	5,000	US\$ 4,926	US\$ 4,999	US\$ (73)	-	-
	Wells Fargo Finl Auto Owner Tr	"	-	-	5,000	US\$ 4,956	-	-	3,658	US\$ 3,466	US\$ 3,608	US\$ (142)	1,342	-
	<u>Corporate bonds</u>													
	American Honda Fin Corp. Mtn	Available-for-sale financial assets	-	-	3,150	US\$ 3,107	-	-	3,150	US\$ 3,110	US\$ 3,095	US\$ 15	-	-
	Burlington Res Inc.	"	-	-	3,250	US\$ 3,653	-	-	3,250	US\$ 3,437	US\$ 3,647	US\$ (210)	-	-
	Depfa Acs Bank	"	-	-	20,000	US\$ 20,402	-	-	20,000	US\$ 20,409	US\$ 19,984	US\$ 425	-	-
	Deutsche Bank Ag London	"	-	-	-	-	2,995	US\$ 3,041	-	-	-	-	2,995	US\$ 3,013
	European Invst Bk	"	-	-	-	-	10,600	US\$ 10,577	10,600	US\$ 10,461	US\$ 10,577	US\$ (116)	-	-
	European Invst Bk	"	-	-	-	-	7,300	US\$ 7,277	7,300	US\$ 7,492	US\$ 7,276	US\$ 216	-	-
	European Invst Bk	"	-	-	-	-	10,600	US\$ 10,576	10,600	US\$ 10,676	US\$ 10,576	US\$ 100	-	-
	European Invst Bk	"	-	-	-	-	7,200	US\$ 7,182	7,200	US\$ 7,596	US\$ 7,182	US\$ 414	-	-
	General Elec Cap Corp. Mtn	"	-	-	4,000	US\$ 3,978	-	-	4,000	US\$ 4,042	US\$ 3,893	US\$ 149	-	-
	General Elec Cap Corp. Mtn	"	-	-	3,000	US\$ 3,047	-	-	3,000	US\$ 3,070	US\$ 2,994	US\$ 76	-	-
	General Re Corp.	"	-	-	3,000	US\$ 3,263	-	-	3,000	US\$ 3,060	US\$ 3,319	US\$ (259)	-	-
	Hancock John Global Fdg li Mtn	"	-	-	4,750	US\$ 5,111	-	-	4,750	US\$ 4,707	US\$ 5,170	US\$ (463)	-	-
	International Business Machs	"	-	-	3,500	US\$ 3,555	-	-	3,500	US\$ 3,582	US\$ 3,496	US\$ 86	-	-
	Keycorp Mtn Book Entry	"	-	-	3,050	US\$ 3,053	-	-	3,050	US\$ 3,041	US\$ 3,016	US\$ 25	-	-
	Kreditanstalt Fur Wiederaufbau	"	-	-	-	-	8,700	US\$ 8,679	8,700	US\$ 8,973	US\$ 8,679	US\$ 294	-	-
	Massmutual Global Fdg li Mtn	"	-	-	3,800	US\$ 3,737	-	-	3,800	US\$ 3,668	US\$ 3,647	US\$ 21	-	-
	Metropolitan Life Golbal Mtn	"	-	-	3,400	US\$ 3,366	-	-	3,400	US\$ 3,409	US\$ 3,325	US\$ 84	-	-
	Nationwide Life Global Fdg I	"	-	-	3,500	US\$ 3,631	-	-	3,500	US\$ 3,159	US\$ 3,520	US\$ (361)	-	-
	Protective Life Secd Trs Mtn	"	-	-	3,500	US\$ 3,484	-	-	3,500	US\$ 3,274	US\$ 3,396	US\$ (122)	-	-
	Sbc Communications Inc.	"	-	-	3,400	US\$ 3,372	-	-	3,400	US\$ 3,367	US\$ 3,309	US\$ 58	-	-
	<u>Money market funds</u>													
	Ssga Cash Mgmt Global Offshore	Available-for-sale financial assets	-	-	592,180	US\$ 592,180	1,035,077	US\$1,035,077	1,596,822	US\$1,596,822	US\$1,596,822	-	30,435	US\$ 30,435
	<u>Government bonds</u>													
	U S Treas Bond Call	Available-for-sale financial assets	-	-	-	-	17,825	US\$ 17,813	17,825	US\$ 17,830	US\$ 17,813	US\$ 17	-	-
	US Treasury N/B	"	-	-	-	-	31,300	US\$ 31,414	31,300	US\$ 31,514	US\$ 31,413	US\$ 101	-	-
	US Treasury N/B	"	-	-	-	-	4,200	US\$ 4,259	4,200	US\$ 4,260	US\$ 4,259	US\$ 1	-	-
	United States Treas Nts	"	-	-	-	-	19,400	US\$ 19,353	19,400	US\$ 19,460	US\$ 19,353	US\$ 107	-	-
	United States Treas Nts	"	-	-	-	-	20,100	US\$ 20,057	20,100	US\$ 20,314	US\$ 20,057	US\$ 257	-	-
	United States Treas Nts	"	-	-	-	-	19,500	US\$ 19,474	19,500	US\$ 19,451	US\$ 19,474	US\$ (23)	-	-
	United States Treas Nts	"	-	-	-	-	60,100	US\$ 60,563	60,100	US\$ 60,829	US\$ 60,564	US\$ 265	-	-
	United States Treas Nts	"	-	-	-	-	20,800	US\$ 20,751	20,800	US\$ 21,292	US\$ 20,751	US\$ 541	-	-
	United States Treas Nts	"	-	-	-	-	45,300	US\$ 45,549	45,300	US\$ 45,992	US\$ 45,549	US\$ 443	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
	United States Treas Nts	Available-for-sale financial assets	-	-	-	US\$ -	17,000	US\$ 16,886	17,000	US\$ 16,917	US\$ 16,885	US\$ 32	-	US\$ -
	United States Treas Nts	"	-	-	-	-	67,600	US\$ 67,804	67,600	US\$ 68,342	US\$ 67,805	US\$ 537	-	-
	United States Treas Nts	"	-	-	-	-	7,800	US\$ 7,787	7,800	US\$ 7,757	US\$ 7,787	US\$ (30)	-	-
	United States Treas Nts	"	-	-	-	-	14,600	US\$ 14,605	14,600	US\$ 15,114	US\$ 14,605	US\$ 509	-	-
	United States Treas Nts	"	-	-	-	-	26,500	US\$ 26,636	26,500	US\$ 26,614	US\$ 26,636	US\$ (22)	-	-
	United States Treas Nts	"	-	-	-	-	6,400	US\$ 6,372	6,400	US\$ 6,282	US\$ 6,372	US\$ (90)	-	-
	United States Treas Nts	"	-	-	25,900	US\$ 25,924	-	-	25,900	US\$ 26,091	US\$ 25,941	US\$ 150	-	-
	United States Treas Nts	"	-	-	-	-	14,700	US\$ 14,887	14,700	US\$ 14,990	US\$ 14,887	US\$ 103	-	-
	United States Treas Nts	"	-	-	-	-	11,500	US\$ 11,615	11,500	US\$ 11,652	US\$ 11,615	US\$ 37	-	-
	United States Treas Nts	"	-	-	-	-	53,300	US\$ 54,114	53,300	US\$ 54,153	US\$ 54,114	US\$ 39	-	-
	United States Treas Nts	"	-	-	-	-	4,000	US\$ 4,057	4,000	US\$ 3,969	US\$ 4,057	US\$ (88)	-	-
	United States Treas Nts	"	-	-	5,000	US\$ 5,070	-	-	5,000	US\$ 5,077	US\$ 5,037	US\$ 40	-	-
	United States Treas Nts	"	-	-	-	-	3,750	US\$ 3,958	3,750	US\$ 3,861	US\$ 3,958	US\$ (97)	-	-
	United States Treas Nts	"	-	-	5,500	US\$ 5,613	-	-	5,500	US\$ 5,623	US\$ 5,584	US\$ 39	-	-
	United States Treas Nts	"	-	-	6,400	US\$ 6,500	-	-	6,400	US\$ 6,594	US\$ 6,407	US\$ 187	-	-
	United States Treas Nts	"	-	-	41,900	US\$ 42,509	-	-	41,900	US\$ 42,867	US\$ 41,870	US\$ 997	-	-
	United States Treas Nts	"	-	-	-	-	4,000	US\$ 4,200	4,000	US\$ 4,210	US\$ 4,199	US\$ 11	-	-
	United States Treas Nts	"	-	-	-	-	10,266	US\$ 11,167	-	US\$ -	US\$ -	-	10,266	US\$ 10,374
	United States Treas Nts	"	-	-	5,000	US\$ 5,160	2,000	US\$ 2,062	7,000	US\$ 7,308	US\$ 7,119	US\$ 189	-	-
	United States Treas Nts	"	-	-	-	-	10,000	US\$ 10,525	10,000	US\$ 10,489	US\$ 10,525	US\$ (36)	-	-
	United States Treas Nts	"	-	-	3,250	US\$ 3,359	-	-	3,250	US\$ 3,347	US\$ 3,298	US\$ 49	-	-
	United States Treas Nts	"	-	-	-	-	10,000	US\$ 10,866	10,000	US\$ 11,008	US\$ 10,866	US\$ 142	-	-
	United States Treas Nts	"	-	-	7,500	US\$ 7,758	-	-	7,500	US\$ 7,855	US\$ 7,742	US\$ 113	-	-
	United States Treas Nts	"	-	-	-	-	15,000	US\$ 16,162	15,000	US\$ 16,335	US\$ 16,162	US\$ 173	-	-
	United States Treas Nts	"	-	-	9,500	US\$ 9,735	-	-	9,500	US\$ 9,757	US\$ 9,479	US\$ 278	-	-
	United States Treas Nts	"	-	-	-	-	11,250	US\$ 12,259	11,250	US\$ 12,038	US\$ 12,259	US\$ (221)	-	-
	United States Treas Nts	"	-	-	-	-	19,700	US\$ 19,900	19,700	US\$ 20,045	US\$ 19,900	US\$ 145	-	-
	Wi Treasury Sec	"	-	-	-	-	13,300	US\$ 13,383	13,300	US\$ 13,430	US\$ 13,383	US\$ 47	-	-

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and capital return from subsidiaries.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/losses on financial assets, translation adjustments or equity in earnings of equity method investees.

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
The Company	Fab	January 16, 2008 to January 19, 2008	\$ 4,045,220	By the construction progress	Tasa Construction Corporation, Fu Tsu Construction, and China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Investees**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance	% to Total	
The Company	TSMC North America	Subsidiary	Sales	\$ 192,986,719	58	Net 30 days after invoice date	-	-	\$ 11,512,777	50	
	GUC	Investee with a controlling financial interest	Sales	1,611,058	1	Net 30 days after monthly closing	-	-	215,190	1	
	TSMC Shanghai	Subsidiary	Sales	101,245	-	Net 30 days after monthly closing	-	-	-	-	
	WaferTech	Indirect subsidiary	Purchases	8,207,876	22	Net 30 days after monthly closing	-	-	(171,089)	3	
	TSMC Shanghai	Subsidiary	Purchases	4,717,676	12	Net 30 days after monthly closing	-	-	(117,417)	2	
	SSMC	Investee accounted for using equity method	Purchases	4,441,795	12	Net 30 days after monthly closing	-	-	(162,807)	3	
	VIS	Investee accounted for using equity method	Purchases	3,209,028	8	Net 30 days after monthly closing	-	-	(317,491)	6	
GUC	TSMC North America	Same parent company	Purchases	1,747,488	41	Net 30 days after invoice date/net 45 days after monthly closing	-	-	(148,680)	20	
XinTec	OmniVision	Parent company of director (represented for XinTec)	Sales	2,522,749	81	Net 30 days after monthly closing	-	-	309,133	89	
	VisEra	Same president	Sales	23,650	1	Net 45 days after monthly closing	-	-	283	-	

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Investees**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
The Company	TSMC North America	Subsidiary	\$ 11,769,401	36	\$ 4,130,119	-	\$ 4,177,615	\$ -
	GUC	Investee with a controlling financial interest	215,190	33	1,869	-	103,680	-
	TSMC Shanghai	Subsidiary	112,933	(Note 2)	-	-	-	-
XinTec	OmniVision	Parent company of director (represented for XinTec)	309,133	54	-	-	-	-

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2: The ending balance primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Investee

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2008			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2008 (Foreign Currencies in Thousands)	December 31, 2007 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
The Company	TSMC Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 45,756,519	\$ 963,052	\$ 963,052	Subsidiary
	TSMC International	Tortola, British Virgin Islands	Providing investment in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,445,780	31,445,780	987,968	100	29,637,057	2,082,332	2,082,332	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,047,681	628,223	37	9,787,275	1,041,953	(114,707)	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	8,840,895	314	39	6,808,192	2,460,149	757,241	Investee accounted for using equity method
	TSMC Shanghai	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	12,180,367	12,180,367	-	100	6,267,128	(2,904,565)	(2,907,231)	Subsidiary
	TSMC Partners	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	3,730,913	(973,153)	(973,153)	Subsidiary
	TSMC North America	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	2,435,666	144,918	144,918	Subsidiary
	XinTec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	92,620	42	1,506,384	198,178	30,811	Investee with a controlling financial interest
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,440,241	973,459	-	98	1,305,605	(92,095)	(90,253)	Subsidiary
	VTAF II	Cayman Islands	Investing in new start-up technology companies	1,036,422	1,095,622	-	98	975,367	(132,150)	(129,507)	Subsidiary
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	44,904	36	950,263	747,049	269,544	Investee with a controlling financial interest
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	986,797	1,019,042	-	99	433,481	(6,643)	(6,610)	Subsidiary
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	137,617	4,943	4,943	Subsidiary
TSMC International	TSMC Europe	Amsterdam, the Netherlands	Marketing activities	15,749	15,749	-	100	124,594	38,454	38,454	Subsidiary
	TSMC Korea	Seoul, Korea	Customer service and technical support activities	13,656	13,656	80	100	15,117	3,232	3,232	Subsidiary
	TSMC Development	Delaware, U.S.A.	Investment activities	US\$ 0.001	US\$ 0.001	1	100	US\$ 690,095	US\$ 16,011	Note 2	Subsidiary
	ISDF II	Cayman Islands	Investing in new start-up technology companies	US\$ 32,289	US\$ 43,048	42,320	97	US\$ 25,586	US\$ 240	Note 2	Subsidiary
TSMC Development	TSMC Technology	Delaware, U.S.A.	Engineering support activities	US\$ 0.001	US\$ 0.001	1	100	US\$ 8,408	US\$ 1,816	Note 2	Subsidiary
	ISDF	Cayman Islands	Investing in new start-up technology companies	US\$ 7,680	US\$ 8,721	7,598	97	US\$ 6,529	US\$ (2,156)	Note 2	Subsidiary
	WaferTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$ 380,000	US\$ 430,000	293,637	100	US\$ 204,558	US\$ 27,089	Note 2	Subsidiary
TSMC Partners	VisEra Holding Company	Cayman Islands	Investment in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$ 43,000	US\$ 43,000	43,000	49	US\$ 69,298	US\$ 4,633	Note 2	Investee accounted for using equity method
	TSMC Canada	Ontario, Canada	Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 2,570	US\$ 286	Note 2	Subsidiary
VisEra Holding Company	VisEra	Hsin-Chu, Taiwan	Manufacturing and selling of electronic parts and providing turn-key services in back-end color filter fabrication, package, test, and optical solutions	US\$ 91,041	US\$ 91,041	253,120	89	US\$ 122,700	US\$ 4,429	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2008			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2008 (Foreign Currencies in Thousands)	December 31, 2007 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
VTAF III	Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US\$ 1,705	US\$ 1,705	4,590	51	US\$ 1,398	US\$ (544)	Note 2	Subsidiary
	Aiconn Technology Corp.	Taipei, Taiwan	Wholesaling telecommunication equipments, and manufacturing wired and wireless communication equipments	-	-	4,500	44	US\$ 1,052	US\$ (1,339)	Note 2	Investee accounted for using equity method
	Growth Fund	Cayman Islands	Investing in new start-up technology companies	US\$ 700	-	-	100	US\$ 100	US\$ (600)	Note 2	Subsidiary
	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	68	-	-	Note 2	Subsidiary
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	24	-	-	Note 2	Subsidiary
GUC	GUC-NA	U.S.A.	Consulting services in main products	US\$ 800	US\$ 100	800	100	\$ 34,019	\$ 2,774	Note 2	Subsidiary
	GUC-Japan	Japan	Consulting services in main products	JPY 30,000	JPY 10,000	1	100	11,854	459	Note 2	Subsidiary
	GUC-Europe	The Netherlands	Consulting services in main products	EUR 50	-	-	100	2,563	254	Note 2	Subsidiary
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	8	-	-	Note 2	Subsidiary

Note 1: Equity in earnings/losses of investees exclude the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings (losses) of the investee company is not reflected herein as such amount is already included in the equity in the earnings (losses) of the investor company.

(Concluded)

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited**INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008 (US\$ in Thousand)	Percentage of Ownership
					Outflow (US\$ in Thousand)	Inflow (US\$ in Thousand)		
TSMC Shanghai	Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 12,180,367 (RMB 3,070,623)	(Note 1)	\$ 12,180,367 (US\$ 371,000)	\$ -	\$ -	\$ 12,180,367 (US\$ 371,000)	100%

Equity in the Earnings (Losses) (Note 2)	Carrying Value as of December 31, 2008	Accumulated Inward Remittance of Earnings as of December 31, 2008	Accumulated Investment in Mainland China as of December 31, 2008 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment (US\$ in Thousand)
\$ (2,907,231)	\$ 6,267,128	\$ -	\$ 12,180,367 (US\$ 371,000)	\$ 12,180,367 (US\$ 371,000)	\$ 12,180,367 (US\$ 371,000)

Note 1: Direct investments US\$371,000 thousand in TSMC Shanghai.

Note 2: Amount was recognized based on the audited financial statements.

8. Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors' Report

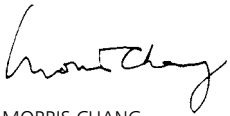
REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2008, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By

A handwritten signature in black ink, appearing to read 'Morris Chang', written in a cursive style.

MORRIS CHANG
Chairman

January 17, 2009

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2008 and 2007, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2008, Taiwan Semiconductor Manufacturing Company Limited and subsidiaries 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.

