TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
October 31, 2007

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the month of October 2007
Taiwan Semiconductor Manufacturing Company Ltd.
(Translation of Registrant s Name Into English)
No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
Taiwan
(Address of Principal Executive Offices)

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

Form 20-F þ Form 40-F o

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

Yes o No þ

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

Taiwan Semiconductor Manufacturing Company Limited
Financial Statements for the
Nine Months Ended September 30, 2007 and 2006 and
Independent Accountants Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of September 30, 2007 and 2006, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36 Review of Financial Statements issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be 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.

October 9, 2007

<u>*Notice to Readers*</u>

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

For the convenience of readers, the accountants review 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 accountants review report and financial statements shall prevail.

Taiwan Semiconductor Manufacturing Company Limited
BALANCE SHEETS
SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2007 Amount	%	2006 Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 76,504,025	13	$ 77,785,750	14
Financial assets at fair value through profit or loss (Notes 2, 3 and 6)	366,445		45,295	
Available-for-sale financial assets (Notes 2, 3 and 7)	19,945,922	4	35,749,909	7
Held-to-maturity financial assets (Notes 2 and 8)	12,168,201	2	6,220,737	1
Receivables from related parties (Note 24)	23,833,351	4	22,030,420	4
Notes and accounts receivable	20,622,354	4	19,339,939	4
Allowance for doubtful receivables (Notes 2 and 5)	(688,972)		(975,705)	
Allowance for sales returns and others (Notes 2 and 5)	(3,739,026)	(1)	(5,012,934)	(1)
Other receivables from related parties (Note 24)	505,914		1,042,223	
Other financial assets	476,026		747,755	
Inventories, net (Notes 2 and 9)	22,013,215	4	18,369,130	3
Deferred income tax assets (Notes 2 and 17)	3,068,708	1	2,683,412	1
Prepaid expenses and other current assets	967,180		704,492	
Total current assets	176,043,343	31	178,730,423	33
LONG-TERM INVESTMENTS (Notes 2, 7, 8, 10 and 11)				
Investments accounted for using equity method	111,895,495	20	84,640,267	15
Available-for-sale financial assets	4,134,882	1	4,893,355	1
Held-to-maturity financial assets	16,167,443	3	30,747,122	6
Financial assets carried at cost	747,206		769,411	
Total long-term investments	132,945,026	24	121,050,155	22
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)				
Cost				
Buildings	100,832,628	18	95,576,337	17
Machinery and equipment	578,009,705	102	508,975,810	92
Office equipment	9,095,417	1	8,443,812	2
	687,937,750	121	612,995,959	111
Accumulated depreciation	(469,874,398)	(83)	(401,098,736)	(73)
Advance payments and construction in progress	20,940,284	4	21,069,769	4

Net property, plant and equipment	239,003,636	42	232,966,992	42
INTANGIBLE ASSETS				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2 and 13)	5,166,482	1	5,639,776	1
Total intangible assets	6,734,238	1	7,207,532	1
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 17)	10,436,868	2	10,989,791	2
Refundable deposits	2,688,320		83,738	
Assets leased to others, net (Note 2)	62,845		68,579	
Others			6,789	
Total other assets	13,188,033	2	11,148,897	2
TOTAL	$ 567,914,276	100	$ 551,103,999	100
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 6)	$ 130,828		$ 458,808	
Accounts payable	8,722,415	1	6,641,641	1
Payables to related parties (Note 24)	3,308,642	1	3,894,488	1
Income tax payable (Notes 2 and 17)	7,395,744	1	6,535,446	1
Accrued expenses and other current liabilities (Notes 15 and 26)	11,163,015	2	7,477,769	2
Payables to contractors and equipment suppliers	10,711,333	2	15,299,614	3
Current portion of bonds payable (Note 14)	4,500,000	1	2,500,000	
Total current liabilities	45,931,977	8	42,807,766	8
LONG-TERM LIABILITIES				
Bonds payable (Note 14)	12,500,000	2	17,000,000	3
Other long-term payables (Note 15)	1,021,824		1,291,484	
Other payables to related parties (Notes 24 and 26)			409,588	
Total long-term liabilities	13,521,824	2	18,701,072	3
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	3,621,795	1	3,502,475	1