Deloitte & Touche

January 17, 2009

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 jurisdiction. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 and Subsidiaries

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008		2007		LIABILITIES AND SHAREHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 194,613,752	35	\$ 94,986,488	16	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 24)	\$ 85,187	-	\$ 249,313	-
Financial assets at fair value through profit or loss (Notes 2, 5 and 24)	55,730	-	1,632,387	-	Accounts payable	5,553,151	1	11,574,882	2
Available-for-sale financial assets (Notes 2, 6 and 24)	10,898,715	2	66,688,368	12	Payables to related parties (Note 25)	489,857	-	1,503,376	1
Held-to-maturity financial assets (Notes 2, 7 and 24)	5,881,999	1	11,526,946	2	Income tax payable (Notes 2 and 18)	9,331,825	2	11,126,128	2
Receivables from related parties (Note 25)	407	-	10,885	-	Bonuses payable to employees, directors and supervisors (Notes 3 and 20)	15,369,730	3	-	-
Notes and accounts receivable	25,023,321	4	47,204,126	8	Payables to contractors and equipment suppliers	7,998,773	1	6,256,732	1
Allowance for doubtful receivables (Notes 2 and 8)	(455,751)	-	(701,807)	-	Accrued expenses and other current liabilities (Notes 16 and 28)	9,755,835	2	17,714,763	3
Allowance for sales returns and others (Notes 2 and 8)	(6,071,026)	(1)	(4,089,035)	(1)	Current portion of bonds payable and bank loans (Notes 14, 15 and 26)	8,222,398	1	280,813	-
Other receivables from related parties (Note 25)	99,918	-	243,620	-					
Other financial assets (Note 26)	1,911,699	-	1,515,527	-	Total current liabilities	56,806,756	10	48,706,007	9
Inventories, net (Notes 2 and 9)	14,876,645	3	23,862,260	4					
Deferred income tax assets, net (Notes 2 and 18)	3,969,330	1	5,572,334	1	LONG-TERM LIABILITIES				
Prepaid expenses and other current assets	1,813,692	-	1,370,230	-	Bonds payable (Note 14)	4,500,000	1	12,500,000	2
Total current assets	252,618,431	45	249,822,329	42	Long-term bank loans (Notes 15 and 26)	1,420,476	-	1,722,196	-
					Other long-term payables (Notes 16 and 28)	9,548,226	2	9,409,978	2
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 24)					Obligations under capital leases (Note 2)	722,339	-	652,296	-
Investments accounted for using equity method	18,907,158	3	22,517,289	4	Total long-term liabilities	16,191,041	3	24,284,470	4
Available-for-sale financial assets	2,032,658	-	1,400,691	-					
Held-to-maturity financial assets	15,426,252	3	8,697,726	2	OTHER LIABILITIES				
Financial assets carried at cost	3,615,447	1	3,845,619	1	Accrued pension cost (Notes 2 and 17)	3,701,584	1	3,665,522	1
Total long-term investments	39,981,515	7	36,461,325	7	Guarantee deposits (Note 28)	1,484,495	-	2,243,009	-
					Deferred credits (Notes 2 and 25)	316,537	-	1,236,873	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 26)					Others	43,709	-	43,774	-
Cost					Total other liabilities	5,546,325	1	7,189,178	1
Land and land improvements	953,857	-	942,197	-					
Buildings	132,249,996	24	118,640,027	21	Total liabilities	78,544,122	14	80,179,655	14
Machinery and equipment	697,498,743	125	646,419,427	113					
Office equipment	12,430,800	2	11,829,640	2	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Leased assets	722,339	-	652,296	-	Capital stock - \$10 par value (Notes 20 and 22)				
Accumulated depreciation	843,855,735	151	778,483,587	136	Authorized: 28,050,000 thousand shares				
Advance payments and construction in progress	(618,816,267)	(110)	(540,099,567)	(94)	Issued: 25,625,437 thousand shares in 2008				
	18,605,882	3	21,868,167	4	26,427,104 thousand shares in 2007	256,254,373	46	264,271,037	46
Net property, plant and equipment	243,645,350	44	260,252,187	46	Capital surplus (Notes 2 and 20)	49,875,255	9	53,732,682	9
INTANGIBLE ASSETS					Retained earnings (Note 20)				
Goodwill (Note 2)	6,044,392	1	5,987,582	1	Appropriated as legal capital reserve	67,324,393	12	56,406,684	10
Deferred charges, net (Notes 2 and 13)	7,125,828	1	7,923,601	2	Appropriated as special capital reserve	391,857	-	629,550	-
Total intangible assets	13,170,220	2	13,911,183	3	Unappropriated earnings	102,337,417	18	161,828,337	28
						170,053,667	30	218,864,571	38
OTHER ASSETS					Others (Notes 2, 22 and 24)				
Deferred income tax assets, net (Notes 2 and 18)	6,636,873	1	7,313,283	1	Cumulative translation adjustments	481,158	-	(1,072,853)	-
Refundable deposits	2,767,199	1	2,777,769	1	Unrealized gain/loss on financial instruments	(287,342)	-	680,997	-
Others (Note 2)	97,001	-	327,150	-	Treasury stock: 834,096 thousand shares	-	-	(49,385,032)	(8)
Total other assets	9,501,073	2	10,418,202	2		193,816	-	(49,776,888)	(8)
					Equity attributable to shareholders of the parent	476,377,111	85	487,091,402	85
TOTAL	\$ 558,916,589	100	\$ 570,865,226	100	MINORITY INTERESTS (Note 2)	3,995,356	1	3,594,169	1
					Total shareholders' equity	480,372,467	86	490,685,571	86
					TOTAL	\$ 558,916,589	100	\$ 570,865,226	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 25)	\$ 341,983,355		\$ 328,336,172	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	<u>8,825,695</u>		<u>5,705,576</u>	
NET SALES	333,157,660	100	322,630,596	100
COST OF SALES (Notes 19 and 25)	<u>191,408,099</u>	<u>58</u>	<u>180,280,385</u>	<u>56</u>
GROSS PROFIT	<u>141,749,561</u>	<u>42</u>	<u>142,350,211</u>	<u>44</u>
OPERATING EXPENSES (Notes 19 and 25)				
Research and development	21,480,937	7	17,946,322	5
General and administrative	11,096,599	3	8,963,836	3
Marketing	<u>4,736,657</u>	<u>1</u>	<u>3,718,146</u>	<u>1</u>
Total operating expenses	<u>37,314,193</u>	<u>11</u>	<u>30,628,304</u>	<u>9</u>
INCOME FROM OPERATIONS	<u>104,435,368</u>	<u>31</u>	<u>111,721,907</u>	<u>35</u>
NON-OPERATING INCOME AND GAINS				
Interest income (Note 2)	5,373,823	2	5,651,700	2
Foreign exchange gain, net (Note 2)	1,227,653	1	80,922	-
Technical service income (Notes 25 and 28)	1,181,966	-	590,391	-
Settlement income (Note 28)	951,180	-	985,114	1
Gain on settlement and disposal of financial assets, net (Notes 2 and 24)	721,050	-	874,670	-
Equity in earnings of equity method investees, net (Notes 2 and 10)	701,533	-	2,507,869	1
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 25)	100,874	-	91,210	-
Subsidy income (Note 2)	8,029	-	364,321	-
Valuation gain on financial instruments, net (Notes 2, 5 and 24)	-	-	63,017	-
Others (Note 25)	<u>555,341</u>	<u>-</u>	<u>724,589</u>	<u>-</u>
Total non-operating income and gains	<u>10,821,449</u>	<u>3</u>	<u>11,933,803</u>	<u>4</u>

(Continued)

	2008		2007	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Loss on impairment of financial assets (Notes 2, 6, 11 and 24)	\$ 1,560,055	1	\$ 54,208	-
Valuation loss on financial instruments, net (Notes 2, 5 and 24)	1,081,019	-	-	-
Interest expense	614,988	-	842,242	-
Loss on impairment of idle assets (Note 2)	210,477	-	-	-
Provision for litigation loss (Note 28h)	99,126	-	1,008,635	1
Others (Note 2)	<u>218,906</u>	<u>-</u>	<u>108,599</u>	<u>-</u>
Total non-operating expenses and losses	<u>3,784,571</u>	<u>1</u>	<u>2,013,684</u>	<u>1</u>
INCOME BEFORE INCOME TAX	111,472,246	33	121,642,026	38
INCOME TAX EXPENSE (Notes 2 and 18)	<u>(10,949,009)</u>	<u>(3)</u>	<u>(11,709,626)</u>	<u>(4)</u>
NET INCOME	<u>\$ 100,523,237</u>	<u>30</u>	<u>\$ 109,932,400</u>	<u>34</u>
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 99,933,168	30	\$ 109,177,093	34
Minority interests	<u>590,069</u>	<u>-</u>	<u>755,307</u>	<u>-</u>
	<u>\$ 100,523,237</u>	<u>30</u>	<u>\$ 109,932,400</u>	<u>34</u>
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 23)				
Basic earnings per share	<u>\$ 4.28</u>	<u>\$ 3.86</u>	<u>\$ 4.50</u>	<u>\$ 4.06</u>
Diluted earnings per share	<u>\$ 4.25</u>	<u>\$ 3.83</u>	<u>\$ 4.50</u>	<u>\$ 4.06</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Shareholders of the Parent												Minority Interests	Total Shareholders' Equity
	Capital Stock - Common Stock		Capital Surplus	Retained Earnings				Others				Total		
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock	Others Total			
BALANCE, JANUARY 1, 2007	25,829,688	\$ 258,296,879	\$ 54,107,498	\$ 43,705,711	\$ 640,742	\$ 152,778,079	\$ 197,124,532	\$ (1,191,165)	\$ 561,615	\$ (918,075)	\$ (1,547,625)	\$ 507,981,284	\$ 1,156,832	\$ 509,138,116
Appropriations of prior year's earnings														
Legal capital reserve	-	-	-	12,700,973	-	(12,700,973)	-	-	-	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	(11,192)	11,192	-	-	-	-	-	-	-	-
Bonus to employees - in cash	-	-	-	-	-	(4,572,798)	(4,572,798)	-	-	-	-	(4,572,798)	-	(4,572,798)
Bonus to employees - in stock	457,280	4,572,798	-	-	-	(4,572,798)	(4,572,798)	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,489,064)	(77,489,064)	-	-	-	-	(77,489,064)	-	(77,489,064)
Stock dividends to shareholders - NT\$0.02 per share	51,659	516,594	-	-	-	(516,594)	(516,594)	-	-	-	-	-	-	-
Bonus to directors and supervisors	-	-	-	-	-	(285,800)	(285,800)	-	-	-	-	(285,800)	-	(285,800)
Capital surplus transferred to capital stock	77,489	774,891	(774,891)	-	-	-	-	-	-	-	-	-	-	-
Net income in 2007	-	-	-	-	-	109,177,093	109,177,093	-	-	-	-	109,177,093	755,307	109,932,400
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	(28,639)	-	-	-	-	-	-	-	-	(28,639)	31,862	3,223
Translation adjustments	-	-	-	-	-	-	-	118,312	-	-	118,312	118,312	(99,318)	18,994
Issuance of stock from exercising employee stock options	10,988	109,875	326,952	-	-	-	-	-	-	-	-	436,827	-	436,827
Cash dividends received by subsidiaries from parent company	-	-	101,762	-	-	-	-	-	-	-	-	101,762	-	101,762
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	241,821	-	241,821	241,821	19,487	261,308
Equity in the valuation loss on available-for-sale financial assets held by equity method investees	-	-	-	-	-	-	-	-	(122,439)	-	(122,439)	(122,439)	-	(122,439)
Treasury stock repurchased	-	-	-	-	-	-	-	-	-	(48,466,957)	(48,466,957)	(48,466,957)	-	(48,466,957)
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	1,729,999	1,729,999
BALANCE, DECEMBER 31, 2007	26,427,104	264,271,037	53,732,682	56,406,684	629,550	161,828,337	218,864,571	(1,072,853)	680,997	(49,385,032)	(49,776,888)	487,091,402	3,594,169	490,685,571
Appropriations of prior year's earnings														
Legal capital reserve	-	-	-	10,917,709	-	(10,917,709)	-	-	-	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	(237,693)	237,693	-	-	-	-	-	-	-	-
Bonus to employees - in cash	-	-	-	-	-	(3,939,883)	(3,939,883)	-	-	-	-	(3,939,883)	-	(3,939,883)
Bonus to employees - in stock	393,988	3,939,883	-	-	-	(3,939,883)	(3,939,883)	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(76,881,311)	(76,881,311)	-	-	-	-	(76,881,311)	-	(76,881,311)
Stock dividends to shareholders - NT\$0.02 per share	51,254	512,542	-	-	-	(512,542)	(512,542)	-	-	-	-	-	-	-
Bonus to directors	-	-	-	-	-	(176,890)	(176,890)	-	-	-	-	(176,890)	-	(176,890)
Capital surplus transferred to capital stock	76,881	768,813	(768,813)	-	-	-	-	-	-	-	-	-	-	-
Net income in 2008	-	-	-	-	-	99,933,168	99,933,168	-	-	-	-	99,933,168	590,069	100,523,237
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	(137,063)	-	-	-	-	-	-	-	-	(137,063)	11,700	(125,363)
Translation adjustments	-	-	-	-	-	-	-	1,554,011	-	-	1,554,011	1,554,011	(68,792)	1,485,219
Issuance of stock from exercising employee stock options	6,027	60,266	166,884	-	-	-	-	-	-	-	-	227,150	-	227,150
Cash dividends received by subsidiaries from parent company	-	-	102,279	-	-	-	-	-	-	-	-	102,279	-	102,279
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(826,251)	-	(826,251)	(826,251)	(17,048)	(843,299)
Equity in the valuation loss on available-for-sale financial assets held by equity method investees	-	-	-	-	-	-	-	-	(142,088)	-	(142,088)	(142,088)	-	(142,088)
Treasury stock repurchased	-	-	-	-	-	-	-	-	-	(30,427,413)	(30,427,413)	(30,427,413)	-	(30,427,413)
Treasury stock retired	(1,329,817)	(13,298,168)	(3,220,714)	-	-	(63,293,563)	(63,293,563)	-	-	79,812,445	79,812,445	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(114,742)	(114,742)
BALANCE, DECEMBER 31, 2008	25,625,437	\$ 256,254,373	\$ 49,875,255	\$ 67,324,393	\$ 391,857	\$ 102,337,417	\$ 170,053,667	\$ 481,158	\$ (287,342)	\$ -	\$ 193,816	\$ 476,377,111	\$ 3,995,356	\$ 480,372,467

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 99,933,168	\$ 109,177,093
Net income attributable to minority interests	590,069	755,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,512,191	80,005,395
Amortization of premium/discount of financial assets	(93,393)	(117,159)
Loss on impairment of financial assets	1,560,055	54,208
Gain on disposal of available-for-sale financial assets, net	(637,219)	(610,167)
Gain on disposal of financial assets carried at cost, net	(83,831)	(264,503)
Equity in earnings of equity method investees, net	(701,533)	(2,507,869)
Dividends received from equity method investees	1,661,134	625,130
Gain on disposal of property, plant and equipment and other assets, net	(100,285)	(85,020)
Loss on impairment of idle assets	210,477	-
Deferred income tax	2,279,414	943,797
Net changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	1,412,531	(187,084)
Receivables from related parties	10,478	629,467
Notes and accounts receivable	22,180,805	(12,134,176)
Allowance for doubtful receivables	(246,056)	(48,126)
Allowance for sales returns and others	1,981,991	1,205,277
Other receivables from related parties	143,702	13,243
Other financial assets	(425,937)	842,136
Inventories	8,985,615	(2,226,106)
Prepaid expenses and other current assets	(443,462)	290,434
Increase (decrease) in:		
Accounts payable	(6,021,731)	3,218,255
Payables to related parties	(1,013,519)	(375,731)
Income tax payable	(1,794,303)	3,179,655
Bonuses payable to employees, directors and supervisors	15,369,730	-
Accrued expenses and other current liabilities	(3,954,427)	913,872
Accrued pension cost	36,062	125,462
Deferred credits	(858,161)	343,878
Net cash provided by operating activities	<u>221,493,565</u>	<u>183,766,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(59,222,654)	(84,000,985)
Available-for-sale financial assets	(85,273,867)	(87,550,197)
Held-to-maturity financial assets	(16,523,275)	-
Investments accounted for using equity method	(55,871)	(5,803,826)
Financial assets carried at cost	(463,211)	(911,323)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	138,515,023	94,908,666
Held-to-maturity financial assets	15,634,620	17,325,120
Financial assets carried at cost	199,424	410,465
Property, plant and equipment and other assets	194,940	60,535
Proceeds from return of capital by investees	2,345,867	-

(Continued)

	2008	2007
Increase in deferred charges	\$ (3,395,287)	\$ (3,059,155)
Decrease (increase) in refundable deposits	10,570	(1,434,895)
Net cash paid for acquisition of subsidiaries	-	(404,445)
Increase in other assets	(8,163)	(228,747)
Net cash used in investing activities	<u>(8,041,884)</u>	<u>(70,688,787)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	-	(89,720)
Proceeds from long-term bank loans	98,400	653,000
Repayments of:		
Long-term bank loans	(468,313)	(196,173)
Bonds payable	-	(7,000,000)
Decrease in guarantee deposits	(758,514)	(1,574,131)
Cash dividends	(76,779,032)	(77,387,302)
Cash bonus paid to employees	(3,939,883)	(4,572,798)
Bonus to directors and supervisors	(176,890)	(285,800)
Proceeds from exercise of employee stock options	227,150	436,827
Repurchase of treasury stock	(33,480,997)	(45,413,373)
Increase (decrease) in minority interests	(114,742)	19,004
Net cash used in financing activities	<u>(115,392,821)</u>	<u>(135,410,466)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	98,058,860	(22,332,585)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,568,404	(518,119)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>94,986,488</u>	<u>117,837,192</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 194,613,752</u>	<u>\$ 94,986,488</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 676,318	\$ 922,079
Income tax paid	<u>\$ 10,477,018</u>	<u>\$ 7,585,727</u>
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 60,978,527	\$ 78,889,954
Decrease (increase) in payables to contractors and equipment suppliers	(1,742,041)	5,111,031
Increase in obligations under capital leases	(13,832)	-
Cash paid	<u>\$ 59,222,654</u>	<u>\$ 84,000,985</u>
Repurchase of treasury stock	\$ 30,427,413	\$ 48,466,957
Decrease (increase) in accrued expenses and other current liabilities	3,053,584	(3,053,584)
Cash paid	<u>\$ 33,480,997</u>	<u>\$ 45,413,373</u>
NONCASH FINANCING ACTIVITIES		
Current portion of bonds payable and long-term liabilities	\$ 8,222,398	\$ 280,813
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ 1,126,546</u>	<u>\$ 3,735,875</u>

(Continued)

	2007
The Company acquired controlling interests in XinTec Inc. (XinTec) and Mutual-Pak Technology Co., Ltd. (Mutual-Pak) in March 2007 and July 2007, respectively, and consolidated the revenue/income and expenses/losses of these two subsidiaries from the respective acquisition dates. Fair values of assets acquired and liabilities assumed at acquisition were as follows:	
Current assets	\$ 3,101,718
Property, plant and equipment	2,339,546
Other assets	436,692
Current liabilities	(1,937,407)
Long-term liabilities	<u>(701,855)</u>
Net amount	<u>\$ 3,238,694</u>
Purchase price for XinTec and Mutual-Pak	\$ 1,413,585
Less: Cash balance of XinTec and Mutual-Pak at acquisition	<u>(1,009,140)</u>
Net cash paid for acquisition of XinTec and Mutual-Pak	<u>\$ 404,445</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987 as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. 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).

TSMC 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.

As of December 31, 2008 and 2007, TSMC and its subsidiaries had 24,834 and 25,258 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the convenience of readers, the accompanying consolidated 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 consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of investees in which TSMC's ownership percentage is less than 50% but over which TSMC has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

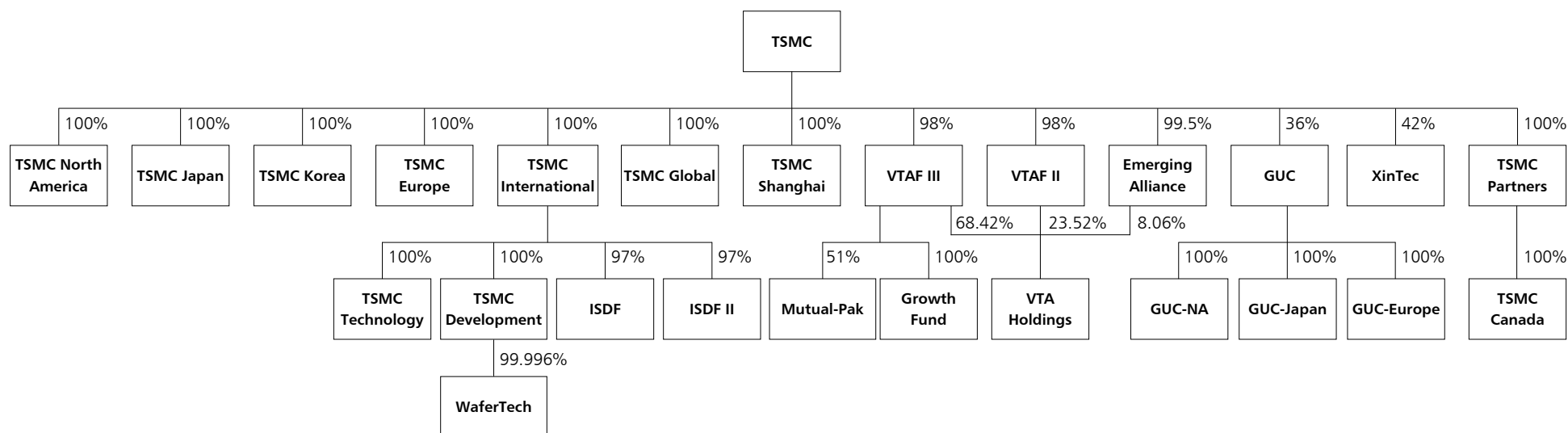
Name of Investor	Name of Investee	Percentage of Ownership December 31		Remark
		2008	2007	
TSMC	TSMC North America	100%	100%	-
	TSMC Japan Limited (TSMC Japan)	100%	100%	-
	TSMC Korea Limited (TSMC Korea)	100%	100%	-
	Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe)	100%	100%	-
	TSMC International Investment Ltd. (TSMC International)	100%	100%	-
	TSMC Global Ltd. (TSMC Global)	100%	100%	-
	TSMC (Shanghai) Company Limited (TSMC Shanghai)	100%	100%	-
	Chi Cherng Investment Co., Ltd. (Chi Cherng)	-	36%	TSMC and Hsin Ruey held in aggregate a 100% ownership of Chi Cherng as of December 31, 2007. In July 2008, Chi Cherng was merged by Hsin Ruey.
	Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	-	36%	TSMC and Chi Cherng held in aggregate a 100% ownership of Hsin Ruey as of December 31, 2007. In August 2008, Hsin Ruey was merged by TSMC.
	VentureTech Alliance Fund III, L.P. (VTAF III)	98%	98%	-
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	98%	-
	Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	99.5%	-
	Global Unichip Corporation (GUC)	36%	37%	GUC became a consolidated entity of TSMC as GUC's president was assigned by TSMC and TSMC has a controlling interest over the financial, operating and personnel hiring decisions of GUC.
	XinTec Inc. (XinTec)	42%	43%	TSMC obtained three out of five director positions in March 2007 and TSMC has a controlling interest in XinTec.
	TSMC Partners, Ltd. (TSMC Partners)	100%	100%	-

(Continued)

Name of Investor	Name of Investee	Percentage of Ownership December 31		Remark
		2008	2007	
TSMC International	TSMC Technology, Inc. (TSMC Technology)	100%	100%	-
	TSMC Development, Inc. (TSMC Development)	100%	100%	-
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	97%	-
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	97%	97%	-
TSMC Development	WaferTech, LLC (WaferTech)	99.996%	99.996%	-
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	51%	51%	-
	Growth Fund Limited (Growth Fund)	100%	-	Newly established.
VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, L.L.C. (VTA Holdings)	100%	100%	-
GUC	Global Unichip Corporation-NA (GUC-NA)	100%	100%	-
	Global Unichip Japan Co., Ltd. (GUC-Japan)	100%	100%	-
	Global Unichip Europe B.V. (GUC-Europe)	100%	-	Newly established.
TSMC Partners	TSMC Design Technology Canada Inc. (TSMC Canada)	100%	100%	-

(Concluded)

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of December 31, 2008:



TSMC North America is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC Japan, TSMC Korea and TSMC Europe are engaged mainly in marketing or customer service and technical supporting activities. TSMC International is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC Global, TSMC Partners and TSMC Development are engaged in investing activities. TSMC Shanghai is engaged in the manufacturing and selling of integrated circuits pursuant to the orders from and product design specifications provided by customers. Emerging Alliance, VTAF II, VTAF III, VTA Holdings, ISDF, ISDF II, and Growth Fund are engaged in investing in new start-up technology companies. TSMC Canada and TSMC Technology are engaged mainly in engineering support activities. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. GUC is engaged in researching, developing, manufacturing, testing and marketing of integrated circuits. GUC-NA, GUC-Japan, and GUC-Europe are engaged in providing products consulting in North America, Japan, and Europe, respectively. XinTec is engaged in the provision of wafer packaging service. Mutual-Pak is engaged in the manufacturing and selling of electronic parts, and researching, developing and testing of RFID.