Guarantee deposits (Note 26)	2,560,554	1	3,680,687	1
Deferred credits (Notes 2 and 24)	1,003,256		1,275,872	
Total other liabilities	7,185,605	2	8,459,034	2
Total liabilities	66,639,406	12	69,967,872	13
CAPITAL STOCK NT$10 PAR VALUE				
Authorized: 28,050,000 thousand shares in 2007				
27,050,000 thousand shares in 2006				
Issued: 26,426,202 thousand shares in 2007	264,262,018	47	258,258,398	47
25,825,840 thousand shares in 2006				
CAPITAL SURPLUS (Notes 2 and 19)	53,713,165	9	53,857,667	10
RETAINED EARNINGS (Note 19)				
Appropriated as legal capital reserve	56,406,684	10	43,705,711	8
Appropriated as special capital reserve	629,550		640,742	
Unappropriated earnings	127,343,560	22	124,866,387	22
	184,379,794	32	169,212,840	30
OTHERS (Notes 2, 3, 21 and 23)				
Cumulative translation adjustments	(690,056)		223,105	
Unrealized gain on financial instruments	528,024		502,192	
Treasury stock: 34,096 thousand shares in 2007				
33,926 thousand shares in 2006	(918,075)		(918,075)	
	(1,080,107)		(192,778)	
Total shareholders equity	501,274,870	88	481,136,127	87
TOTAL	$ 567,914,276	100	$ 551,103,999	100

The accompanying notes are an integral part of the financial statements

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 24)	$ 226,395,474		$ 245,148,192	
SALES RETURNS AND ALLOWANCES (Note 2)	3,736,354		5,202,252	
NET SALES	222,659,120	100	239,945,940	100
COST OF SALES (Notes 18 and 24)	128,356,018	58	123,155,982	51
GROSS PROFIT	94,303,102	42	116,789,958	49
UNREALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	285,784			
REALIZED GROSS PROFIT	94,017,318	42	116,789,958	49
OPERATING EXPENSES (Notes 18 and 24)				
Research and development	11,476,303	5	11,206,265	5
General and administrative	5,929,869	3	5,348,876	2
Marketing	911,225		1,360,794	1
Total operating expenses	18,317,397	8	17,915,935	8
INCOME FROM OPERATIONS	75,699,921	34	98,874,023	41
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	3,931,127	2	4,696,522	2
Interest income (Note 2)	1,989,402	1	2,734,401	1
Technical service income (Notes 24 and 26)	527,868		514,995	1
Settlement income (Note 26)	491,385		483,734	
Rental income (Note 24)	290,660		153,059	
Foreign exchange gain, net (Note 2)	231,584		28,165	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 24)	214,918		480,944	

Valuation gain on financial instruments, net (Notes 2, 6 and 23)	201,767			
Others (Note 24)	335,694		189,175	
Total non-operating income and gains	8,214,405	3	9,280,995	4

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
NON-OPERATING EXPENSES AND LOSSES				
Provision for litigation loss (Note 26j)	$ 1,008,635		$	
Loss on settlement and disposal of financial instruments, net (Notes 2, 6 and 23)	717,329		1,395,264	1
Interest expense	450,023		495,900	
Valuation loss on financial instruments, net (Notes 2, 6 and 23)			413,514	
Loss on disposal of property, plant and equipment (Note 2)	4,778		225,781	
Others (Note 2)	45,175		129,031	
Total non-operating expenses and losses	2,225,940		2,659,490	1
INCOME BEFORE INCOME TAX	81,688,386	37	105,495,528	44
INCOME TAX EXPENSE (Notes 2 and 17)	6,996,070	3	6,151,303	3
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	74,692,316	34	99,344,225	41
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF $82,062 THOUSAND (Note 3)			(246,186)	
NET INCOME	$ 74,692,316	34	$ 99,098,039	41

	2007		2006	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (NT$, Note 22)				
Basic earnings per share	$ 3.10	$ 2.83	$ 3.99	$ 3.76
Diluted earnings per share	$ 3.09	$ 2.83	$ 3.98	$ 3.75

(Continued)

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

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 an investment instead of treasury stock (Notes 2 and 21):

	2007	2006
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	$ 74,794,078	$ 99,426,545
NET INCOME	$ 74,794,078	$ 99,180,359
EARNINGS PER SHARE (NT$)		
Basic earnings per share	$ 2.83	$ 3.76
Diluted earnings per share	$ 2.83	$ 3.75

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

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 74,692,316	$ 99,098,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,359,150	48,809,141
Unrealized gross profit from affiliates	285,784	
Amortization of premium/discount of financial assets	(90,347)	16,004
Loss (gain) on disposal of available-for-sale financial assets, net	(260,367)	11,258
Equity in earnings of equity method investees, net	(3,931,127)	(4,696,522)
Dividends received from equity method investees	677,147	626,367
Gain on disposal of property, plant and equipment and other assets, net	(210,140)	(255,163)
Deferred income tax	87,551	99,752
Loss on idle assets		37,283
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(201,767)	1,560,139
Receivables from related parties	(6,963,842)	(979,816)
Notes and accounts receivable	(4,344,190)	1,251,879
Allowance for doubtful receivables	(1,959)	(639)
Allowance for sales returns and others	987,961	742,965
Other receivables from related parties	(56,648)	688,353
Other financial assets	177,286	105,781
Inventories	(2,861,001)	(2,111,175)
Prepaid expenses and other current assets	254,019	467,281
Increase (decrease) in:		
Accounts payable	2,578,736	(1,410,465)
Payables to related parties	(18,274)	(38,596)
Income tax payable	(454,674)	2,719,558
Accrued expenses and other current liabilities	2,319,917	(513,289)
Accrued pension cost	91,679	41,083
Deferred credits	26,592	(71,808)
Net cash provided by operating activities	117,143,802	146,197,410
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	(9,547,253)	(78,666,694)
Held-to-maturity financial assets		(16,141,019)
Investments accounted for using equity method	(7,220,679)	(1,495,552)
Financial assets carried at cost	(35,379)	(11,921)