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

TSMC together with its subsidiaries are hereinafter referred to collectively as the “Company”.

Minority interests in the aforementioned subsidiaries are presented as a separate component of shareholders’ equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with the aforementioned guidelines 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, asset-backed commercial papers and corporate 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 and financial assets acquired principally for the purpose of selling them in the near term are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives and financial assets 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 determined as follows: Publicly traded stocks - closing prices at the end of the year; derivatives - 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

Investments designated as available-for-sale financial assets include debt securities and equity securities. 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 is determined as follows: Structured time deposits - using valuation techniques; open-end mutual funds and money market funds - net asset values at the end of the year; publicly traded stocks - closing prices at the end of the year; and other debt securities - average of bid and asked prices at the end of the year.

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.

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 year 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 stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for work in process and finished goods. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Year-end inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

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. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, "Long-term Investments Accounted for Using the Equity Method", 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). If there is objective evidence which indicates that a investment is impaired, 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 or from equity method investees to the Company 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.

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.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

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. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, with the corresponding amount recorded as obligations under capital leases. 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 year are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements - 20 years; buildings - 10 to 20 years; machinery and equipment - 3 to 10 years; office equipment - 3 to 15 years; and leased assets - 20 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. Prior to January 1, 2006, goodwill was amortized using the straight-line method over the

estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised Statement of Financial Accounting Standards No. 25, "Business Combinations - Accounting Treatment under Purchase Method", 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 - 2 to 5 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.

Government Subsidies

Income-related subsidies from governments are recognized in earnings when the requirements for subsidies are met.

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, net operating loss carryforwards 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 year's tax provision.

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) 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 employee stock options since January 1, 2008.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity. When TSMC 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.

TSMC'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 TSMC 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.

Translation of Foreign-currency Financial Statements

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - spot rates at year-end; shareholders' equity - historical rates; income and expenses - average rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

Recent Accounting Pronouncements

The Accounting Research and Development Foundation (ARDF) of the R.O.C. revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories" (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009.

Reclassification

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2007

have been reclassified to be consistent with the consolidated financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

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 of NT\$12,827,595 thousand and NT\$0.50, respectively, for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards 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 consolidated financial statements as of and for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash and deposits in banks	\$ 185,943,439	\$ 84,105,377
Repurchase agreements collateralized by government bonds	8,670,313	10,067,843
Asset-backed commercial papers	-	522,116
Corporate notes	-	291,152
	<u>\$ 194,613,752</u>	<u>\$ 94,986,488</u>

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

	December 31	
	2008	2007
Trading financial assets		
Publicly traded stocks	\$ 13,258	\$ 1,590,188
Forward exchange contracts	28,423	6,632
Cross currency swap contracts	<u>14,049</u>	<u>35,567</u>
	<u>\$ 55,730</u>	<u>\$ 1,632,387</u>
Trading financial liabilities		
Forward exchange contracts	\$ 35,812	\$ 185,583
Cross currency swap contracts	<u>49,375</u>	<u>63,730</u>
	<u>\$ 85,187</u>	<u>\$ 249,313</u>

The Company entered into derivative contracts during the years ended December 31, 2008 and 2007 to manage exposures due to the 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)
<u>December 31, 2008</u>		
Sell US\$/buy NT\$	January 2009 to February 2009	US\$138,900/NT\$4,558,672
Sell EUR/buy NT\$	January 2009	EUR1,500/NT\$63,150
Sell RMB/buy US\$	January 2009 to April 2009	RMB55,010/US\$8,000
Sell US\$/buy JPY	January 2009 to February 2009	US\$131/JPY11,800
<u>December 31, 2007</u>		
Sell US\$/buy NT\$	January 2008	US\$111,000/NT\$3,605,846
Sell EUR/buy NT\$	February 2008 to July 2008	EUR48,000/NT\$2,090,589

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
<u>December 31, 2008</u>			
January 2009	US\$307,000/NT\$10,061,232	0.54% - 5.00%	0.00% - 3.83%
<u>December 31, 2007</u>			
January 2008 to February 2008	US\$975,000/NT\$31,630,180	3.53% - 5.60%	0.02% - 3.01%

For the years ended December 31, 2008 and 2007, net losses and gains arising from financial assets/liabilities at fair value through profit or loss were NT\$1,081,019 thousand and NT\$63,017 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	2007
Agency bonds	\$ 5,696,511	\$ 8,635,796
Corporate bonds	3,279,073	10,745,145
Corporate issued asset-backed securities	2,334,873	5,357,032
Money market funds	1,000,086	19,212,110
Government bonds	340,893	7,767,637
Publicly traded stocks	279,937	905,254
Structured time deposits	-	499,410
Open-end mutual funds	-	14,966,675
	12,931,373	68,089,059
Current portion	(10,898,715)	(66,688,368)
	<u>\$ 2,032,658</u>	<u>\$ 1,400,691</u>

Structured time deposits categorized as available-for-sale financial assets consisted of the following:

	Principal Amount	Carrying Amount	Interest Rate	Maturity Date
<u>December 31, 2007</u>				
Step-up callable deposits				
Domestic deposits	<u>\$ 500,000</u>	<u>\$ 499,410</u>	1.76%	March 2008

The interest rate of the step-up callable deposits was pre-determined by the Company and the banks.

For the years ended December 31, 2008 and 2007, the loss on impairment of available-for-sale financial assets was recognized NT\$934,584 thousand and nil, respectively.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds	\$ 18,158,679	\$ 10,900,247
Government bonds	1,506,572	7,824,425
Structured time deposits	<u>1,643,000</u>	<u>1,500,000</u>
	21,308,251	20,224,672
Current portion	<u>(5,881,999)</u>	<u>(11,526,946)</u>
	<u>\$ 15,426,252</u>	<u>\$ 8,697,726</u>

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

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
<u>December 31, 2008</u>				
Step-up callable deposits				
Foreign deposits	<u>\$ 1,643,000</u>	<u>\$ 660</u>	4.82%	December 2011
<u>December 31, 2007</u>				
Step-up callable deposits				
Domestic deposits	<u>\$ 1,500,000</u>	<u>\$ 5,585</u>	1.77% - 1.83%	April 2008 to October 2008

As of December 31, 2008, the principal of the structured time deposits that resided in banks located in Hong Kong amounted to US\$50,000 thousand.

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 701,807	\$ 749,888
Effect of inclusion of newly consolidated subsidiaries	-	45
Provision	14,880	2,964
Write-off	(260,936)	(51,090)
Balance, end of year	<u>\$ 455,751</u>	<u>\$ 701,807</u>

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

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 4,089,035	\$ 2,870,802
Effect of inclusion of newly consolidated subsidiaries	-	12,956
Provision	8,825,695	5,705,576
Write-off	(6,843,704)	(4,500,299)
Balance, end of year	<u>\$ 6,071,026</u>	<u>\$ 4,089,035</u>

9. INVENTORIES

	December 31	
	2008	2007
Finished goods	\$ 5,863,614	\$ 4,321,870
Work in process	9,078,716	17,346,862
Raw materials	1,082,700	1,862,543
Supplies and spare parts	1,152,971	1,261,715
	17,178,001	24,792,990
Allowance for losses	(2,301,356)	(930,730)
	<u>\$ 14,876,645</u>	<u>\$ 23,862,260</u>

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2008		2007	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Vanguard International Semiconductor Corporation (VIS)	\$ 9,787,275	37	\$ 11,220,101	37
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,808,192	39	9,092,741	39
VisEra Holding Company (VisEra Holding)	2,277,126	49	2,204,447	49
Aiconn Technology Corporation (Aiconn)	34,565	44	-	-
	<u>\$ 18,907,158</u>		<u>\$ 22,517,289</u>	

In August 2007, the Company acquired 169,600 thousand shares in VIS for NT\$4,927,865 thousand; after the acquisition, the Company's percentage of ownership in VIS increased from 27% to 37%.

For the years ended December 31, 2008 and 2007, net equity in earnings of equity method investees of NT\$701,533 thousand and NT\$2,507,869 thousand was recognized, respectively. The related equity in earnings of equity method investees was determined based on the audited financial statements of the investees for the same periods as the Company.

As of December 31, 2008 and 2007, fair values of publicly traded stocks in investments accounted for using equity method (VIS) was NT\$4,680,264 thousand and NT\$15,189,200 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:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 2,589,742	\$ 952,159
Addition	-	1,968,622
Amortization	(599,121)	(331,039)
Balance, end of year	<u>\$ 1,990,621</u>	<u>\$ 2,589,742</u>

As of December 31, 2008 and 2007, the ending balances of the aforementioned difference allocated to goodwill were both NT\$1,061,885 thousand.

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2008	2007
Non-publicly traded stocks	\$ 3,453,454	\$ 3,462,372
Mutual funds	161,993	383,247
	<u>\$ 3,615,447</u>	<u>\$ 3,845,619</u>

For the years ended December 31, 2008 and 2007, the loss on impairment of financial assets carried at cost was recognized NT\$625,471 thousand and NT\$54,208 thousand, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2008					
	Balance, Beginning of Year	Addition (Deductions)	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Cost						
Land and land improvements	\$ 942,197	\$ -	\$ -	\$ 821	\$ 10,839	\$ 953,857
Buildings	118,640,027	12,750,078	(8,524)	(706)	869,121	132,249,996
Machinery and equipment	646,419,427	50,423,075	(1,320,975)	131,067	1,846,149	697,498,743
Office equipment	11,829,640	997,253	(294,526)	(167,598)	66,031	12,430,800
Leased asset	652,296	13,832	-	-	56,211	722,339
	<u>778,483,587</u>	<u>\$ 64,184,238</u>	<u>\$ (1,624,025)</u>	<u>\$ (36,416)</u>	<u>\$ 2,848,351</u>	<u>843,855,735</u>
Accumulated depreciation						
Land and land improvements	262,703	\$ 28,613	\$ -	\$ -	\$ 4,582	295,898
Buildings	63,239,922	9,117,602	(8,524)	393	332,306	72,681,699
Machinery and equipment	467,665,072	68,349,425	(1,179,517)	(35,055)	1,162,366	535,962,291
Office equipment	8,796,752	1,223,475	(293,433)	(84,663)	51,678	9,693,809
Leased asset	135,118	33,901	-	-	13,551	182,570
	<u>540,099,567</u>	<u>\$ 78,753,016</u>	<u>\$ (1,481,474)</u>	<u>\$ (119,325)</u>	<u>\$ 1,564,483</u>	<u>618,816,267</u>
Advance payments and construction in progress	<u>21,868,167</u>	<u>\$ (3,205,711)</u>	<u>\$ -</u>	<u>\$ (98,013)</u>	<u>\$ 41,439</u>	<u>18,605,882</u>
Net	<u>\$ 260,252,187</u>					<u>\$ 243,645,350</u>

	Year Ended December 31, 2007						
	Balance, Beginning of Year	Effect of Inclusion of Newly Consolidated Subsidiaries	Addition	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, Ending of Year
Cost							
Land and land improvements	\$ 844,644	\$ 101,518	\$ -	\$ -	\$ -	\$ (3,965)	\$ 942,197
Buildings	112,595,124	71,053	5,522,828	(31,836)	(11,518)	494,376	118,640,027
Machinery and equipment	579,825,289	2,430,982	63,828,487	(504,132)	241,750	597,051	646,419,427
Office equipment	10,646,725	547,188	1,064,259	(350,611)	(78,898)	977	11,829,640
Leased asset	612,941	-	-	-	-	39,355	652,296
	<u>704,524,723</u>	<u>\$ 3,150,741</u>	<u>\$ 70,415,574</u>	<u>\$ (886,579)</u>	<u>\$ 151,334</u>	<u>\$ 1,127,794</u>	<u>778,483,587</u>
Accumulated depreciation							
Land and land improvements	234,377	\$ -	\$ 29,798	\$ -	\$ -	\$ (1,472)	262,703
Buildings	54,288,225	1,111	8,901,910	(30,957)	2,709	76,924	63,239,922
Machinery and equipment	400,579,587	584,690	67,018,215	(255,143)	(156,839)	(105,438)	467,665,072
Office equipment	7,839,303	76,238	1,232,781	(350,147)	(2,362)	939	8,796,752
Leased asset	96,592	-	31,429	-	-	7,097	135,118
	<u>463,038,084</u>	<u>\$ 662,039</u>	<u>\$ 77,214,133</u>	<u>\$ (636,247)</u>	<u>\$ (156,492)</u>	<u>\$ (21,950)</u>	<u>540,099,567</u>
Advance payments and construction in progress	<u>12,607,551</u>	<u>\$ 480,580</u>	<u>\$ 8,474,380</u>	<u>\$ -</u>	<u>\$ 288,805</u>	<u>\$ 16,851</u>	<u>21,868,167</u>
Net	<u>\$ 254,094,190</u>						<u>\$ 260,252,187</u>

The Company entered into agreements to lease buildings that qualify as capital leases. The terms of the leases ranged from December 2003 to December 2013. The future minimum lease payments as of December 31, 2008 is NT\$803,603 thousand.

13. DEFERRED CHARGES, NET

	Year Ended December 31, 2008						
	Balance, Beginning of Year	Addition	Amortization	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, Ending of Year
Technology license fee	\$ 5,819,148	\$ 9,256	\$ (1,691,242)	\$ -	\$ -	\$ (11,950)	\$ 4,125,212
Software and system design costs	1,449,603	1,171,163	(806,096)	(14,279)	59	1,381	1,801,831
Patent and others	654,850	754,402	(218,957)	-	-	8,490	1,198,785
	<u>\$ 7,923,601</u>	<u>\$ 1,934,821</u>	<u>\$ (2,716,295)</u>	<u>\$ (14,279)</u>	<u>\$ 59</u>	<u>\$ (2,079)</u>	<u>\$ 7,125,828</u>

	Year Ended December 31, 2007							
	Balance, Beginning of Year	Effect of Inclusion of Newly Consolidated Subsidiaries	Addition	Amortization	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, Ending of Year
Technology license fee	\$ 4,132,174	\$ 201,941	\$ 3,515,908	\$ (1,739,949)	\$ -	\$ (296,423)	\$ 5,497	\$ 5,819,148
Software and system design costs	1,669,781	2,778	1,275,329	(929,920)	(321)	(569,648)	1,604	1,449,603
Patent and others	134,960	29,779	311,827	(124,209)	(134)	296,423	6,204	654,850
	<u>\$ 5,936,915</u>	<u>\$ 234,498</u>	<u>\$ 5,103,064</u>	<u>\$ (2,794,078)</u>	<u>\$ (455)</u>	<u>\$ (569,648)</u>	<u>\$ 13,305</u>	<u>\$ 7,923,601</u>

14. BONDS PAYABLE

	December 31	
	2008	2007
Domestic unsecured bonds: Issued in January 2002 and repayable in 2009 and 2012 in two installments, 2.75% and 3.00% interest payable annually, respectively	\$ 12,500,000	\$ 12,500,000
Current portion	(8,000,000)	-
	<u>\$ 4,500,000</u>	<u>\$ 12,500,000</u>

As of December 31, 2008, future principal repayments for the bonds payable were as follows:

Year of Repayment	Amount
2009	\$ 8,000,000
2012	4,500,000
	<u>\$ 12,500,000</u>

15. LONG-TERM BANK LOANS

	December 31	
	2008	2007
Secured loans:		
Repayable from August 2009 in 17 quarterly installments, annual interest at 2.56% - 3.67% in 2008 and 2.91% - 2.99% in 2007	\$ 728,400	\$ 630,000
US\$20,000 thousand, repayable in full in one lump sum payment in November 2010, annual interest at 3.62% in 2008 and 5.88% in 2007	658,719	648,941
Repayable from December 2007 in 8 semi-annual installments, annual interest at 2.42% - 3.23% in 2008 and 2.39% - 3.20% in 2007	168,750	456,750
Repayable from May 2007 in 16 quarterly installments, annual interest at 2.42% - 3.00% in 2008 and 2.48% - 2.85% in 2007	37,828	54,641
Repayable from March 2007 in 12 quarterly installments, annual interest at 2.53% - 3.21% in 2008 and 2.79% - 3.16% in 2007	32,472	124,944
Repayable from April 2005 in 16 quarterly installments, annual interest at 2.42% - 3.00% in 2008 and 2.51% - 2.85% in 2007	8,995	44,975
Repayable from February 2005 in 17 quarterly installments, annual interest at 2.56% - 3.15% in 2008 and 2.65% - 4.53% in 2007	7,710	40,670
Unsecured loans:		
Science Park Administration (SPA) SOC loan, repayable from October 2003 in 20 quarterly installments, interest-free	-	2,088
	1,642,874	2,003,009
Current portion	(222,398)	(280,813)
	<u>\$ 1,420,476</u>	<u>\$ 1,722,196</u>

Pursuant to the loan agreements, financial ratios calculated based on annual audited financial statements of TSMC-Shanghai as well as semi-annual and annual financial statements of XinTec must comply with predetermined financial covenants. As of December 31, 2008, TSMC Shanghai and XinTec were in compliance with all such financial covenants.

As of December 31, 2008, future principal repayments for the long-term bank loans were as follows:

Year of Repayment	Amount
2009	\$ 222,398
2010	916,847
2011	212,269
2012	174,816
2013 and thereafter	<u>116,544</u>
	<u>\$ 1,642,874</u>

16. OTHER LONG-TERM PAYABLES

	December 31	
	2008	2007
Payables for acquisition of property, plant and equipment (Note 28i)	\$ 8,579,726	\$ 7,908,516
Payables for royalties	<u>2,095,046</u>	<u>5,174,644</u>
	10,674,772	13,083,160
Current portion (classified under accrued expenses and other current liabilities)	<u>(1,126,546)</u>	<u>(3,673,182)</u>
	<u>\$ 9,548,226</u>	<u>\$ 9,409,978</u>

The payables for royalties were primarily attributable to several license arrangements that the Company entered into for certain semiconductor-related patents.

As of December 31, 2008, future payments for other long-term payables were as follows:

Year of Payment	Amount
2009	\$ 1,126,546
2010	541,320
2011	427,180
2012	-
2013 and thereafter	<u>8,579,726</u>
	<u>\$ 10,674,772</u>

17. PENSION PLANS

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, TSMC, GUC, XinTec and Mutual-Pak have made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts. Furthermore, TSMC North America, TSMC Shanghai, TSMC Europe and TSMC Canada are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the Company recognized pension costs of NT\$779,612 thousand and NT\$725,789 thousand for the years ended December 31, 2008 and 2007, respectively.

TSMC, GUC and XinTec have defined benefit plans under the Labor Standards Law that provide benefits based on an employee's service years and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan (originally the Central Trust of China, which was dissolved after merger with the Bank of Taiwan on July 1, 2007).