Property, plant and equipment	(62,643,771)	(59,945,807)

(Continued)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	$ 18,344,519	$ 57,874,205
Held-to-maturity financial assets	9,200,400	8,512,000
Financial assets carried at cost		50,000
Property, plant and equipment and others	21,080	927,200
Proceeds from return of capital by investees	207,172	162,354
Increase in deferred charges	(2,028,206)	(755,982)
Increase in refundable deposits	(1,382,086)	(96)
Net cash used in investing activities	(55,084,203)	(89,491,312)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds payable	(2,500,000)	
Increase (decrease) in guarantee deposits	(1,249,407)	787,742
Cash dividends	(77,489,064)	(61,825,061)
Cash bonus paid to employees	(4,572,798)	(3,432,129)
Bonus to directors and supervisors	(285,800)	(257,410)
Proceeds from exercise of employee stock options	401,786	422,927
Net cash used in financing activities	(85,695,283)	(64,303,931)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,635,684)	(7,597,833)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	100,139,709	85,383,583
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 76,504,025	$ 77,785,750
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 420,000	$ 420,000
Income tax paid	$ 7,285,717	$ 3,146,676
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant, and equipment	$ 62,685,581	$ 66,386,191
Increase in payables to contractors and equipment suppliers	(41,810)	(6,440,384)

Cash paid	$ 62,643,771	$ 59,945,807
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of bonds payable	$ 4,500,000	$ 2,500,000
Current portion of other payables to related parties (under payables to related parties)	$	$ 699,195
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 1,488,860	$ 971,596
Transfer of available-for-sale financial assets and other net assets to investments accounted for using equity method (Note 7)	$	$ 26,821,648

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

Taiwan Semiconductor Manufacturing Company Limited
NOTES TO FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)
(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated 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 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 September 30, 2007 and 2006, the Company had 20,523 and 20,266 employees, respectively.

2. 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, 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 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

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.

Except structured time deposits whose fair value is estimated using valuation techniques, fair values of open-end mutual funds and publicly traded stocks are determined using the net assets value and the closing-price at the end of the period, respectively. For debt securities, fair value is determined using the average of bid and asked prices at the end of the period.

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, shipment is made, price is fixed or determinable, and collectibility is reasonably assured. Revenues from the design and manufacturing of photo masks, which are used as manufacturing tools in the fabrication process, are recognized when the photo masks are qualified by customers. Provisions for estimated sales returns and others are generally recorded in the period the related revenue is recognized, based on historical experience, management s judgment, and any known factors that would significantly affect the allowance.

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

Inventories

Inventories are 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. Period-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. Prior to January 1, 2006, the difference, if any, between the cost of investment and the Company s proportionate share of the investee s equity was amortized by the straight-line method over five years, with the amortization recorded 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 (SFAS No. 5), 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 and instead shall be tested for impairment annually. 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 percentage 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 are deferred in proportion to the Company s weighted-average ownership percentages in the investees with which the Company has a controlling interest. In transactions between equity method investees with which the Company has no controlling interest, 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.

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 and Assets Leased to Others

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, 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.

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 (SFAS No. 25), 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.

Effective January 1, 2007, the Company adopted the newly released Statement of Financial Accounting Standards No. 37, Accounting for Intangible Assets . The Company had reassessed the useful lives and the amortization method of its recognized intangible assets at the effective date. Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense 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 intra-period and inter-period allocations for its income tax whereby (1) a portion of current period s income tax expense is allocated to the cumulative effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

The R.O.C. government enacted the Alternative Minimum Tax Act (the AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the tax-exempt income under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

Stock-based Compensation

Employee stock option plans that are amended or have options granted on or after January 1, 2004 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.

Treasury Stock

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 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

In March 2007, the Accounting Research and Development Foundation of the Republic of China issued an interpretation that requires companies to record the bonus paid to directors, supervisors and employees as an expense rather than an appropriation of earnings. This interpretation should be applied to financial statements for the fiscal year beginning on or after January 1, 2008.

The Accounting Research and Development Foundation of the Republic of China also issued Statement of Financial Accounting Standards No. 39, Accounting for Share-based Payment (SFAS No.39) in August 2007, which requires companies to record share-based payment transactions in the financial statements at fair value. SFAS No.39 should be applied to financial statements for the fiscal year beginning on or after January 1, 2008.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (SFAS No. 34) and No. 36, Financial Instruments: Disclosure and Presentation .

The Company had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of

changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders equity.
The effect of adopting the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders Equity
Financial assets or liabilities at fair value through profit or loss	$ (246,186)	$
Available-for-sale financial assets		
	$ (246,186)	$

The adoption of the newly released SFASs resulted in a decrease in net income before cumulative effect of changes in accounting principles of NT$167,328 thousand, a decrease in net income of NT$413,514 thousand, and a decrease in basic earnings per share (after income tax) of NT$0.02, for the nine months ended September 30, 2006.
Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such a change in accounting principle did not have a material effect on the Company s financial statements as of and for the nine months ended September 30, 2006.

4. CASH AND CASH EQUIVALENTS

	September 30	
	2007	2006
Cash and deposits in banks	$ 44,552,995	$ 56,452,326
Repurchase agreements collaterized by government bonds	31,354,207	21,200,915
Asset-backed commercial papers	596,823	
Corporate notes		132,509
	$ 76,504,025	$ 77,785,750

5. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Nine Months Ended September 30	
	2007	2006
Balance, beginning of period	$ 690,931	$ 976,344
Write-off	(1,959)	(639)

Balance, end of period	$ 688,972	$ 975,705

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

	Nine Months Ended September 30	
	2007	**2006**
Balance, beginning of period	$ 2,751,065	$ 4,269,969
Provision	3,736,354	5,202,252
Write-off	(2,748,393)	(4,459,287)
Balance, end of period	$ 3,739,026	$ 5,012,934

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

	September 30	
	2007	**2006**
Derivatives financial assets		
Forward exchange contracts	$	$ 45,295
Cross currency swap contracts	366,445	
	$ 366,445	$ 45,295
Derivatives financial liabilities		
Forward exchange contracts	$ 127,588	$
Cross currency swap contracts	3,240	458,808
	$ 130,828	$ 458,808

The Company entered into derivative contracts during the nine months ended September 30, 2007 and 2006 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 prescribed by SFAS No. 34. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts as of September 30, 2007 and 2006:

	Maturity Date	Contract Amount (in Thousands)
September 30, 2007		
Sell EUR/buy NT$	October 2007 to July 2008	EUR 70,040
September 30, 2006		
Sell NT$/buy US$	October 2006 to November 2006	US$145,000

Outstanding cross currency swap contracts as of September 30, 2007 and 2006:

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
September 30, 2007			
October 2007 to November 2007	US$930,000	3.76%-5.80%	1.6%-3.69%
September 30, 2006			
October 2006 to November 2006	US$1,550,000	3.34%-5.50%	0.60%-2.72%

For the nine months ended September 30, 2007 and 2006, net losses arising from derivative financial instruments were NT$775,929 thousand (including realized settlement losses of NT$977,696 thousand and valuation gains of NT$201,767 thousand) and NT$1,797,738 thousand (including realized settlement losses of NT$1,384,224 thousand and valuation losses of NT$413,514 thousand), respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30	
	2007	2006
Open-end mutual funds	$ 15,403,622	$ 21,781,496
Government bonds	4,139,554	1,200,097
Corporate bonds	4,039,041	9,137,742
Structured time deposits	498,587	499,549
Agency bonds		4,786,766
Corporate issued asset-backed securities		3,237,614
	24,080,804	40,643,264
Current portion	(19,945,922)	(35,749,909)
	$ 4,134,882	$ 4,893,355

In 2004, the Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. In the second half year of 2006, the Company transferred investment portfolios managed by the fund managers of US$1,277,789 thousand to TSMC Global Ltd. (TSMC Global), a subsidiary of TSMC. The transferred investment portfolios held by TSMC Global are still being managed by the same fund managers in accordance with the aforementioned investment guidelines and terms.

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

	Principal Amount	Carrying Amount	Interest Rate	Maturity Date
September 30, 2007				
Step-up callable deposits				
Domestic deposits	$ 500,000	$ 498,587	1.76%	March 2008
September 30, 2006				
Step-up callable deposits				
Domestic deposits	$ 500,000	$ 499,549	1.76%	March 2008

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

8. HELD-TO-MATURITY FINANCIAL ASSETS

	September 30 2007	September 30 2006
Corporate bonds	$ 11,540,506	$ 14,670,013
Structured time deposits	8,726,720	11,281,560
Government bonds	8,068,418	11,016,286
	28,335,644	36,967,859
Current portion	(12,168,201)	(6,220,737)
	$ 16,167,443	$ 30,747,122

As of September 30, 2007 and 2006, structured time deposits categorized as held-to-maturity financial assets consisted of the following:

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