Pension information on the defined benefit plans is summarized as follows:

a. Components of net periodic pension cost for the year

	2008	2007
Service cost	\$ 151,656	\$ 184,275
Interest cost	171,345	156,391
Projected return on plan assets	(68,373)	(51,309)
Amortization	<u>4,461</u>	<u>35,853</u>
Net periodic pension cost	<u>\$ 259,089</u>	<u>\$ 325,210</u>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2008 and 2007

	2008	2007
Benefit obligation		
Vested benefit obligation	\$ 114,930	\$ 120,146
Nonvested benefit obligation	<u>4,182,434</u>	<u>3,479,132</u>
Accumulated benefit obligation	4,297,364	3,599,278
Additional benefits based on future salaries	<u>3,263,413</u>	<u>2,444,451</u>
Projected benefit obligation	7,560,777	6,043,729
Fair value of plan assets	<u>(2,487,577)</u>	<u>(2,238,997)</u>
Funded status	5,073,200	3,804,732
Unrecognized net transition obligation	(101,326)	(109,873)
Prior service cost	169,216	-
Unrecognized net loss	<u>(1,439,506)</u>	<u>(41,995)</u>
Accrued pension cost	<u>\$ 3,701,584</u>	<u>\$ 3,652,864</u>
Vested benefit	<u>\$ 126,259</u>	<u>\$ 120,146</u>

c. Actuarial assumptions at December 31, 2008 and 2007

	2008	2007
Discount rate used in determining present values	2.00% - 2.50%	2.75% - 3.00%
Future salary increase rate	2.00% - 3.00%	2.00% - 3.00%
Expected rate of return on plan assets	2.25% - 2.50%	2.50% - 3.00%

d. Contributions to the Funds for the year

	2008	2007
	<u>\$ 206,873</u>	<u>\$ 209,423</u>

e. Payments from the Funds for the year

	2008	2007
	<u>\$ 28,990</u>	<u>\$ 15,003</u>

18. INCOME TAX

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

	Years Ended December 31	
	2008	2007
Income tax expense based on "income before income tax" at statutory rates	\$ 27,970,388	\$ 30,829,431
The effect of the following:		
Tax-exempt income	(9,670,500)	(7,668,367)
Temporary and permanent differences	2,122,899	(150,946)
Others	44,073	-
Additional tax at 10% on unappropriated earnings	13,926	2,710,909
Net operating loss carryforwards used	(205,234)	(814,120)
Income tax credits used	<u>(11,109,313)</u>	<u>(13,899,628)</u>
Income tax currently payable	<u>\$ 9,166,239</u>	<u>\$ 11,007,279</u>

b. Income tax expense consisted of the following:

	Years Ended December 31	
	2008	2007
Income tax currently payable	\$ 9,166,239	\$ 11,007,279
Other income tax adjustments	(502,668)	(240,779)
Net change in deferred income tax assets		
Investment tax credits	1,060,599	5,122,450
Temporary differences	(2,129,121)	(800,374)
Net operating loss carryforwards	411,368	841,502
Valuation allowance	<u>2,942,592</u>	<u>(4,220,452)</u>
Income tax expense	<u>\$ 10,949,009</u>	<u>\$ 11,709,626</u>

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

	December 31	
	2008	2007
Current deferred income tax assets		
Investment tax credits	\$ 2,885,762	\$ 5,372,761
Temporary differences	1,556,474	674,154
Valuation allowance	<u>(472,906)</u>	<u>(474,581)</u>
	<u>\$ 3,969,330</u>	<u>\$ 5,572,334</u>
Noncurrent deferred income tax assets		
Investment tax credits	\$ 11,311,852	\$ 9,885,452
Temporary differences	(1,628,279)	(2,848,052)
Net operating loss carryforwards	3,588,968	3,963,123
Valuation allowance	<u>(6,635,668)</u>	<u>(3,687,240)</u>
	<u>\$ 6,636,873</u>	<u>\$ 7,313,283</u>

As of December 31, 2008, the net operating loss carryforwards generated by WaferTech, TSMC Development, TSMC Technology and Mutual-Pak would expire on various dates through 2026.

d. Integrated income tax information:

The balance of the imputation credit account (ICA) of TSMC as of December 31, 2008 and 2007 was NT\$521,634 thousand and NT\$3,012,848 thousand, respectively.

The estimated creditable ratio for distribution of TSMC's earnings of 2008 and 2007 was 0.51% and 9.83%, respectively.

The imputation credit allocated to the 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 of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

f. As of December 31, 2008, investment tax credits of TSMC, GUC, XinTec and Mutual-Pak consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 22,242	\$ -	2008
		233,915	5,921	2009
		6,178,371	114,761	2010
		4,664,206	4,664,206	2011
		<u>2,664,162</u>	<u>2,664,162</u>	2012
		<u>\$ 13,762,896</u>	<u>\$ 7,449,050</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,009,834	\$ -	2008
		1,173,395	-	2009
		3,263,421	673,789	2010
		2,825,115	2,825,115	2011
		<u>3,188,670</u>	<u>3,188,670</u>	2012
		<u>\$ 11,460,435</u>	<u>\$ 6,687,574</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 21,998	\$ -	2009
		23,791	23,183	2010
		37,021	37,021	2011
		<u>786</u>	<u>786</u>	2012
		<u>\$ 83,596</u>	<u>\$ 60,990</u>	

g. The profits generated from the following projects of TSMC, GUC and XinTec 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
2003 plant expansion of GUC	2007 to 2011
2003 plant expansion of XinTec	2007 to 2011

h. The tax authorities have examined income tax returns of TSMC through 2006.

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2008		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 19,574,249	\$ 15,654,567	\$ 35,228,816
Labor and health insurance	766,952	489,601	1,256,553
Pension	634,730	403,962	1,038,692
Meal	474,048	188,407	662,455
Welfare	640,817	273,055	913,872
Others	<u>262,144</u>	<u>171,631</u>	<u>433,775</u>
	<u>\$ 22,352,940</u>	<u>\$ 17,181,223</u>	<u>\$ 39,534,163</u>
Depreciation	\$ 74,703,223	\$ 4,033,588	\$ 78,736,811
Amortization	<u>\$ 1,837,540</u>	<u>\$ 878,755</u>	<u>\$ 2,716,295</u>

	Year Ended December 31, 2007		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	\$ 11,990,153	\$ 7,562,966	\$ 19,553,119
Labor and health insurance	685,922	416,131	1,102,053
Pension	646,999	404,128	1,051,127
Meal	463,453	180,474	643,927
Welfare	249,133	266,412	515,545
Others	<u>176,192</u>	<u>226,747</u>	<u>402,939</u>
	<u>\$ 14,211,852</u>	<u>\$ 9,056,858</u>	<u>\$ 23,268,710</u>
Depreciation	\$ 73,070,781	\$ 4,100,533	\$ 77,171,314
Amortization	<u>\$ 1,849,917</u>	<u>\$ 943,064</u>	<u>\$ 2,792,981</u>

20. SHAREHOLDERS' EQUITY

As of December 31, 2008, 1,092,053 thousand ADSs of TSMC 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 TSMC's paid-in capital. Also, the capital surplus from long-term investment may not be used for any purpose.

Capital surplus consisted of the following:

	December 31	
	2008	2007
From merger	\$ 22,805,390	\$ 24,003,546
Additional paid-in capital	17,962,468	19,526,492
From convertible bonds	8,893,190	9,360,424
From long-term investments	214,152	351,215
Donations	55	55
From treasury stock transactions	-	490,950
	<u>\$ 49,875,255</u>	<u>\$ 53,732,682</u>

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

- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC's paid-in capital;
- Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- Bonus to directors and bonus to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC 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;
- Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

TSMC's Articles of Incorporation also provide that profits of TSMC 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 subjected to shareholders' approval in the following year.

For the year ended December 31, 2008, TSMC has recorded bonuses to employees and directors with a charge to earnings of approximately 15% of net income. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the Board of Directors, 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 cash and stock dividends) of the shares on the day preceding the shareholders' meeting.

TSMC 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 TSMC'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 TSMC has no unappropriated earnings and the reserve balance has exceeded 50% of TSMC's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of TSMC'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 2007 and 2006 had been approved in TSMC's shareholders' meetings held on June 13, 2008 and May 7, 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2007	For Fiscal Year 2006	For Fiscal Year 2007	For Fiscal Year 2006
Legal capital reserve	\$ 10,917,709	\$ 12,700,973		
Special capital reserve	(237,693)	(11,192)		
Bonus to employees - in cash	3,939,883	4,572,798		
Bonus to employees - in stock	3,939,883	4,572,798		
Cash dividends to shareholders	76,881,311	77,489,064	\$ 3.00	\$ 3.00
Stock dividends to shareholders	512,542	516,594	0.02	0.02
Bonus to directors and supervisors	176,890	285,800		
	<u>\$ 96,130,525</u>	<u>\$ 100,126,835</u>		

TSMC's shareholders meetings held on June 13, 2008 and May 7, 2007 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$768,813 thousand and NT\$774,891 thousand, respectively.

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on February 19, 2008 and February 6, 2007, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2007 and 2006, the basic earnings per share (after income tax) for the years ended December 31, 2007 and 2006 shown in the respective financial statements would have decreased from NT\$4.14 to NT\$3.84 and NT\$4.93 to NT\$4.56, respectively. The shares distributed as a bonus to employees represented 1.49% and 1.77% of TSMC's total outstanding common shares as of December 31, 2007 and 2006, respectively.

As of January 17, 2009, the Board of Directors has not resolved the appropriation for earnings of 2008.

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

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

21. STOCK-BASED COMPENSATION PLANS

TSMC's Employee Stock Option Plans, consisting of the TSMC 2004 Plan, TSMC 2003 Plan, and TSMC 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 TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share of TSMC when exercisable. The options may be granted to qualified employees of TSMC or any of its domestic or foreign subsidiaries, in which TSMC'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 equal to the closing price of TSMC's common shares listed on the TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2008.

Information about TSMC's outstanding options for the years ended December 31, 2008 and 2007 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2008</u>		
Balance, beginning of year	41,875	\$ 35.6
Options granted	767	35.2
Options exercised	(6,027)	37.7
Options canceled	<u>(381)</u>	46.5
Balance, end of year	<u>36,234</u>	35.3
<u>Year ended December 31, 2007</u>		
Balance, beginning of year	52,814	\$ 37.9
Options granted	1,094	37.9
Options exercised	(10,988)	39.8
Options canceled	<u>(1,045)</u>	45.9
Balance, end of year	<u>41,875</u>	37.4

The number of outstanding options and exercise prices have been adjusted to reflect the appropriations of earnings by TSMC in accordance with the plans. The options granted were the result of the aforementioned adjustment.

As of December 31, 2008, information about TSMC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
\$24.2 - \$33.9	25,633	4.15	\$ 31.0	25,633	\$ 31.0
38.2 - 50.4	<u>10,601</u>	5.89	45.8	<u>8,669</u>	45.5
	<u>36,234</u>		35.3	<u>34,302</u>	34.6

GUC's Employee Stock Option Plans, consisting of the GUC 2003 Plan and GUC 2002 Plan, were approved by its Board of Directors on January 23, 2003 and July 1, 2002, respectively. The maximum number of options authorized to be granted under the GUC 2003 Plan and GUC 2002 Plan was 7,535 and 5,000, respectively, with each option eligible to subscribe for one thousand common shares of GUC when exercisable. The options may be granted to qualified employees of GUC. The options of all the plans are valid for six years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Moreover, the GUC 2007 Plan, GUC 2006 Plan, and GUC 2004 Plan were approved by the SFB on November 28, 2007, July 3, 2006, and August 16, 2004 to grant a maximum of 1,999 options, 3,665 options and 2,500 options, respectively, with each option eligible to subscribe for one thousand common shares of GUC when exercisable. The options may be granted to qualified employees of GUC or any of its subsidiaries. Except for the options of the GUC 2006 Plan which are valid until August 15, 2011, the options of the other two GUC option Plans are valid for six years. Options of all three Plans are exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about GUC's outstanding options for the years ended December 31, 2008 and 2007 was as follows:

	Number of Options	Weighted-average Exercise Prices (NT\$)
<u>Year ended December 31, 2008</u>		
Balance, beginning of year	7,598	\$ 60.3
Options granted	284	14.8
Options exercised	(2,115)	14.0
Options canceled	<u>(210)</u>	168.4
Balance, end of year	<u>5,557</u>	66.6
<u>Year ended December 31, 2007</u>		
Balance, beginning of year	7,342	\$ 14.0
Options granted	2,053	183.6
Options exercised	(1,563)	10.2
Options canceled	<u>(234)</u>	13.5
Balance, end of year	<u>7,598</u>	60.3

The number of outstanding options and exercise prices have been adjusted to reflect the appropriation of earnings by GUC in accordance with the plans. The options granted were the result of the aforementioned adjustment.

As of December 31, 2008, information about GUC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options	Weighted-average Exercise Price (NT\$)
\$8.9 - \$10.5	1,450	2.75	\$ 9.2	343	\$ 9.9
16.4	2,361	2.67	16.4	528	16.4
182.0	1,746	5.00	182.0	-	-
	<u>5,557</u>		66.6	<u>871</u>	13.9

XinTec's Employee Stock Option Plans, consisting of the XinTec 2007 Plan and XinTec 2006 Plan, were approved by the SFB on June 26, 2007 and July 3, 2006, respectively. The maximum number of options authorized to be granted under the XinTec 2007 Plan and XinTec 2006 Plan was 6,000 thousand each, with each option eligible to subscribe for one common share of XinTec when exercisable. The options may be granted to qualified employees of XinTec or any of its subsidiaries. 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.

Information about XinTec's outstanding options for the years ended December 31, 2008 and 2007 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2008</u>		
Balance, beginning of year	9,642	\$ 15.1
Options exercised	(728)	12.4
Options canceled	<u>(1,472)</u>	15.5
Balance, end of year	<u>7,442</u>	14.8
<u>Year ended December 31, 2007</u>		
Balance, beginning of year	4,968	\$ 13.0
Options granted	5,555	17.3
Options canceled	<u>(881)</u>	14.1
Balance, end of year	<u>9,642</u>	15.1

The exercise prices have been adjusted to reflect the appropriation of earnings by XinTec in accordance with the plans.

As of December 31, 2008, information about XinTec's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
\$12.4 - \$14.3	4,050	7.90	\$ 12.7	1,425	\$ 12.4
15.4 - 19.4	<u>3,392</u>	8.73	17.4	-	-
	<u>7,442</u>		14.8	<u>1,425</u>	12.4

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2008 and 2007. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions and pro forma results of the Company for the years ended December 31, 2008 and 2007 would have been as follows:

		2008	2007
Assumptions: TSMC	Expected dividend yield	1.00% - 3.44%	1.00% - 3.44%
	Expected volatility	43.77% - 46.15%	43.77% - 46.15%
	Risk free interest rate	3.07% - 3.85%	3.07% - 3.85%
	Expected life	5 years	5 years
GUC	Expected dividend yield	0.00% - 0.60%	0.00% - 0.60%
	Expected volatility	22.65% - 45.47%	22.65% - 45.47%
	Risk free interest rate	2.12% - 2.56%	2.12% - 2.56%
	Expected life	3 - 6 years	3 - 6 years
XinTec	Expected dividend yield	0.80%	0.80%
	Expected volatility	31.79% - 47.42%	31.79% - 47.42%
	Risk free interest rate	1.88% - 2.45%	1.88% - 2.45%
	Expected life	3 years	3 years
Net income attributable to shareholders of the parent:			
As reported		\$ 99,933,168	\$ 109,177,093
Pro forma		100,037,622	109,054,923
Earnings per share (EPS) - after income tax (NT\$):			
Basic EPS as reported		\$ 3.86	\$ 4.06
Pro forma basic EPS		3.86	4.06
Diluted EPS as reported		3.83	4.06
Pro forma diluted EPS		3.83	4.06

22. TREASURY STOCK

(Shares in Thousands)

	Beginning Shares	Addition	Stock Dividends	Retirement	Ending Shares
<u>Year ended December 31, 2008</u>					
Parent company stock held by subsidiaries	34,096	-	171	34,267	-
Repurchase under share buyback plan	<u>800,000</u>	<u>495,549</u>	<u>-</u>	<u>1,295,549</u>	<u>-</u>
	<u>834,096</u>	<u>495,549</u>	<u>171</u>	<u>1,329,816</u>	<u>-</u>
<u>Year ended December 31, 2007</u>					
Parent company stock held by subsidiaries	33,926	-	170	-	34,096
Repurchase under share buyback plan	<u>-</u>	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>800,000</u>
	<u>33,926</u>	<u>800,000</u>	<u>170</u>	<u>-</u>	<u>834,096</u>

As of December 31, 2007, the book value of the treasury stock was NT\$49,385,032 thousand; the market value was NT\$51,713,947 thousand. TSMC's common shares held by subsidiaries were treated as treasury stock and the holders are entitled to the rights of shareholders, with the exception of voting rights.

TSMC held a meeting of the Board of Directors on November 13, 2007 and approved a share buyback plan to repurchase the TSMC's common shares up to 800,000 shares listed on the TSE during the period from November 14, 2007 to January 13, 2008 for the buyback price in the range from NT\$43.2 to NT\$94.2. TSMC had repurchased 800,000 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in February 2008.

TSMC held a meeting of the Board of Directors on May 13, 2008 and approved a share buyback plan to repurchase the TSMC's common shares up to 500,000 thousand shares listed on the TSE during the period from May 14, 2008 to July 13, 2008 for the buyback price in the range from NT\$48.25 to NT\$100.50. TSMC had repurchased 216,674 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in August 2008.

TSMC held a meeting of the Board of Directors on August 12, 2008 and approved a share buyback plan to repurchase the TSMC's common shares up to 283,000 thousand shares listed on the TSE during the period from August 13, 2008 to October 12, 2008 for the buyback price in the range from NT\$42.85 to NT\$86.20. TSMC had repurchased 278,875 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in November 2008.

TSMC merged Chi Cherng and Hsin Ruey in the third quarter of 2008. TSMC's common shares held by Chi Cherng and Hsin Ruey in the number of 34,267 thousand shares were retired on August 2008.

23. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2008</u>					
Basic EPS					
Earnings attributable to shareholders of the parent	\$ 110,847,835	\$ 99,933,168	25,909,643	<u>\$ 4.28</u>	<u>\$ 3.86</u>
Effect of dilutive potential common shares	-	-	181,943		
Bonus to employees	-	-	<u>15,090</u>		
Stock options	-	-			
Diluted EPS					
Earnings attributable to shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 110,847,835</u>	<u>\$ 99,933,168</u>	<u>26,106,676</u>	<u>\$ 4.25</u>	<u>\$ 3.83</u>
<u>Year ended December 31, 2007</u>					
Basic EPS					
Earnings attributable to shareholders of the parent	\$ 120,890,678	\$ 109,177,093	26,870,684	<u>\$ 4.50</u>	<u>\$ 4.06</u>
Effect of dilutive potential common shares	-	-	21,652		
Stock options	-	-			
Diluted EPS					
Earnings attributable to shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 120,890,678</u>	<u>\$ 109,177,093</u>	<u>26,892,336</u>	<u>\$ 4.50</u>	<u>\$ 4.06</u>

As discussed in Note 3, effective January 1, 2008, the Company adopted Interpretation 2007-052 that requires companies to record bonuses paid to employees as an expense rather than as an appropriation of earnings. If the Company may settle the obligation by cash, by issuing share, or in combination of both cash and shares, potential shares from bonus to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price (after consideration of the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of employee bonus are resolved in the shareholders' meeting in the following year.

The average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses. This adjustment caused both of the basic and diluted after income tax EPS for the year ended December 31, 2007 to decrease from NT\$4.14 to NT\$4.06.

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 55,730	\$ 55,730	\$ 1,632,387	\$ 1,632,387
Available-for-sale financial assets	12,931,373	12,931,373	68,089,059	68,089,059
Held-to-maturity financial assets	21,308,251	21,457,008	20,224,672	20,192,188
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	85,187	85,187	249,313	249,313
Bonds payable (including current portion)	12,500,000	12,612,423	12,500,000	12,669,987
Long-term bank loans (including current portion)	1,642,874	1,642,874	2,003,009	2,003,009
Other long-term payables (including current portion)	10,674,772	10,674,772	13,083,160	13,083,160
Obligations under capital leases	722,339	722,339	652,296	652,296

b. Methods and assumptions used in estimating fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, payables, and payables to contractors and equipment suppliers and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Except for derivatives and structured time deposits, fair values of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
- 3) For those derivatives and structured time deposits with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Fair value of bonds payable was based on their quoted market price.
- 5) Fair values of long-term bank loans, other long-term payables and obligations under capital leases were based on the present value of expected cash flows, which approximate their carrying amounts.

c. The changes in fair value of derivatives contracts which were outstanding as of December 31, 2008 and 2007 estimated using valuation techniques were recognized as valuation losses of NT\$42,715 thousand and NT\$207,114 thousand, respectively.

d. As of December 31, 2008 and 2007, financial assets exposed to fair value interest rate risk were NT\$34,002,159 thousand and NT\$87,450,676 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$12,585,187 thousand and NT\$12,749,313 thousand, respectively, and financial assets exposed to cash flow interest rate risk were nil and NT\$7,171,120 thousand, respectively, and financial liabilities exposed to cash flow interest rate risk were NT\$1,642,874 thousand and NT\$2,000,921 thousand, respectively.

e. Movements of the unrealized gain/loss on financial instruments for the years ended December 31, 2008 and 2007 were as follows:

	Year Ended December 31, 2008		
	From Available-for-sale Financial Assets	From Available-for-sale Financial Assets Held by Investees	Total
Balance, beginning of year	\$ 627,838	\$ 53,159	\$ 680,997
Recognized directly in shareholders' equity	738,569	(142,088)	596,481
Removed from shareholders' equity and recognized in earnings	(1,564,820)	-	(1,564,820)
Balance, end of year	<u>\$ (198,413)</u>	<u>\$ (88,929)</u>	<u>\$ (287,342)</u>

	Year Ended December 31, 2007		
	From Available-for-sale Financial Assets	From Available-for-sale Financial Assets Held by Investees	Total
Balance, beginning of year	\$ 386,017	\$ 175,598	\$ 561,615
Recognized directly in shareholders' equity	849,823	(122,439)	727,384
Removed from shareholders' equity and recognized in earnings	(608,002)	-	(608,002)
Balance, end of year	<u>\$ 627,838</u>	<u>\$ 53,159</u>	<u>\$ 680,997</u>

f. Information about financial risk

- 1) Market risk. The publicly traded stocks categorized as financial assets at fair value through profit or loss are exposed to market price fluctuations. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets held by the Company are mainly fixed-interest-rate debt securities; therefore, the fluctuations in market interest rates would result in changes in fair value of these debt securities. Subject to recent turmoil in the global financial market, the Company evaluated its financial assets and determined that certain impairment for its asset-backed securities is other-than-temporary. The Company had appropriately recognized related impairment losses.

2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. Subject to recent turmoil in the global financial market, the Company evaluated the financial instruments for any possible counter-party or third-party default. As a result of the evaluation, the Company determined that certain financial instruments are exposed to credit risk and had appropriately recognized related impairment losses.

3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments, bonds payable and bank loans. Therefore, the liquidity risk is low.

4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

25. RELATED PARTY TRANSACTIONS

Except as disclosed in the consolidated financial statements and other notes, the following is a summary of significant related party transactions:

a. Investees of TSMC

VIS (accounted for using equity method)

SSMC (accounted for using equity method)

b. VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using equity method.

c. Others

Related parties over which the Company exercises significant influence but with which the Company had no material transactions.

	2008		2007	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
VIS	\$ 80,067	-	\$ 59,163	-
VisEra	30,821	-	739,879	-
SSMC	1,869	-	2,928	-
	<u>\$ 112,757</u>	<u>-</u>	<u>\$ 801,970</u>	<u>-</u>
Purchases				
SSMC	\$ 4,441,795	2	\$ 5,468,410	3
VIS	3,260,160	2	4,208,207	2
VisEra	594	-	594	-
	<u>\$ 7,702,549</u>	<u>4</u>	<u>\$ 9,677,211</u>	<u>5</u>
Manufacturing expenses				
VisEra	\$ 133,051	-	\$ 63,933	-
VIS	-	-	366	-
	<u>\$ 133,051</u>	<u>-</u>	<u>\$ 64,299</u>	<u>-</u>

(Continued)

	2008		2007	
	Amount	%	Amount	%
Research and development expenses				
VisEra	\$ 518	-	\$ 43,056	-
Non-operating income and gains				
VIS (primarily technical service income; see Note 28f)	\$ 296,250	3	\$ 346,260	3
SSMC (primarily technical service income; see Note 28e)	244,865	2	290,586	2
VisEra	101,605	1	321,819	3
	<u>\$ 642,720</u>	<u>6</u>	<u>\$ 958,665</u>	<u>8</u>
<u>As of December 31</u>				
Receivables				
VisEra	\$ 407	100	\$ 10,885	100
Other receivables				
SSMC	\$ 56,949	57	\$ 84,778	35
VIS	42,969	43	118,749	49
VisEra	-	-	40,093	16
	<u>\$ 99,918</u>	<u>100</u>	<u>\$ 243,620</u>	<u>100</u>
Payables				
VIS	\$ 317,890	65	\$ 839,624	56
SSMC	162,807	33	655,029	44
VisEra	9,160	2	8,723	-
	<u>\$ 489,857</u>	<u>100</u>	<u>\$ 1,503,376</u>	<u>100</u>
Deferred credits				
VisEra	\$ -	-	\$ 62,175	5

(Concluded)

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TSMC deferred the net gains (classified under deferred credits) derived from sales of property, plant and equipment to VisEra, and then recognized such gains (classified under non-operating income and gains) over the depreciable lives of the disposed assets.

TSMC leased certain buildings and facilities to VisEra. The related rental income was classified under non-operating income. The lease terms and prices were determined in accordance with mutual agreements. The lease agreement between TSMC and VisEra expired in April 2008.

Compensation of directors and management personnel:

	Years Ended December 31	
	2008	2007
Salaries, incentives and special compensation	\$ 352,227	\$ 275,219
Bonus	705,376	1,096,233
	<u>\$ 1,057,603</u>	<u>\$ 1,371,452</u>

The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting. Total compensation expense for the year ended December 31, 2008 includes estimated bonuses to employees and directors of the Company that relate to 2008 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2009. The total compensation for the year ended December 31, 2007 included the bonuses appropriated from earnings of 2007 which was approved by the shareholders' meeting held in 2008.

26. PLEDGED OR MORTGAGED ASSETS

The Company provided certain assets as collateral mainly for long-term bank loans and land lease agreements, which were as follows:

	December 31	
	2008	2007
Other financial assets	\$ 33,377	\$ 48,929
Property, plant and equipment, net	<u>4,032,571</u>	<u>5,733,263</u>
	<u>\$ 4,065,948</u>	<u>\$ 5,782,192</u>

27. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land and office premises from the SPA and Jhongli Industrial Park Service Center. These operating leases expire on various dates from December 2009 to December 2028 and can be renewed upon expiration.

The Company entered into lease agreements for its office premises and certain equipment located in the United States, Europe, Japan, Shanghai and Taiwan. These operating leases expire between 2009 and 2018 and can be renewed upon expiration.

As of December 31, 2008, future lease payments were as follows:

Year	Amount
2009	\$ 556,596
2010	489,115
2011	430,132
2012	420,978
2013 and thereafter	<u>3,009,030</u>
	<u>\$ 4,905,851</u>

28. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2008, excluding those disclosed in other notes, were as follows:

- On June 20, 2004, TSMC and Philips (Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006) amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between TSMC and Philips (now NXP B.V.) will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, TSMC will pay Philips (now NXP B.V.) royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the TSMC's annual net sales. TSMC and Philips (now NXP B.V.) agreed to cross license the patents owned by each party. TSMC also obtained through Philips (now NXP B.V.) a number of cross patent licenses
- Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity if TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2008, TSMC had a total of US\$43,421 thousand of guarantee deposits.
- Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. TSMC's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. TSMC and Philips (now NXP) committed to buy specific percentages of the production capacity of SSMC. TSMC and Philips (now NXP B.V.) are required, in the aggregate, to purchase up to 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) effective March 30, 1999. TSMC receives compensation for such services computed at a specific percentage of net selling price of all products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each unless pre-terminated by either party under certain conditions
- TSMC provides a technology transfer to VIS under a Manufacturing License and Technology Transfer

Agreement entered into on April 1, 2004. TSMC receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for TSMC certain products at prices as agreed by the parties.

- g. TSMC, TSMC North America and WaferTech filed a series of lawsuits in late 2003 and 2004 against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referring to as "SMIC"). The lawsuits alleged that SMIC infringed multiple TSMC, TSMC North America and WaferTech patents and misappropriated TSMC, TSMC North America and WaferTech's trade secrets. These suits were settled out of court on January 30, 2005. As part of the settlement, Semiconductor Manufacturing International Corporation shall pay US\$175 million over six years to resolve TSMC, TSMC North America and WaferTech's claims. As of December 31, 2008, SMIC had paid US\$120 million in accordance with the terms of this settlement agreement. In August 2006, TSMC, TSMC North America and WaferTech filed a lawsuit against SMIC in Alameda County Superior Court in California for breach of aforementioned settlement agreement, breach of promissory notes and trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC, TSMC North America and WaferTech in the same court, alleging TSMC, TSMC North America and WaferTech of breach of the settlement agreement and implied covenant of good faith and fair dealing, in response to TSMC, TSMC North America and WaferTech's August complaint. In November 2006, SMIC filed a complaint with Beijing People's High Court against TSMC, TSMC North America and WaferTech alleging defamation and breach of good faith. The California State Superior Court of Alameda County issued an Order on TSMC, TSMC North America and WaferTech's pre-trial motion for a preliminary injunction against SMIC on September 7, 2007. In the Order, the Court found "TSMC has demonstrated a significant likelihood that it will ultimately prevail on the merits of its claim for breach of certain paragraphs of the (2005) Settlement Agreement" with SMIC. The Court also found "TSMC has demonstrated a significant probability of establishing that SMIC retains and is using TSMC Information in SMIC's 0.13um and smaller technologies, and there is significant threat of serious irreparable harm to TSMC if SMIC were to disclose or transfer that information before final resolution of the case." Therefore, the Court ordered that, effective immediately, SMIC must provide advance notice and an opportunity for TSMC, TSMC North America and WaferTech to object before disclosing items enumerated in the Court Order to SMIC's third party partners. The Court, however, did not grant a preliminary injunction as requested by TSMC, TSMC North America and WaferTech. The result of the above-mentioned litigation cannot be determined at this time.
- h. In April 2004, UniRAM Technology, Inc. ("UniRAM") filed an action against MoSys Inc., TSMC and TSMC North America in the U.S. District Court for the Northern District of California, alleging patent infringement and trade secret misappropriation and seeking injunctive relief and damages. TSMC appealed after the United States District Court for the Northern District of California rendered judgment in favor of UniRAM in May 2008. In the third quarter of 2008, TSMC and TSMC North America had reached agreement with UniRAM to settle the dispute. In accordance with the settlement, the judgment has been vacated and the claims asserted by UniRAM are fully and finally settled. As of December 31, 2008, TSMC had accounted for the result of the settlement in accordance with the aforementioned settlement agreement.

- i. The Company entered into an agreement with a counterparty in 2003 whereby TSMC Shanghai is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. If the purchase is not completed, TSMC Shanghai is obligated to compensate the counterparty for the loss incurred. The property, plant and equipment have been in use by TSMC Shanghai since 2004 and are being depreciated over their estimated service lives. The related obligation totaled NT\$8,579,726 thousand and NT\$7,908,516 thousand as of December 31, 2008 and 2007, respectively, which is included in other long-term payables on the Company's consolidated balance sheets.

29. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for TSMC and its investees in which all significant intercompany balances and transactions are eliminated upon consolidation:

- a. Financing provided: None;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 1 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 2 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- i. Names, locations, and related information of investees over which TSMC exercises significant influence: Please see Table 6 attached;
- j. Information on investment in Mainland China
 - 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 7 attached.

2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: Please see Table 8 attached.

k. Intercompany relationships and significant intercompany transactions: Please see Table 8 attached.

30. SEGMENT FINANCIAL INFORMATION

a. Industry financial information

The Company operates in one industry. Therefore, the disclosure of industry financial information is not applicable to the Company.

b. Geographic information:

	North America and Others	Taiwan	Adjustments and Elimination	Consolidated
<u>2008</u>				
Sales to other than consolidated entities	\$ 193,727,539	\$ 139,430,121	\$ -	\$ 333,157,660
Sales among consolidated entities	<u>16,280,818</u>	<u>194,731,514</u>	<u>(211,012,332)</u>	<u>-</u>
Total sales	<u>\$ 210,008,357</u>	<u>\$ 334,161,635</u>	<u>\$ (211,012,332)</u>	<u>\$ 333,157,660</u>
Gross profit	<u>\$ 2,114,127</u>	<u>\$ 140,540,236</u>	<u>\$ (904,802)</u>	\$ 141,749,561
Operating expenses				(37,314,193)
Non-operating income and gains				10,821,449
Non-operating expenses and losses				<u>(3,784,571)</u>
Income before income tax				<u>\$ 111,472,246</u>
Identifiable assets	<u>\$ 122,781,555</u>	<u>\$ 425,545,212</u>	<u>\$ (29,391,693)</u>	\$ 518,935,074
Long-term investments				<u>39,981,515</u>
Total assets				<u>\$ 558,916,589</u>
<u>2007</u>				
Sales to other than consolidated entities	\$ 193,066,238	\$ 129,564,358	\$ -	\$ 322,630,596
Sales among consolidated entities	<u>18,084,068</u>	<u>194,035,526</u>	<u>(212,119,594)</u>	<u>-</u>
Total sales	<u>\$ 211,150,306</u>	<u>\$ 323,599,884</u>	<u>\$ (212,119,594)</u>	<u>\$ 322,630,596</u>
Gross profit	<u>\$ 3,895,144</u>	<u>\$ 139,227,508</u>	<u>\$ (772,441)</u>	\$ 142,350,211
Operating expenses				(30,628,304)
Non-operating income and gains				11,933,803
Non-operating expenses and losses				<u>(2,013,684)</u>
Income before income tax				<u>\$ 121,642,026</u>
Identifiable assets	<u>\$ 145,483,411</u>	<u>\$ 439,675,938</u>	<u>\$ (50,755,448)</u>	\$ 534,403,901
Long-term investments				<u>36,461,325</u>
Total assets				<u>\$ 570,865,226</u>

c. Export sales

Area	Years Ended December 31	
	2008	2007
Asia	\$ 55,383,901	\$ 40,609,413
Europe and others	<u>41,890,123</u>	<u>34,518,668</u>
	<u>\$ 97,274,024</u>	<u>\$ 75,128,081</u>

The export sales information is based on the amounts billed to customers within the areas.

d. Major customers representing at least 10% of gross sales

	Years Ended December 31			
	2008		2007	
	Amount	%	Amount	%
Customer A	<u>\$ 46,523,059</u>	14	<u>\$ 37,731,028</u>	11

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES HELD

DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
TSMC	Corporate bond							
	Taiwan Mobile Co., Ltd.	-	Available-for-sale financial assets	-	\$ 2,032,658	N/A	\$ 2,032,658	
	Taiwan Power Company	-	Held-to-maturity financial assets	-	4,209,629	N/A	4,215,260	
	Formosa Petrochemical Corporation	-	"	-	3,554,908	N/A	3,540,418	
	Nan Ya Plastics Corporation	-	"	-	3,487,804	N/A	3,512,202	
	Formosa Plastic Corporation	-	"	-	2,385,285	N/A	2,391,955	
	CPC Corporation, Taiwan	-	"	-	1,000,124	N/A	999,740	
	China Steel Corporation	-	"	-	1,000,000	N/A	990,897	
	Shanghai Commercial & Saving Bank	-	"	-	299,092	N/A	298,988	
	Formosa Chemicals & Fiber Corporation	-	"	-	199,910	N/A	199,890	
	Government bond							
	2003 Asian Development Bank Govt. Bond	-	Held-to-maturity financial assets	-	873,237	N/A	875,103	
	European Investment Bank Bonds	-	"	-	383,387	N/A	400,000	
	2004 Government Bond Series B	-	"	-	249,948	N/A	250,280	
	Stocks							
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	45,756,519	100	45,756,519	
	TSMC International	Subsidiary	"	987,968	29,637,057	100	29,637,057	
	VIS	Investee accounted for using equity method	"	628,223	9,787,275	37	4,680,265	
	SSMC	Investee accounted for using equity method	"	314	6,808,192	39	6,036,045	
	TSMC Partners	Subsidiary	"	300	3,730,913	100	3,730,913	
	TSMC North America	Subsidiary	"	11,000	2,435,666	100	2,435,666	
	XinTec	Investee with a controlling financial interest	"	92,620	1,506,384	42	1,443,752	
	GUC	Investee with a controlling financial interest	"	44,904	950,263	36	5,208,842	
	TSMC Japan	Subsidiary	"	6	137,617	100	137,617	
	TSMC Europe	Subsidiary	"	-	124,594	100	124,594	
	TSMC Korea	Subsidiary	"	80	15,117	100	15,117	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	16,783	193,584	10	292,902	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	384,157	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	38,479	
	Hontung Venture Capital Co., Ltd.	-	"	2,633	18,925	10	18,816	
	Fund							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	103,992	12	103,992	
	Crimson Asia Capital	-	"	-	58,001	1	58,001	
	Capital							
	TSMC Shanghai	Subsidiary	Investments accounted for using equity method	-	6,267,128	100	6,269,794	
	VTAF III	Subsidiary	"	-	1,305,605	98	1,291,057	
	VTAF II	Subsidiary	"	-	975,367	98	970,912	
	Emerging Alliance	Subsidiary	"	-	433,481	99	433,481	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
TSMC North America	<u>Preferred stock</u> NeXen, Inc.	-	Financial assets carried at cost	328	US\$ 656	1	US\$ 1,912	
TSMC International	<u>Corporate bond</u> General Elec Cap Corp. Mtn	-	Held-to-maturity financial assets	-	US\$ 20,791	N/A	US\$ 20,671	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 20,294	N/A	US\$ 20,050	
TSMC Development	<u>Stocks</u> TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 690,095	100	US\$ 690,095	
	InveStar Semiconductor Development Fund, Inc.(II) LDC. (ISDF II)	Subsidiary	"	32,289	US\$ 25,586	97	US\$ 25,586	
	TSMC Technology	Subsidiary	"	1	US\$ 8,408	100	US\$ 8,408	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary	"	7,680	US\$ 6,529	97	US\$ 6,529	
	<u>Corporate bond</u> GE Capital Corp.	-	Held-to-maturity financial assets	-	US\$ 20,447	N/A	US\$ 20,050	
TSMC Partners	<u>Stocks</u> WaferTech	Subsidiary	Investments accounted for using equity method	293,637	US\$ 204,558	100	US\$ 204,558	
	<u>Common stock</u> VisEra Holding Company	Investee accounted for using equity method	Investments accounted for using equity method	43,000	US\$ 69,298	49	US\$ 69,298	
	TSMC Canada	Subsidiary	"	2,300	US\$ 2,570	100	US\$ 2,570	
Emerging Alliance	<u>Common stock</u> Pixim, Inc.	-	Financial assets carried at cost	203	US\$ 54	-	US\$ 54	
	RichWave Technology Corp.	-	"	4,247	US\$ 1,648	10	US\$ 1,648	
	Global Investment Holding Inc.	-	"	10,800	US\$ 3,065	6	US\$ 3,065	
	<u>Preferred stock</u> Audience, Inc.	-	Financial assets carried at cost	1,654	US\$ 250	1	US\$ 250	
	Axiom Microdevices, Inc.	-	"	1,000	US\$ 1,000	1	US\$ 1,000	
	GemFire Corporation	-	"	-	US\$ 31	-	US\$ 31	
	Miradia, Inc.	-	"	3,040	US\$ 1,000	2	US\$ 1,000	
	Mosaic Systems, Inc.	-	"	2,481	US\$ 12	6	US\$ 12	
	Next IO, Inc.	-	"	800	US\$ 500	1	US\$ 500	
	Optichron, Inc.	-	"	714	US\$ 1,000	2	US\$ 1,000	
	Optimal Corporation	-	"	-	US\$ 229	-	US\$ 229	
	Pixim, Inc.	-	"	4,439	US\$ 1,083	2	US\$ 1,083	
	QST Holding, LLC	-	"	-	US\$ 131	4	US\$ 131	
	Teknovus, Inc.	-	"	6,977	US\$ 1,327	2	US\$ 1,327	
	<u>Capital</u> VentureTech Alliance Holdings, L.L.C. (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	8	-	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
VTAF II	<u>Common stock</u>							
	Sentelic	-	Financial assets carried at cost	1,200	US\$ 2,040	15	US\$ 2,040	
	Aquantia	-	"	2,108	US\$ 2,573	5	US\$ 2,573	
	Leadtrend	-	"	1,265	US\$ 660	5	US\$ 660	
	<u>Preferred stock</u>							
	SV Technologies, Inc.	-	Financial assets carried at cost	2,890	US\$ 2,168	15	US\$ 2,168	
	Audience, Inc.	-	"	5,335	US\$ 1,390	2	US\$ 1,390	
	Axiom Microdevices, Inc.	-	"	5,046	US\$ 2,481	5	US\$ 2,481	
	Beceem Communications	-	"	650	US\$ 1,600	1	US\$ 1,600	
	GemFire Corporation	-	"	600	US\$ 68	1	US\$ 68	
	Impinj, Inc.	-	"	475	US\$ 1,000	-	US\$ 1,000	
	Miradia, Inc.	-	"	3,416	US\$ 3,106	3	US\$ 3,106	
	Next IO, Inc.	-	"	2,775	US\$ 756	2	US\$ 756	
	Optichron, Inc.	-	"	1,050	US\$ 1,844	4	US\$ 1,844	
	Pixim, Inc.	-	"	6,348	US\$ 1,141	2	US\$ 1,141	
	Power Analog Microelectronics	-	"	5,232	US\$ 2,790	18	US\$ 2,790	
	QST Holding, LLC	-	"	-	US\$ 415	13	US\$ 415	
	RichWave Technology Corp.	-	"	1,043	US\$ 730	1	US\$ 730	
	Teknovus, Inc.	-	"	1,599	US\$ 454	-	US\$ 454	
	Tzero Technologies, Inc.	-	"	1,167	US\$ 569	2	US\$ 569	
	Xceive	-	"	870	US\$ 1,177	2	US\$ 1,177	
	<u>Capital</u>							
	VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	24	-	
VTAF III	<u>Common stock</u>							
	Mutual-pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	4,590	US\$ 1,705	51	US\$ 1,705	
	Acionn Technology Corporation	Investee accounted for using equity method	"	4,500	US\$ 1,052	44	US\$ 1,052	
	Auramicro, Inc.	-	Financial assets carried at cost	3,816	US\$ 1,145	20	US\$ 1,145	
	InvenSence, Inc.	-	"	816	US\$ 1,000	1	US\$ 1,000	
	<u>Preferred stock</u>							
	Advasense Sensors, Inc.	-	Financial assets carried at cost	1,929	US\$ 1,834	6	US\$ 1,834	
	BridgeLux, Inc.	-	"	3,333	US\$ 5,000	3	US\$ 5,000	
	Exclara, Inc. (Formerly SynDitec, Inc.)	-	"	21,708	US\$ 4,568	18	US\$ 4,568	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
	M2000, Inc.	-	"	3,000	US\$ 3,000	5	US\$ 3,000	
	Neoconix, Inc.	-	"	2,458	US\$ 4,000	6	US\$ 4,000	
	Powervation, Ltd.	-	"	191	US\$ 2,930	19	US\$ 2,930	
	Quellan, Inc.	-	"	3,106	US\$ 3,500	6	US\$ 3,500	
	Silicon Technical Services, LLC	-	"	1,055	US\$ 1,208	2	US\$ 1,208	
	Tilera, Inc.	-	"	1,698	US\$ 2,360	3	US\$ 2,360	
	Validity Sensors, Inc.	-	"	6,424	US\$ 2,545	3	US\$ 2,545	
	<u>Capital</u>							
	Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 100	100	US\$ 100	
	VTA Holdings	Subsidiary	"	-	-	68	-	
Growth Fund	<u>Common stock</u>							
	Staccato	-	Financial assets carried at cost	10	US\$ 25	-	US\$ 25	
ISDF	<u>Common stock</u>							
	Capella Microsystems (Taiwan), Inc.	-	Financial assets carried at cost	530	US\$ 154	2	US\$ 154	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
ISDF II	<u>Preferred stock</u> Memisc, Inc.	-	Available-for-sale financial assets	1,364	US\$ 2,250	6	US\$ 2,250	
	Integrated Memory Logic, Inc.	-	Financial assets carried at cost	2,872	US\$ 1,221	9	US\$ 1,221	
	IP Unity, Inc.	-	"	1,008	US\$ 290	1	US\$ 290	
	NanoAmp Solutions, Inc.	-	"	541	US\$ 541	2	US\$ 541	
	Sonics, Inc.	-	"	230	US\$ 1,843	2	US\$ 1,843	
	<u>Common stock</u> Rich Tek Technology Corp.	-	Financial assets at fair value through profit or loss	101	US\$ 403	-	US\$ 403	
	Rich Tek Technology Corp.	-	Available-for-sale financial assets	288	US\$ 1,148	-	US\$ 1,148	
	Ralink Technology (Taiwan), Inc.	-	"	1,512	US\$ 3,232	1	US\$ 3,232	
	eLCOS Microdisplay Technology, Ltd.	-	Financial assets carried at cost	270	US\$ 27	1	US\$ 27	
	EoNEX Technologies, Inc.	-	"	55	US\$ 305	5	US\$ 305	
	Sonics, Inc.	-	"	278	US\$ 1,597	3	US\$ 1,597	
	Epic Communication, Inc.	-	"	191	US\$ 23	1	US\$ 23	
	EON Technology, Corp.	-	"	2,494	US\$ 691	3	US\$ 691	
	Goyatek Technology, Corp.	-	"	2,088	US\$ 545	12	US\$ 545	
	Trendchip Technologies Corp.	-	"	1,020	US\$ 574	3	US\$ 574	
	Capella Microsystems (Taiwan), Inc.	-	"	534	US\$ 210	2	US\$ 210	
	Auden Technology MFG. Co., Ltd.	-	"	1,049	US\$ 223	3	US\$ 223	
	<u>Preferred stock</u> Memisc, Inc.	-	Available-for-sale financial assets	1,145	US\$ 1,888	5	US\$ 1,888	
	Alchip Technologies Limited	-	Financial assets carried at cost	6,979	US\$ 3,664	19	US\$ 3,664	
	eLCOS Microdisplay Technology, Ltd.	-	"	3,500	US\$ 878	8	US\$ 878	
	FangTek, Inc.	-	"	7,064	US\$ 3,428	16	US\$ 3,428	
GUC	Kilopass Technology, Inc.	-	"	3,887	US\$ 1,746	5	US\$ 1,746	
	NanoAmp Solutions, Inc.	-	"	375	US\$ 375	1	US\$ 375	
	Sonics, Inc.	-	"	264	US\$ 1,517	3	US\$ 1,517	
GUC	<u>Common stock</u> GUC-NA	Subsidiary	Investments accounted for using equity method	800	\$ 34,019	100	\$ 34,019	
	GUC-Japan	Subsidiary	"	1	11,854	100	11,854	
	GUC-Europe	Subsidiary	"	-	2,563	100	2,563	
XinTec	<u>Capital</u> Compositech Ltd.	-	Financial assets carried at cost	587	-	3	-	
TSMC Global	<u>Agency bonds</u> Fed Hm Ln Pc Pool 1b1225	-	Available-for-sale financial assets	-	US\$ 75	N/A	US\$ 75	
	Fed Hm Ln Pc Pool 1b2566	-	"	-	US\$ 118	N/A	US\$ 118	
	Fed Hm Ln Pc Pool 1b2632	-	"	-	US\$ 145	N/A	US\$ 145	
	Fed Hm Ln Pc Pool 1b2642	-	"	-	US\$ 195	N/A	US\$ 195	
	Fed Hm Ln Pc Pool 1b2776	-	"	-	US\$ 282	N/A	US\$ 282	
	Fed Hm Ln Pc Pool 1b2792	-	"	-	US\$ 193	N/A	US\$ 193	
	Fed Hm Ln Pc Pool 1b2810	-	"	-	US\$ 246	N/A	US\$ 246	
	Fed Hm Ln Pc Pool 1b7453	-	"	-	US\$ 2,302	N/A	US\$ 2,302	
	Fed Hm Ln Pc Pool 1g0038	-	"	-	US\$ 243	N/A	US\$ 243	
	Fed Hm Ln Pc Pool 1g0053	-	"	-	US\$ 289	N/A	US\$ 289	
	Fed Hm Ln Pc Pool 1g0104	-	"	-	US\$ 119	N/A	US\$ 119	
	Fed Hm Ln Pc Pool 1g1282	-	"	-	US\$ 3,285	N/A	US\$ 3,285	
	Fed Hm Ln Pc Pool 1g1411	-	"	-	US\$ 2,979	N/A	US\$ 2,979	
	Fed Hm Ln Pc Pool 1h2520	-	"	-	US\$ 2,152	N/A	US\$ 2,152	
	Fed Hm Ln Pc Pool 1h2524	-	"	-	US\$ 1,614	N/A	US\$ 1,614	
	Fed Hm Ln Pc Pool 780870	-	"	-	US\$ 481	N/A	US\$ 481	
	Fed Hm Ln Pc Pool 781959	-	"	-	US\$ 2,841	N/A	US\$ 2,841	
	Fed Hm Ln Pc Pool 782785	-	"	-	US\$ 198	N/A	US\$ 198	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
	Fed Hm Ln Pc Pool 782837	-	Available-for-sale financial assets	-	US\$ 390	N/A	US\$ 390	
	Fed Hm Ln Pc Pool 783022	-	"	-	US\$ 443	N/A	US\$ 443	
	Fed Hm Ln Pc Pool 783026	-	"	-	US\$ 239	N/A	US\$ 239	
	Fed Hm Ln Pc Pool B19205	-	"	-	US\$ 5,501	N/A	US\$ 5,501	
	Fed Hm Ln Pc Pool E01492	-	"	-	US\$ 1,544	N/A	US\$ 1,544	
	Fed Hm Ln Pc Pool E89857	-	"	-	US\$ 1,152	N/A	US\$ 1,152	
	Fed Hm Ln Pc Pool G11295	-	"	-	US\$ 911	N/A	US\$ 911	
	Fed Hm Ln Pc Pool M80855	-	"	-	US\$ 2,526	N/A	US\$ 2,526	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 348	N/A	US\$ 348	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 187	N/A	US\$ 187	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,108	N/A	US\$ 3,108	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,603	N/A	US\$ 1,603	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,727	N/A	US\$ 1,727	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,185	N/A	US\$ 1,185	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,782	N/A	US\$ 2,782	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 1,383	N/A	US\$ 1,383	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,358	N/A	US\$ 2,358	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,233	N/A	US\$ 2,233	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 2,880	N/A	US\$ 2,880	
	Federal National Mort Assoc	-	"	-	US\$ 2,049	N/A	US\$ 2,049	
	Federal National Mortgage Asso	-	"	-	US\$ 2,879	N/A	US\$ 2,879	
	Federal Natl Mtg Assn	-	"	-	US\$ 1,328	N/A	US\$ 1,328	
	Federal Natl Mtg Assn	-	"	-	US\$ 1,315	N/A	US\$ 1,315	
	Federal Natl Mtg Assn	-	"	-	US\$ 1,372	N/A	US\$ 1,372	
	Federal Natl Mtg Assn	-	"	-	US\$ 2,868	N/A	US\$ 2,868	
	Federal Natl Mtg Assn Gtd	-	"	-	US\$ 1,298	N/A	US\$ 1,298	
	Fnma Pool 255883	-	"	-	US\$ 2,724	N/A	US\$ 2,724	
	Fnma Pool 257245	-	"	-	US\$ 3,513	N/A	US\$ 3,513	
	Fnma Pool 555549	-	"	-	US\$ 1,184	N/A	US\$ 1,184	
	Fnma Pool 555715	-	"	-	US\$ 142	N/A	US\$ 142	
	Fnma Pool 632399	-	"	-	US\$ 337	N/A	US\$ 337	
	Fnma Pool 662401	-	"	-	US\$ 451	N/A	US\$ 451	
	Fnma Pool 667766	-	"	-	US\$ 1,068	N/A	US\$ 1,068	
	Fnma Pool 680932	-	"	-	US\$ 952	N/A	US\$ 952	
	Fnma Pool 681393	-	"	-	US\$ 2,045	N/A	US\$ 2,045	
	Fnma Pool 685116	-	"	-	US\$ 489	N/A	US\$ 489	
	Fnma Pool 691283	-	"	-	US\$ 3,039	N/A	US\$ 3,039	
	Fnma Pool 694287	-	"	-	US\$ 17	N/A	US\$ 17	
	Fnma Pool 703711	-	"	-	US\$ 402	N/A	US\$ 402	
	Fnma Pool 725095	-	"	-	US\$ 865	N/A	US\$ 865	
	Fnma Pool 730033	-	"	-	US\$ 138	N/A	US\$ 138	
	Fnma Pool 740934	-	"	-	US\$ 889	N/A	US\$ 889	
	Fnma Pool 742232	-	"	-	US\$ 13	N/A	US\$ 13	
	Fnma Pool 750798	-	"	-	US\$ 18	N/A	US\$ 18	
	Fnma Pool 773246	-	"	-	US\$ 183	N/A	US\$ 183	
	Fnma Pool 793932	-	"	-	US\$ 367	N/A	US\$ 367	
	Fnma Pool 794040	-	"	-	US\$ 579	N/A	US\$ 579	
	Fnma Pool 795548	-	"	-	US\$ 133	N/A	US\$ 133	
	Fnma Pool 799664	-	"	-	US\$ 77	N/A	US\$ 77	
	Fnma Pool 799868	-	"	-	US\$ 26	N/A	US\$ 26	
	Fnma Pool 804764	-	"	-	US\$ 303	N/A	US\$ 303	
	Fnma Pool 804852	-	"	-	US\$ 264	N/A	US\$ 264	
	Fnma Pool 804962	-	"	-	US\$ 323	N/A	US\$ 323	
	Fnma Pool 805163	-	"	-	US\$ 347	N/A	US\$ 347	
	Fnma Pool 806642	-	"	-	US\$ 457	N/A	US\$ 457	
	Fnma Pool 806721	-	"	-	US\$ 548	N/A	US\$ 548	
	Fnma Pool 814418	-	"	-	US\$ 297	N/A	US\$ 297	
	Fnma Pool 815626	-	"	-	US\$ 1,833	N/A	US\$ 1,833	
	Fnma Pool 819423	-	"	-	US\$ 453	N/A	US\$ 453	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
	Fnma Pool 821129	-	Available-for-sale financial assets	-	US\$ 430	N/A	US\$ 430	
	Fnma Pool 888499	-	"	-	US\$ 1,588	N/A	US\$ 1,588	
	Fnma Pool 888502	-	"	-	US\$ 204	N/A	US\$ 204	
	Fnma Pool 888507	-	"	-	US\$ 783	N/A	US\$ 783	
	Fnma Pool 888515	-	"	-	US\$ 847	N/A	US\$ 847	
	Fnma Pool 888519	-	"	-	US\$ 99	N/A	US\$ 99	
	Fnma Pool 888527	-	"	-	US\$ 57	N/A	US\$ 57	
	Fnma Pool 888738	-	"	-	US\$ 3,776	N/A	US\$ 3,776	
	Fnma Pool 888793	-	"	-	US\$ 4,242	N/A	US\$ 4,242	
	Fnma Pool 900296	-	"	-	US\$ 2,415	N/A	US\$ 2,415	
	Gnma li Pool 081150	-	"	-	US\$ 331	N/A	US\$ 331	
	Gnma li Pool 081153	-	"	-	US\$ 1,030	N/A	US\$ 1,030	
	Gnma Pool 646061	-	"	-	US\$ 2,468	N/A	US\$ 2,468	
	Government Natl Mtg Assn Gtd	-	"	-	US\$ 1,861	N/A	US\$ 1,861	
	Fed Home Ln Bank	-	"	-	US\$ 5,305	N/A	US\$ 5,305	
	Federal Farm Cr Bks	-	"	-	US\$ 3,610	N/A	US\$ 3,610	
	Federal Farm Credit Bank	-	"	-	US\$ 3,433	N/A	US\$ 3,433	
	Federal Home Ln Bks	-	"	-	US\$ 3,854	N/A	US\$ 3,854	
	Federal Home Ln Bks	-	"	-	US\$ 5,320	N/A	US\$ 5,320	
	Federal Home Ln Bks	-	"	-	US\$ 4,148	N/A	US\$ 4,148	
	Federal Home Ln Mtg	-	"	-	US\$ 5,340	N/A	US\$ 5,340	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,428	N/A	US\$ 3,428	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,560	N/A	US\$ 3,560	
	Federal Home Ln Mtg Corp.	-	"	-	US\$ 3,743	N/A	US\$ 3,743	
	Federal Home Loan Bank	-	"	-	US\$ 4,710	N/A	US\$ 4,710	
	Federal Natl Mtg Assn	-	"	-	US\$ 4,134	N/A	US\$ 4,134	
	Federal Natl Mtg Assn	-	"	-	US\$ 3,713	N/A	US\$ 3,713	
	Federal Natl Mtg Assn	-	"	-	US\$ 4,169	N/A	US\$ 4,169	
	Federal Natl Mtg Assn	-	"	-	US\$ 3,809	N/A	US\$ 3,809	
	Federal Natl Mtg Assn Mtn	-	"	-	US\$ 3,108	N/A	US\$ 3,108	
	<u>Corporate issued asset-backed securities</u>							
	Banc Amer Coml Mtg Inc.	-	Available-for-sale financial assets	-	US\$ 4,584	N/A	US\$ 4,584	
	Banc Amer Fdg 2006 I Tr	-	"	-	US\$ 2,066	N/A	US\$ 2,066	
	Bear Stearns Adjustable Rate	-	"	-	US\$ 60	N/A	US\$ 60	
	Bear Stearns Arm Tr	-	"	-	US\$ 1,909	N/A	US\$ 1,909	
	Bear Stearns Arm Tr	-	"	-	US\$ 1,160	N/A	US\$ 1,160	
	Bear Stearns Arm Tr	-	"	-	US\$ 129	N/A	US\$ 129	
	Bear Stearns Coml Mtg Secs Inc.	-	"	-	US\$ 96	N/A	US\$ 96	
	Bear Stearns Coml Mtg Secs Inc.	-	"	-	US\$ 2,690	N/A	US\$ 2,690	
	Cbass Tr	-	"	-	US\$ 709	N/A	US\$ 709	
	Chase Mtg Fin Tr	-	"	-	US\$ 576	N/A	US\$ 576	
	Chase Mtg Fin Tr	-	"	-	US\$ 1,171	N/A	US\$ 1,171	
	Chase Mtg Fin Tr	-	"	-	US\$ 1,704	N/A	US\$ 1,704	
	Chase Mtge Finance Corp.	-	"	-	US\$ 865	N/A	US\$ 865	
	Cit Equip Coll Tr	-	"	-	US\$ 3,884	N/A	US\$ 3,884	
	Credit Suisse First Boston Mtg	-	"	-	US\$ 439	N/A	US\$ 439	
	Credit Suisse First Boston Mtg	-	"	-	US\$ 1,513	N/A	US\$ 1,513	
	Credit Suisse First Boston Mtg	-	"	-	US\$ 4,349	N/A	US\$ 4,349	
	First Franklin Mtg Ln Tr	-	"	-	US\$ 413	N/A	US\$ 413	
	First Horizon	-	"	-	US\$ 29	N/A	US\$ 29	
	First Un Natl Bk Coml Mtg Tr	-	"	-	US\$ 1,051	N/A	US\$ 1,051	
	First Un Natl Bk Coml Mtg Tr	-	"	-	US\$ 4,715	N/A	US\$ 4,715	
	First Un Natl Bk Coml Mtg Tr	-	"	-	US\$ 2,019	N/A	US\$ 2,019	
	Gs Mtg Secs Corp.	-	"	-	US\$ 991	N/A	US\$ 991	
	Home Equity Mortgage Trust	-	"	-	US\$ 1,237	N/A	US\$ 1,237	
	Home Equity Mtg Tr 2006 4	-	"	-	US\$ 485	N/A	US\$ 485	
	JP Morgan Mtg Tr	-	"	-	US\$ 588	N/A	US\$ 588	
	JP Morgan Mtg Tr	-	"	-	US\$ 630	N/A	US\$ 630	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008				Note
				Shares/Units (In Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (US\$ in Thousands)	
	JP Morgan Mtg Tr	-	Available-for-sale financial assets	-	US\$ 559	N/A	US\$ 559	
	Lb Ubs Coml Mtg Tr	-	"	-	US\$ 3,495	N/A	US\$ 3,495	
	Nomura Asset Accep Corp.	-	"	-	US\$ 660	N/A	US\$ 660	
	Residential Asset Mtg Prods	-	"	-	US\$ 1,515	N/A	US\$ 1,515	
	Residential Fdg Mtg Secs I Inc.	-	"	-	US\$ 1,074	N/A	US\$ 1,074	
	Residential Fdg Mtg Secs I Inc.	-	"	-	US\$ 2,331	N/A	US\$ 2,331	
	Sequoia Mtg Tr	-	"	-	US\$ 288	N/A	US\$ 288	
	Sequoia Mtg Tr	-	"	-	US\$ 158	N/A	US\$ 158	
	Sequoia Mtg Tr	-	"	-	US\$ 147	N/A	US\$ 147	
	Terwin Mtg Tr	-	"	-	US\$ 1,041	N/A	US\$ 1,041	
	Tiaa Seasoned Coml Mtg Tr	-	"	-	US\$ 3,163	N/A	US\$ 3,163	
	Wamu Mtg	-	"	-	US\$ 2,925	N/A	US\$ 2,925	
	Wamu Mtg Pass Through Ctf	-	"	-	US\$ 114	N/A	US\$ 114	
	Wamu Mtg Pass Through Ctf	-	"	-	US\$ 1,521	N/A	US\$ 1,521	
	Washington Mut Mtg Secs Corp.	-	"	-	US\$ 1,641	N/A	US\$ 1,641	
	Wells Fargo Mtg Backed Secs	-	"	-	US\$ 2,405	N/A	US\$ 2,405	
	Wells Fargo Mtg Backed Secs	-	"	-	US\$ 2,632	N/A	US\$ 2,632	
	Wells Fargo Mtg Backed Secs	-	"	-	US\$ 2,391	N/A	US\$ 2,391	
	Wells Fargo Mtg Bkd Secs	-	"	-	US\$ 845	N/A	US\$ 845	
	Wells Fargo Mtg Bkd Secs	-	"	-	US\$ 2,088	N/A	US\$ 2,088	
	<u>Corporate bonds</u>							
	American Gen Fin Corp. Mtn	-	Available-for-sale financial assets	-	US\$ 1,156	N/A	US\$ 1,156	
	Chase Manhattan Corp. New	-	"	-	US\$ 1,505	N/A	US\$ 1,505	
	Chase Manhattan Corp. New	-	"	-	US\$ 2,066	N/A	US\$ 2,066	
	Chase Manhattan Corp. New	-	"	-	US\$ 3,353	N/A	US\$ 3,353	
	Credit Suisse First Boston USA	-	"	-	US\$ 347	N/A	US\$ 347	
	Deutsche Bank Ag London	-	"	-	US\$ 3,013	N/A	US\$ 3,013	
	Fleet Boston Corp.	-	"	-	US\$ 2,589	N/A	US\$ 2,589	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 2,988	N/A	US\$ 2,988	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 673	N/A	US\$ 673	
	Goldman Sachs Group	-	"	-	US\$ 2,029	N/A	US\$ 2,029	
	JP Morgan Chase	-	"	-	US\$ 1,994	N/A	US\$ 1,994	
	Mellon Fdg Corp.	-	"	-	US\$ 2,669	N/A	US\$ 2,669	
	Morgan Stanley	-	"	-	US\$ 4,552	N/A	US\$ 4,552	
	U S Bancorp Mtn Bk Ent	-	"	-	US\$ 1,369	N/A	US\$ 1,369	
	Wachovia Corp. New	-	"	-	US\$ 3,135	N/A	US\$ 3,135	
	Wells Fargo + Co. New Med Trm	-	"	-	US\$ 4,493	N/A	US\$ 4,493	
	<u>Money market funds</u>							
	Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	-	US\$ 30,435	N/A	US\$ 30,435	
	<u>Government bonds</u>							
	United States Treas Nts	-	Available-for-sale financial assets	-	US\$ 10,374	N/A	US\$ 10,374	

(Concluded)

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
TSMC	Open-end mutual funds													
	NITC Bond Fund	Available-for-sale financial assets	National Investment Trust Co., Ltd.	-	12,239	\$ 2,045,935	6,257	\$ 1,058,000	18,496	\$ 3,119,140	\$ 3,047,038	\$ 72,102	-	\$ -
	Fuh Hwa Bond Fund	"	Fuh Hwa Investment Trust Co., Ltd.	-	132,997	1,801,674	129,864	1,775,000	262,861	3,598,480	3,543,862	54,618	-	-
	NITC Taiwan Bond Fund	"	National Investment Trust Co., Ltd.	-	103,016	1,474,856	153,113	2,214,000	256,129	3,703,023	3,656,443	46,580	-	-
	ING Taiwan Bond Fund	"	ING Securities Investment Trust Co., Ltd.	-	85,581	1,310,030	140,522	2,170,000	226,103	3,497,877	3,470,000	27,877	-	-
	Prudential Financial Bond Fund	"	Prudential Financial Securities Investment Trust Enterprise	-	83,306	1,236,728	-	-	83,306	1,245,214	1,204,418	40,796	-	-
	Uni-President James Bond Fund	"	Uni-President Assets Management Corp.	-	77,128	1,208,799	120,183	1,900,000	197,311	3,125,566	3,100,000	25,566	-	-
	JF Taiwan Bond Fund	"	JF Asset Management (Taiwan) Ltd.	-	59,049	915,252	45,425	712,000	104,474	1,635,181	1,612,083	23,098	-	-
	ING Taiwan Income Bond Fund	"	ING Securities Investment Trust Co., Ltd.	-	54,621	878,682	60,839	988,000	115,460	1,877,230	1,842,149	35,081	-	-
	Taishin Lucky Investment Trust Fund	"	Taishin Investment Trust Co., Ltd.	-	68,945	718,556	-	-	68,945	724,340	701,524	22,816	-	-
	AIG Taiwan Bond Fund	"	AIG Global Asset Management Corporation (Taiwan) Ltd.	-	54,469	705,033	-	-	54,469	708,863	700,000	8,863	-	-
	Cathay Bond Fund	"	Cathay Securities Investment Trust Co., Ltd.	-	60,126	703,824	-	-	60,126	709,289	700,000	9,289	-	-
	Dresdner Bond DAM Fund	"	Allianz Global Investors Taiwan Ltd.	-	54,319	639,542	-	-	54,319	644,310	624,828	19,482	-	-
	JF Taiwan First Bond Fund	"	JF Asset Management (Taiwan) Ltd.	-	35,324	504,206	-	-	35,324	508,184	500,342	7,842	-	-
	HSBC NTD Money Management Fund	"	HSBC Asset Management (Taiwan) Ltd.	-	27,416	413,504	-	-	27,416	416,788	402,614	14,174	-	-
	INVESCO Bond Fund	"	INVESCO Taiwan Limited	-	27,176	410,054	-	-	27,176	412,892	403,727	9,165	-	-
	IBT Ta-Chong Bond Fund	"	IBT Asset Management Co., Ltd.	-	-	-	74,771	1,000,000	74,771	1,002,474	1,000,000	2,474	-	-
	PCA Well Pool Fund	"	PCA Securities Investment Trust Co., Ltd.	-	-	-	187,050	2,400,000	187,050	2,411,016	2,400,000	11,016	-	-
	Capital Income Fund	"	Capital Investment Trust Corporation	-	-	-	228,072	3,480,000	228,072	3,491,264	3,480,000	11,264	-	-
	Government bond													
	2004 Government Bond Series B	Available-for-sale financial assets	Grand Cathay Securities Corp. and several financial institutions	-	-	1,197,121	-	-	-	1,203,434	1,201,660	1,774	-	-
	2004 Government Bond Series G	"	"	-	-	200,065	-	-	-	201,301	200,841	460	-	-
	2004 Government Bond Series B	Held-to-maturity financial assets	Sinopac Securities Corp. and several financial institutions	-	-	-	-	249,603	-	-	-	-	-	249,948
	2003 Government Bond Series H	"	"	-	-	400,709	-	299,852	-	-	-	-	-	-
	Corporate bond													
	Taiwan Mobile Co., Ltd	Available-for-sale financial assets	Grand Cathay Securities Corp. and several financial institutions	-	-	-	-	2,000,000	-	-	-	-	-	2,032,658
	Formosa Chemicals & Fiber Corporation	Held-to-maturity financial assets	"	-	-	-	-	198,914	-	-	-	-	-	199,910
	Formosa Petrochemical Corporation	"	"	-	-	3,581,667	-	959,827	-	-	-	-	-	3,554,908
	Taiwan Power Company	"	"	-	-	2,630,064	-	3,192,915	-	-	-	-	-	4,209,629
	Formosa Plastic Corporation	"	"	-	-	391,134	-	1,984,471	-	-	-	-	-	2,385,285
	Nan Ya Plastics Corporation	"	"	-	-	1,804,346	-	2,486,383	-	-	-	-	-	3,487,804

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
TSMC International	Capital VTAF III	Investments accounted for using equity method	-	Subsidiary	-	\$ 906,536	-	\$ 466,783	-	\$ -	\$ -	\$ -	-	\$ 1,305,605
	Corporate bond General Elec Cap Corp. Mtn	Held-to-maturity financial assets	BNP PARIBAS, London	-	-	-	-	US\$ 20,864	-	-	-	-	-	US\$ 20,791
	General Elec Cap Corp. Mtn	"	"	-	-	-	-	US\$ 20,316	-	-	-	-	-	US\$ 20,294
TSMC Development	Corporate bond GE Capital Corp.	Held-to-maturity financial assets	BNP PARIBAS, London	-	-	-	-	US\$ 20,478	-	-	-	-	-	US\$ 20,447
GUC	Open-end mutual funds PCA Well Pool Fund	Available-for-sale financial assets	PCA Securities Investment Trust Co., Ltd.	-	-	-	19,654	252,000	19,654	252,536	252,000	536	-	-
	Prudential Financial Bond Fund	"	Prudential Financial Securities Investment Trust Enterprise	-	-	-	18,087	271,000	18,087	271,331	271,000	331	-	-
	Uni-President James Bond Fund	"	Uni-President Assets Management Corp.	-	-	-	17,430	275,000	17,430	275,390	275,000	390	-	-
	Cathay Bond Fund	"	Cathay Securities Investment Trust Co., Ltd.	-	-	-	16,096	190,000	16,096	190,077	190,000	77	-	-
	NITC Taiwan Bond Fund	"	National Investment Trust Co., Ltd.	-	-	-	15,575	225,000	15,575	225,206	225,000	206	-	-
	IBT 1699 Bond Fund	"	IBT Asset Management Co., Ltd.	-	-	-	13,383	170,000	13,383	170,333	170,000	333	-	-
	ING Taiwan Bond Fund	"	ING Securities Investment Trust Co., Ltd.	-	-	-	13,262	205,000	13,262	205,393	205,000	393	-	-
	IBT Ta-Chong Bond Fund	"	IBT Asset Management Co., Ltd.	-	-	-	11,631	155,000	11,631	155,255	155,000	255	-	-
	Fuh Hwa Bond Fund	"	Fuh Hwa Investment Trust Co., Ltd.	-	-	-	12,602	172,000	12,602	172,353	172,000	353	-	-
	Mega Diamond Bond Fund	"	Mega International Investment Trust Co., Ltd.	-	-	-	12,484	147,000	12,484	147,117	147,000	117	-	-
TSMC Global	Polaris De-Li Fund	"	Polaris Securities Investment Trust Co., Ltd.	-	-	-	10,042	154,000	10,042	154,298	154,000	298	-	-
	NITC Bond Fund	"	National Investment Trust Co., Ltd.	-	-	-	796	135,000	796	135,133	135,000	133	-	-
	Agency bonds Fnma Pool 257245	Available-for-sale financial assets	-	-	-	-	3,716	US\$ 3,741	-	-	-	-	3,716	US\$ 3,513
	Federal Home Ln Bks	"	-	-	9,000	US\$ 8,977	-	-	9,000	US\$ 9,002	US\$ 8,716	US\$ 286	-	-
	Federal Home Ln Bks	"	-	-	-	-	9,000	US\$ 8,783	9,000	US\$ 9,162	US\$ 8,783	US\$ 379	-	-
	Federal Home Ln Bks	"	-	-	9,000	US\$ 8,939	-	-	9,000	US\$ 9,003	US\$ 8,735	US\$ 268	-	-
	Federal Home Ln Bks	"	-	-	-	-	3,725	US\$ 3,721	-	-	-	-	3,725	US\$ 3,854
	Federal Home Ln Bks	"	-	-	5,000	US\$ 4,965	-	-	5,000	US\$ 5,003	US\$ 4,850	US\$ 153	-	-
	Federal Home Ln Bks	"	-	-	5,000	US\$ 4,980	-	-	5,000	US\$ 4,999	US\$ 4,882	US\$ 117	-	-
	Federal Home Ln Bks	"	-	-	-	-	7,100	US\$ 7,204	7,100	US\$ 7,420	US\$ 7,204	US\$ 216	-	-
	Federal Home Ln Bks	"	-	-	-	-	12,100	US\$ 12,464	8,100	US\$ 8,399	US\$ 8,328	US\$ 71	4,000	US\$ 4,148
	Federal Home Ln Bks	"	-	-	18,665	US\$ 19,023	-	-	18,665	US\$ 19,403	US\$ 18,951	US\$ 452	-	-
	Federal Home Ln Bks	"	-	-	21,900	US\$ 22,342	-	-	21,900	US\$ 22,473	US\$ 21,985	US\$ 488	-	-
	Federal Home Ln Mtg	"	-	-	-	-	5,000	US\$ 5,186	-	-	-	-	5,000	US\$ 5,340
	Federal Farm Credit Bank	"	-	-	-	-	7,200	US\$ 7,241	7,200	US\$ 7,475	US\$ 7,241	US\$ 234	-	-
	Federal Farm Credit Bank	"	-	-	-	-	3,375	US\$ 3,370	-	-	-	-	3,375	US\$ 3,433
	Federal Home Ln Mtg Corp.	"	-	-	-	-	6,700	US\$ 6,690	6,700	US\$ 6,841	US\$ 6,690	US\$ 151	-	-
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,340	US\$ 3,336	-	-	-	-	3,340	US\$ 3,428
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,500	US\$ 3,494	-	-	-	-	3,500	US\$ 3,560
	Federal Home Ln Mtg Corp.	"	-	-	-	-	7,000	US\$ 7,572	3,500	US\$ 3,712	US\$ 3,786	US\$ (74)	3,500	US\$ 3,743
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,391	US\$ 3,389	-	-	-	-	3,391	US\$ 3,108
	Federal Home Ln Mtg Corp.	"	-	-	-	-	3,083	US\$ 3,170	-	-	-	-	3,083	US\$ 2,880
	Federal Home Loan Banks	"	-	-	21,000	US\$ 21,500	-	-	21,000	US\$ 21,646	US\$ 21,356	US\$ 290	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
	Federal Natl Mtg Assn	Available-for-sale financial assets	-	-	-	US\$ -	7,200	US\$ 7,248	7,200	US\$ 7,424	US\$ 7,248	US\$ 176	-	US\$ -
	Federal Natl Mtg Assn	"	-	-	-	-	3,700	US\$ 3,700	-	-	-	-	3,700	US\$ 3,713
	Federal Natl Mtg Assn	"	-	-	-	-	10,000	US\$ 10,291	6,000	US\$ 6,138	US\$ 6,174	US\$ (36)	4,000	US\$ 4,169
	Federal Natl Mtg Assn	"	-	-	5,000	US\$ 5,169	-	-	5,000	US\$ 5,196	US\$ 5,102	US\$ 94	-	-
	Federal Natl Mtg Assn	"	-	-	-	-	3,500	US\$ 3,645	-	-	-	-	3,500	US\$ 3,809
	Federal Natl Mtg Assn	"	-	-	-	-	3,750	US\$ 4,151	-	-	-	-	3,750	US\$ 4,134
	Federal Natl Mtg Assoc	"	-	-	-	-	3,450	US\$ 3,463	3,450	US\$ 3,450	US\$ 3,463	US\$ (13)	-	-
	Federal Natl Mtg Assn Mtn	"	-	-	3,000	US\$ 2,982	-	-	3,000	US\$ 3,006	US\$ 2,909	US\$ 97	-	-
	Federal Natl Mtg Assn Mtn	"	-	-	3,200	US\$ 3,171	-	-	3,200	US\$ 3,201	US\$ 3,090	US\$ 111	-	-
	Gnma Pool 646061	"	-	-	-	-	4,173	US\$ 4,352	-	-	-	-	4,173	US\$ 2,468
	<u>Corporate issued asset-backed securities</u>													
	Capital One Multi Asset Exec	Available-for-sale financial assets	-	-	9,000	US\$ 9,118	-	-	9,000	US\$ 8,710	US\$ 8,998	US\$ (288)	-	-
	Capital One Prime Auto Receiva	"	-	-	3,500	US\$ 3,498	-	-	3,500	US\$ 3,414	US\$ 3,500	US\$ (86)	-	-
	Daimlerchrysler Auto Tr	"	-	-	4,335	US\$ 4,337	-	-	4,335	US\$ 3,596	US\$ 4,333	US\$ (737)	-	-
	Usaa Auto Owner Tr	"	-	-	5,000	US\$ 4,998	-	-	5,000	US\$ 4,926	US\$ 4,999	US\$ (73)	-	-
	Wells Fargo Finl Auto Owner Tr	"	-	-	5,000	US\$ 4,956	-	-	3,658	US\$ 3,466	US\$ 3,608	US\$ (142)	1,342	-
	<u>Corporate bonds</u>													
	American Honda Fin Corp. Mtn	Available-for-sale financial assets	-	-	3,150	US\$ 3,107	-	-	3,150	US\$ 3,110	US\$ 3,095	US\$ 15	-	-
	Burlington Res Inc.	"	-	-	3,250	US\$ 3,653	-	-	3,250	US\$ 3,437	US\$ 3,647	US\$ (210)	-	-
	Depfa Acs Bank	"	-	-	20,000	US\$ 20,402	-	-	20,000	US\$ 20,409	US\$ 19,984	US\$ 425	-	-
	Deutsche Bank Ag London	"	-	-	-	-	2,995	US\$ 3,041	-	-	-	-	2,995	US\$ 3,013
	European Invt Bk	"	-	-	-	-	10,600	US\$ 10,577	10,600	US\$ 10,461	US\$ 10,577	US\$ (116)	-	-
	European Invt Bk	"	-	-	-	-	7,300	US\$ 7,277	7,300	US\$ 7,492	US\$ 7,276	US\$ 216	-	-
	European Invt Bk	"	-	-	-	-	10,600	US\$ 10,576	10,600	US\$ 10,676	US\$ 10,576	US\$ 100	-	-
	European Invt Bk	"	-	-	-	-	7,200	US\$ 7,182	7,200	US\$ 7,596	US\$ 7,182	US\$ 414	-	-
	General Elec Cap Corp. Mtn	"	-	-	4,000	US\$ 3,978	-	-	4,000	US\$ 4,042	US\$ 3,893	US\$ 149	-	-
	General Elec Cap Corp. Mtn	"	-	-	3,000	US\$ 3,047	-	-	3,000	US\$ 3,070	US\$ 2,994	US\$ 76	-	-
	General Re Corp.	"	-	-	3,000	US\$ 3,263	-	-	3,000	US\$ 3,060	US\$ 3,319	US\$ (259)	-	-
	Hancock John Global Fdg li Mtn	"	-	-	4,750	US\$ 5,111	-	-	4,750	US\$ 4,707	US\$ 5,170	US\$ (463)	-	-
	International Business Machs	"	-	-	3,500	US\$ 3,555	-	-	3,500	US\$ 3,582	US\$ 3,496	US\$ 86	-	-
	Keycorp Mtn Book Entry	"	-	-	3,050	US\$ 3,053	-	-	3,050	US\$ 3,041	US\$ 3,016	US\$ 25	-	-
	Kreditanstalt Fur Wiederaufbau	"	-	-	-	-	8,700	US\$ 8,679	8,700	US\$ 8,973	US\$ 8,679	US\$ 294	-	-
	Massmutual Global Fdg li Mtn	"	-	-	3,800	US\$ 3,737	-	-	3,800	US\$ 3,668	US\$ 3,647	US\$ 21	-	-
	Metropolitan Life Golbal Mtn	"	-	-	3,400	US\$ 3,366	-	-	3,400	US\$ 3,409	US\$ 3,325	US\$ 84	-	-
	Nationwide Life Global Fdg l	"	-	-	3,500	US\$ 3,631	-	-	3,500	US\$ 3,159	US\$ 3,520	US\$ (361)	-	-
	Protective Life Secd Trs Mtn	"	-	-	3,500	US\$ 3,484	-	-	3,500	US\$ 3,274	US\$ 3,396	US\$ (122)	-	-
	Sbc Communications Inc.	"	-	-	3,400	US\$ 3,372	-	-	3,400	US\$ 3,367	US\$ 3,309	US\$ 58	-	-
	<u>Money market funds</u>													
	Ssga Cash Mgmt Global Offshore	Available-for-sale financial assets	-	-	592,180	US\$ 592,180	1,035,077	US\$1,035,077	1,596,822	US\$1,596,822	US\$1,596,822	-	30,435	US\$ 30,435
	<u>Government bonds</u>													
	U S Treas Bond Call	Available-for-sale financial assets	-	-	-	-	17,825	US\$ 17,813	17,825	US\$ 17,830	US\$ 17,813	US\$ 17	-	-
	US Treasury N/B	"	-	-	-	-	31,300	US\$ 31,414	31,300	US\$ 31,514	US\$ 31,413	US\$ 101	-	-
	US Treasury N/B	"	-	-	-	-	4,200	US\$ 4,259	4,200	US\$ 4,260	US\$ 4,259	US\$ 1	-	-
	United States Treas Nts	"	-	-	-	-	19,400	US\$ 19,353	19,400	US\$ 19,460	US\$ 19,353	US\$ 107	-	-
	United States Treas Nts	"	-	-	-	-	20,100	US\$ 20,057	20,100	US\$ 20,314	US\$ 20,057	US\$ 257	-	-
	United States Treas Nts	"	-	-	-	-	19,500	US\$ 19,474	19,500	US\$ 19,451	US\$ 19,474	US\$ (23)	-	-
	United States Treas Nts	"	-	-	-	-	60,100	US\$ 60,563	60,100	US\$ 60,829	US\$ 60,564	US\$ 265	-	-
	United States Treas Nts	"	-	-	-	-	20,800	US\$ 20,751	20,800	US\$ 21,292	US\$ 20,751	US\$ 541	-	-
	United States Treas Nts	"	-	-	-	-	45,300	US\$ 45,549	45,300	US\$ 45,992	US\$ 45,549	US\$ 443	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Carrying Value (US\$ in Thousands)	Gain (Loss) or Disposal (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
	United States Treas Nts	Available-for-sale financial assets	-	-	-	US\$ -	17,000	US\$ 16,886	17,000	US\$ 16,917	US\$ 16,885	US\$ 32	-	US\$ -
	United States Treas Nts	"	-	-	-	-	67,600	US\$ 67,804	67,600	US\$ 68,342	US\$ 67,805	US\$ 537	-	-
	United States Treas Nts	"	-	-	-	-	7,800	US\$ 7,787	7,800	US\$ 7,757	US\$ 7,787	US\$ (30)	-	-
	United States Treas Nts	"	-	-	-	-	14,600	US\$ 14,605	14,600	US\$ 15,114	US\$ 14,605	US\$ 509	-	-
	United States Treas Nts	"	-	-	-	-	26,500	US\$ 26,636	26,500	US\$ 26,614	US\$ 26,636	US\$ (22)	-	-
	United States Treas Nts	"	-	-	-	-	6,400	US\$ 6,372	6,400	US\$ 6,282	US\$ 6,372	US\$ (90)	-	-
	United States Treas Nts	"	-	-	25,900	US\$ 25,924	-	-	25,900	US\$ 26,091	US\$ 25,941	US\$ 150	-	-
	United States Treas Nts	"	-	-	-	-	14,700	US\$ 14,887	14,700	US\$ 14,990	US\$ 14,887	US\$ 103	-	-
	United States Treas Nts	"	-	-	-	-	11,500	US\$ 11,615	11,500	US\$ 11,652	US\$ 11,615	US\$ 37	-	-
	United States Treas Nts	"	-	-	-	-	53,300	US\$ 54,114	53,300	US\$ 54,153	US\$ 54,114	US\$ 39	-	-
	United States Treas Nts	"	-	-	-	-	4,000	US\$ 4,057	4,000	US\$ 3,969	US\$ 4,057	US\$ (88)	-	-
	United States Treas Nts	"	-	-	5,000	US\$ 5,070	-	-	5,000	US\$ 5,077	US\$ 5,037	US\$ 40	-	-
	United States Treas Nts	"	-	-	-	-	3,750	US\$ 3,958	3,750	US\$ 3,861	US\$ 3,958	US\$ (97)	-	-
	United States Treas Nts	"	-	-	5,500	US\$ 5,613	-	-	5,500	US\$ 5,623	US\$ 5,584	US\$ 39	-	-
	United States Treas Nts	"	-	-	6,400	US\$ 6,500	-	-	6,400	US\$ 6,594	US\$ 6,407	US\$ 187	-	-
	United States Treas Nts	"	-	-	41,900	US\$ 42,509	-	-	41,900	US\$ 42,867	US\$ 41,870	US\$ 997	-	-
	United States Treas Nts	"	-	-	-	-	4,000	US\$ 4,200	4,000	US\$ 4,210	US\$ 4,199	US\$ 11	-	-
	United States Treas Nts	"	-	-	-	-	10,266	US\$ 11,167	-	-	-	-	10,266	US\$ 10,374
	United States Treas Nts	"	-	-	5,000	US\$ 5,160	2,000	US\$ 2,062	7,000	US\$ 7,308	US\$ 7,119	US\$ 189	-	-
	United States Treas Nts	"	-	-	-	-	10,000	US\$ 10,525	10,000	US\$ 10,489	US\$ 10,525	US\$ (36)	-	-
	United States Treas Nts	"	-	-	3,250	US\$ 3,359	-	-	3,250	US\$ 3,347	US\$ 3,298	US\$ 49	-	-
	United States Treas Nts	"	-	-	-	-	10,000	US\$ 10,866	10,000	US\$ 11,008	US\$ 10,866	US\$ 142	-	-
	United States Treas Nts	"	-	-	7,500	US\$ 7,758	-	-	7,500	US\$ 7,855	US\$ 7,742	US\$ 113	-	-
	United States Treas Nts	"	-	-	-	-	15,000	US\$ 16,162	15,000	US\$ 16,335	US\$ 16,162	US\$ 173	-	-
	United States Treas Nts	"	-	-	9,500	US\$ 9,735	-	-	9,500	US\$ 9,757	US\$ 9,479	US\$ 278	-	-
	United States Treas Nts	"	-	-	-	-	11,250	US\$ 12,259	11,250	US\$ 12,038	US\$ 12,259	US\$ (221)	-	-
	United States Treas Nts	"	-	-	-	-	19,700	US\$ 19,900	19,700	US\$ 20,045	US\$ 19,900	US\$ 145	-	-
	Wi Treasury Sec	"	-	-	-	-	13,300	US\$ 13,383	13,300	US\$ 13,430	US\$ 13,383	US\$ 47	-	-

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and capital return from subsidiaries.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/losses on financial assets, translation adjustments or equity in earnings of equity method investees.

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
TSMC	Fab	January 16, 2008 to January 19, 2008	\$ 4,045,220	By the construction progress	Tasa Construction Corporation, Fu Tsu Construction, and China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 192,986,719	58	Net 30 days after invoice date	-	-	\$ 11,512,777	50	
	GUC	Investee with a controlling financial interest	Sales	1,611,058	1	Net 30 days after monthly closing	-	-	215,190	1	
	TSMC Shanghai	Subsidiary	Sales	101,245	-	Net 30 days after monthly closing	-	-	-	-	
	WaferTech	Indirect subsidiary	Purchases	8,207,876	22	Net 30 days after monthly closing	-	-	(171,089)	3	
	TSMC Shanghai	Subsidiary	Purchases	4,717,676	12	Net 30 days after monthly closing	-	-	(117,417)	2	
	SSMC	Investee accounted for using equity method	Purchases	4,441,795	12	Net 30 days after monthly closing	-	-	(162,807)	3	
	VIS	Investee accounted for using equity method	Purchases	3,209,028	8	Net 30 days after monthly closing	-	-	(317,491)	6	
GUC	TSMC North America	Same parent company	Purchases	1,747,488	41	Net 30 days after invoice date/net 45 days after monthly closing	-	-	(148,680)	20	
XinTec	OmniVision	Parent company of director (represented for XinTec)	Sales	2,522,749	81	Net 30 days after monthly closing	-	-	309,133	89	
	VisEra	Same president	Sales	23,650	1	Net 45 days after monthly closing	-	-	283	-	

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
TSMC	TSMC North America	Subsidiary	\$ 11,769,401	36	\$ 4,130,119	-	\$ 4,177,615	\$ -
	GUC	Investee with a controlling financial interest	215,190	33	1,869	-	103,680	-
	TSMC Shanghai	Subsidiary	112,933	(Note 2)	-	-	-	-
XinTec	OmniVision	Parent company of director (represented for XinTec)	309,133	54	-	-	-	-

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2: The ending balance primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2008			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2008 (Foreign Currencies in Thousands)	December 31, 2007 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC	TSMC Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 45,756,519	\$ 963,052	\$ 963,052	Subsidiary
	TSMC International	Tortola, British Virgin Islands	Providing investment in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,445,780	31,445,780	987,968	100	29,637,057	2,082,332	2,082,332	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,047,681	628,223	37	9,787,275	1,041,953	(114,707)	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	8,840,895	314	39	6,808,192	2,460,149	757,241	Investee accounted for using equity method
	TSMC Shanghai	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	12,180,367	12,180,367	-	100	6,267,128	(2,904,565)	(2,907,231)	Subsidiary
	TSMC Partners	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	3,730,913	(973,153)	(973,153)	Subsidiary
	TSMC North America	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	2,435,666	144,918	144,918	Subsidiary
	XinTec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	92,620	42	1,506,384	198,178	30,811	Investee with a controlling financial interest
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,440,241	973,459	-	98	1,305,605	(92,095)	(90,253)	Subsidiary
	VTAF II	Cayman Islands	Investing in new start-up technology companies	1,036,422	1,095,622	-	98	975,367	(132,150)	(129,507)	Subsidiary
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	44,904	36	950,263	747,049	269,544	Investee with a controlling financial interest
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	986,797	1,019,042	-	99	433,481	(6,643)	(6,610)	Subsidiary
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	137,617	4,943	4,943	Subsidiary
	TSMC Europe	Amsterdam, the Netherlands	Marketing activities	15,749	15,749	-	100	124,594	38,454	38,454	Subsidiary
	TSMC Korea	Seoul, Korea	Customer service and technical support activities	13,656	13,656	80	100	15,117	3,232	3,232	Subsidiary
TSMC International	TSMC Development	Delaware, U.S.A.	Investment activities	US\$ 0.001	US\$ 0.001	1	100	US\$ 690,095	US\$ 16,011	Note 2	Subsidiary
	ISDF II	Cayman Islands	Investing in new start-up technology companies	US\$ 32,289	US\$ 43,048	42,320	97	US\$ 25,586	US\$ 240	Note 2	Subsidiary
	TSMC Technology	Delaware, U.S.A.	Engineering support activities	US\$ 0.001	US\$ 0.001	1	100	US\$ 8,408	US\$ 1,816	Note 2	Subsidiary
	ISDF	Cayman Islands	Investing in new start-up technology companies	US\$ 7,680	US\$ 8,721	7,598	97	US\$ 6,529	US\$ (2,156)	Note 2	Subsidiary
TSMC Development	WaferTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$ 380,000	US\$ 430,000	293,637	100	US\$ 204,558	US\$ 27,089	Note 2	Subsidiary
TSMC Partners	VisEra Holding Company	Cayman Islands	Investment in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$ 43,000	US\$ 43,000	43,000	49	US\$ 69,298	US\$ 4,633	Note 2	Investee accounted for using equity method
	TSMC Canada	Ontario, Canada	Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 2,570	US\$ 286	Note 2	Subsidiary
VisEra Holding Company	VisEra	Hsin-Chu, Taiwan	Manufacturing and selling of electronic parts and providing turn-key services in back-end color filter fabrication, package, test, and optical solutions	US\$ 91,041	US\$ 91,041	253,120	89	US\$ 122,700	US\$ 4,429	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2008			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2008 (Foreign Currencies in Thousands)	December 31, 2007 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
VTAF III	Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US\$ 1,705	US\$ 1,705	4,590	51	US\$ 1,398	US\$ (544)	Note 2	Subsidiary
	Aiconn Technology Corp.	Taipei, Taiwan	Wholesaling telecommunication equipments, and manufacturing wired and wireless communication equipments	-	-	4,500	44	US\$ 1,052	US\$ (1,339)	Note 2	Investee accounted for using equity method
	Growth Fund	Cayman Islands	Investing in new start-up technology companies	US\$ 700	-	-	100	US\$ 100	US\$ (600)	Note 2	Subsidiary
	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	68	-	-	Note 2	Subsidiary
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	24	-	-	Note 2	Subsidiary
GUC	GUC-NA	U.S.A.	Consulting services in main products	US\$ 800	US\$ 100	800	100	\$ 34,019	\$ 2,774	Note 2	Subsidiary
	GUC-Japan	Japan	Consulting services in main products	JPY 30,000	JPY 10,000	1	100	11,854	459	Note 2	Subsidiary
	GUC-Europe	The Netherlands	Consulting services in main products	EUR 50	-	-	100	2,563	254	Note 2	Subsidiary
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	8	-	-	Note 2	Subsidiary

Note 1: Equity in earnings/losses of investees exclude the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings (losses) of the investee company is not reflected herein as such amount is already included in the equity in the earnings (losses) of the investor company.

(Concluded)

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INFORMATION OF INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008 (US\$ in Thousand)	Percentage of Ownership
					Outflow (US\$ in Thousand)	Inflow (US\$ in Thousand)		
TSMC Shanghai	Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 12,180,367 (RMB 3,070,623)	(Note 1)	\$ 12,180,367 (US\$ 371,000)	\$ -	\$ -	\$ 12,180,367 (US\$ 371,000)	100%

Equity in the Earnings (Losses) (Note 2)	Carrying Value as of December 31, 2008	Accumulated Inward Remittance of Earnings as of December 31, 2008	Accumulated Investment in Mainland China as of December 31, 2008 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment (US\$ in Thousand)
\$ (2,907,231)	\$ 6,267,128	\$ -	\$ 12,180,367 (US\$ 371,000)	\$ 12,180,367 (US\$ 371,000)	\$ 12,180,367 (US\$ 371,000)

Note 1: Direct investments US\$371,000 thousand in TSMC Shanghai.

Note 2: Amount was recognized based on the audited financial statements.

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

A. FOR THE YEAR ENDED DECEMBER 31, 2008

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
0	TSMC	TSMC North America	1	Sales	\$ 192,986,719	-	56%
				Receivables from related parties	11,512,777	-	2%
				Other receivables from related parties	256,624	-	-
				Payables to related parties	327,250	-	-
		TSMC Shanghai	1	Sales	101,245	-	-
				Purchases	4,717,676	-	1%
				Gain on disposal of property, plant and equipment	197,681	-	-
				Technical service income	99,737	-	-
				Other receivables from related parties	112,933	-	-
				Payables to related parties	117,417	-	-
				Deferred credits	183,896	-	-
		TSMC Japan	1	Marketing expenses - commission	251,367	-	-
				Payables to related parties	20,528	-	-
		TSMC Europe	1	Marketing expenses - commission	367,846	-	-
				Payables to related parties	29,679	-	-
		TSMC Korea	1	Marketing expenses - commission	16,408	-	-
				Payables to related parties	1,313	-	-
		GUC	1	Sales	1,611,058	-	-
				General and administrative expenses - rental expense	1,050	-	-
				Research and development expenses	18,940	-	-
				Receivables from related parties	215,190	-	-
				Payables to related parties	7,003	-	-
		TSMC Technology	1	Research and development expenses	352,900	-	-
				Payables to related parties	41,904	-	-
		WaferTech	1	Sales	12,216	-	-
				Purchases	8,207,876	-	2%
				Other receivables from related parties	13,813	-	-
				Payables to related parties	171,089	-	-
		TSMC Canada	1	Research and development expenses	172,291	-	-
				Payables to related parties	3,297	-	-
		Emerging Alliance Fund	1	Other receivables from related parties	5,149	-	-

(Continued)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
2	TSMC Partners	TSMC International	3	Other receivables	8,149,280	-	1%
				Deferred revenue	8,149,280	-	1%
3	GUC	TSMC North America	3	Purchases	1,747,488	-	-
				Manufacturing overhead	298,926	-	-
				Operating Expense	1,458	-	-
				Payables to related parties	148,680	-	-
		GUC-NA	3	Operating expenses	105,044	-	-
				Payables to related parties	11,074	-	-
		GUC-Japan	3	Operating expenses	28,480	-	-
				Payables to related parties	2,260	-	-
		GUC-Europe	3	Operating expenses	5,140	-	-

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Continued)

B. FOR THE YEAR ENDED DECEMBER 31, 2007

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
0	TSMC	TSMC North America	1	Sales	\$ 192,846,641	-	59%
				Receivables from related parties	26,626,880	-	5%
				Other receivables from related parties	98,885	-	-
				Payables to related parties	13,392	-	-
		TSMC Shanghai	1	Sales	155,799	-	-
				Purchases	5,828,541	-	2%
				Gain on disposal of property, plant and equipment	216,267	-	-
				Technical service income	121,771	-	-
				Other receivables from related parties	151,037	-	-
				Payables to related parties	596,581	-	-
				Deferred credits	510,564	-	-
		TSMC Japan	1	Marketing expenses - commission	220,858	-	-
				Payables to related parties	18,449	-	-
		TSMC Europe	1	Marketing expenses - commission	316,748	-	-
				Payables to related parties	37,046	-	-
		TSMC Korea	1	Marketing expenses - commission	26,818	-	-
		GUC	1	Sales	795,232	-	-
				General and administrative expenses - rental expense	6,139	-	-
				Research and development expenses	56,887	-	-
				Receivables from related parties	74,003	-	-
				Payables to related parties	7,411	-	-
		TSMC Technology	1	Payables to related parties	39,403	-	-
				Research and development expenses	354,423	-	-
		WaferTech	1	Sales	10,301	-	-
				Purchases	8,774,750	-	3%
				Payables to related parties	784,280	-	-
		TSMC Canada	1	Research and development expenses	129,665	-	-
1	TSMC International	TSMC Technology	3	Deferred royalty income	640,658	-	-
2	TSMC Partners	TSMC International	3	Other receivables	9,901,544	-	2%
				Deferred revenue	8,773,454	-	2%
3	GUC	TSMC North America	3	Purchases	1,766,788	-	1%
				Manufacturing overhead	189,410	-	-
				Payables to related parties	139,402	-	-
		GUC-NA	3	Operating expenses	60,010	-	-

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Concluded)

9. U.S. GAAP Financial Information

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

U.S. GAAP RECONCILIATIONS OF SHAREHOLDERS' EQUITY

December 31, 2007 and 2008

(In Thousand New Taiwan Dollars)

	2008	2007
Equity attributable to shareholders of the parent based on R.O.C. GAAP	\$ 476,377,111	\$ 487,091,402
Adjustments		
- U.S. GAAP adjustments on equity-method investees	(484,992)	(432,568)
- Impairment of long-lived assets		
- Loss on impairment of assets	(10,709,654)	(10,573,746)
- Reversal of depreciation on assets impaired under U.S. GAAP	10,709,654	9,878,553
- 10% tax on undistributed earnings	(4,530,649)	(5,538,280)
- Goodwill		
- Carrying amount difference for 68% equity interest in TSMC's share acquisition	52,212,732	52,212,732
- Reversal of amortization of goodwill recognized under R.O.C. GAAP	(11,228,894)	(11,274,122)
- Bonuses to employees, directors and supervisors	-	(8,175,257)
- Accrued pension cost	(35,622)	(39,911)
- Accrual for deferred pension loss under U.S. SFAS No. 158	(1,288,895)	(87,487)
- Income tax effect of U.S. GAAP adjustments	68,398	166,633
- Minority interest effect of U.S. GAAP adjustments	-	121
	<u>34,712,078</u>	<u>26,136,668</u>
Equity attributable to shareholders of the parent based on U.S. GAAP	<u>\$ 511,089,189</u>	<u>\$ 513,228,070</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

U.S. GAAP RECONCILIATIONS OF NET INCOME

For the Years Ended December 31, 2007 and 2008

(In Thousand New Taiwan Dollars)

	2008	2007
Net income attributable to shareholders of the parent based on R.O.C. GAAP	\$ 99,933,168	\$ 109,177,093
Adjustments		
- Realization of unrealized loss on marketable securities recognized under R.O.C. GAAP prior to January 1, 2006	(98,024)	(52,316)
- U.S. GAAP adjustments on equity-method investees	(16,405)	(69,842)
- Reversal of depreciation on assets impaired under U.S. GAAP	675,651	1,408,372
- 10% tax on undistributed earnings	983,382	(2,260,260)
- Bonuses to employees, directors and supervisors		
- Current year accrual	-	(8,232,842)
- Fair market value adjustment of prior year accrual	(20,369,334)	(28,352,026)
- Pension expense	4,289	3,872
- Stock-based compensation	215,766	(373,900)
- Income tax effect of U.S. GAAP adjustments	(96,366)	(41,847)
- Minority interest effect of U.S. GAAP adjustments	241,116	451,278
	<u>(18,459,925)</u>	<u>(37,519,511)</u>
Net income attributable to shareholders of the parent based on U.S. GAAP	<u>\$ 81,473,243</u>	<u>\$ 71,657,582</u>

CONTACT INFORMATION

Corporate Headquarters & Fab 12

8, Li-Hsin Rd. 6, Hsinchu Science Park, Hsinchu, Taiwan 300-77, R.O.C.
Tel: 886-3-5636688 Fax: 886-3-5637000

Fab 2, Fab 5

121, Park Ave. 3, Hsinchu Science Park, Hsinchu, Taiwan 300-77, R.O.C.
Tel: 886-3-5636688 Fax: 886-3-5781548

Fab 3

9, Creation Rd. 1, Hsinchu Science Park, Hsinchu, Taiwan 300-77, R.O.C.
Tel: 886-3-5636688 Fax: 886-3-5781548

Fab 6

1, Nan-Ke North Rd., Tainan Science Park, Tainan, Taiwan 741-44, R.O.C.
Tel: 886-6-5056688 Fax: 886-6-5052057

Fab 8

25, Li-Hsin Rd., Hsinchu Science Park, Hsinchu, Taiwan 300-77, R.O.C.
Tel: 886-3-5636688 Fax: 886-3-5662051

Fab 14

1-1, Nan-Ke North Rd., Tainan Science Park, Tainan
Taiwan 741-44, R.O.C.
Tel: 886-6-5056688 Fax: 886-6-5051262

TSMC North America

2585 Junction Avenue, San Jose, CA 95134, U.S.A.
Tel: 408-3828000 Fax: 408-3828008

TSMC Europe B.V.

World Trade Center, Zuidplein 60, 1077 XV Amsterdam, The Netherlands
Tel: 31-20-3059900 Fax: 31-20-3059911

TSMC Japan Limited

21F, Queen's Tower C, 2-3-5, Minatomirai, Nishi-ku, Yokohama
Kanagawa 220-6221, Japan
Tel: 81-45-6820670 Fax: 81-45-6820673

TSMC China Company Limited*

4000, Wen Xiang Road, Songjiang, Shanghai, China
Postcode: 201616
Tel: 86-21-57768000 Fax: 86-21-57762525

* Since February 4, 2009, TSMC (Shanghai) Company Limited changes the administrative division of company name as TSMC China Company Limited.

TSMC Korea Limited

15F, AnnJay Tower, 718-2, Yeoksam-dong, Gangnam-gu
Seoul135-080, Korea
Tel: 82-2-20511688 Fax: 82-2-20511669

TSMC Liaison Office in India

1st Floor, Pine Valley, Embassy Golf-Links Business Park
Bangalore-560071, India
Tel: 91-99809-91826 91-80-41768615 Fax: 91-80-41764568

TSMC Spokesperson

Name: Lora Ho
Title: Vice President & CFO
Tel: 886-3-5664602 Fax: 886-3-5670121
Email: cyhsu@tsmc.com

TSMC Deputy Spokesperson

Name: J.H. Tzeng
Title: Deputy Director, Public Relations
Tel: 886-3-5055028 Fax: 886-3-5670121
Email: jhtzeng@tsmc.com

TSMC Investor Relations

Name: Elizabeth Sun
Title: Director, Investor Relations
Tel: 886-3-5682085 Fax: 886-3-5797337
Email: invest@tsmc.com

Auditors

Company: Deloitte & Touche
Auditors: Hung-Peng Lin, Shu-Chieh Huang
Address: 12F, 156, Sec. 3, Min-Sheng E. Rd., Taipei
Taiwan 105-96, R.O.C.
Tel: 886-2-25459988 Fax: 886-2-25459966
Website: <http://www.deloitte.com.tw>

Common Share Transfer Agent and Registrar

Company: The Transfer Agency Department of Chinatrust Commercial Bank
Address: 5F, 83, Sec. 1, Chung-Ching S. Rd., Taipei
Taiwan 100-08, R.O.C.
Tel: 886-2-21811911 Fax: 886-2-23116723
Website: <http://www.chinatrust.com.tw>

ADR Depositary Bank

Company: Citibank, N.A.
Depositary Receipts Services
Address: 388 Greenwich Street, New York, NY10013, U.S.A.
Website: <http://www.citi.com/dr>
Tel: 1-877-2484237 (toll free)
Tel: 1-781-5754555 (out of US)
Fax: 1-201-3243284
E-mail: citibank@shareholders-online.com
TSMC's depositary receipts of the common shares are listed on New York Stock Exchange (NYSE) under the symbol TSM. The information relating to TSM is available at <http://www.nyse.com> and <http://newmops.tse.com.tw>