

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

August 29, 2008

**1934 Act Registration No. 1-14700**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 6-K**  
**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**For the month of August 2008**  
**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  Form 40-F

(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  No

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

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**Taiwan Semiconductor Manufacturing  
Company Limited  
Financial Statements for the  
Six Months Ended June 30, 2008 and 2007 and  
Independent Auditors Report**

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**INDEPENDENT AUDITORS REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2008 and 2007, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, effective January 1, 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.

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We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the six months ended June 30, 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.  
July 10, 2008

*Notice to Readers*

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

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

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**Taiwan Semiconductor Manufacturing Company Limited****BALANCE SHEETS****JUNE 30, 2008 AND 2007****(In Thousands of New Taiwan Dollars, Except Par Value)**

	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 146,745,700	25	\$ 143,256,382	23
Financial assets at fair value through profit or loss (Notes 2 and 5)	22,996		172,240	
Available-for-sale financial assets (Notes 2, 6 and 23)	6,880,784	1	15,259,717	3
Held-to-maturity financial assets (Notes 2 and 7)	5,771,334	1	9,909,497	2
Receivables from related parties (Note 24)	24,139,822	4	20,675,167	3
Notes and accounts receivable	20,912,315	4	16,923,301	3
Allowance for doubtful receivables (Notes 2 and 8)	(687,619)		(694,039)	
Allowance for sales returns and others (Notes 2 and 8)	(4,194,528)	(1)	(2,595,838)	
Other receivables from related parties (Note 24)	1,644,824		1,280,419	
Other financial assets	417,822		545,717	
Inventories, net (Notes 2 and 9)	20,816,966	4	21,677,958	3
Deferred income tax assets (Notes 2 and 17)	6,004,789	1	5,622,000	1
Prepaid expenses and other current assets	927,421		1,197,661	
<b>Total current assets</b>	<b>229,402,626</b>	<b>39</b>	<b>233,230,182</b>	<b>38</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 23)</b>				
Investments accounted for using equity method	106,640,304	18	105,071,276	17
Available-for-sale financial assets			4,518,721	1
Held-to-maturity financial assets	7,240,785	1	20,788,140	3
Financial assets carried at cost	747,521		747,218	
<b>Total long-term investments</b>	<b>114,628,610</b>	<b>19</b>	<b>131,125,355</b>	<b>21</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)</b>				
<b>Cost</b>				
Buildings	103,267,057	17	99,707,179	16
Machinery and equipment	618,319,896	104	550,470,017	89
Office equipment	9,477,430	2	8,908,044	1
	731,064,383	123	659,085,240	106
Accumulated depreciation	(520,741,784)	(87)	(452,483,898)	(73)

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Advance payments and construction in progress	26,550,147	4	31,434,579	5
Net property, plant and equipment	236,872,746	40	238,035,921	38
<b>INTANGIBLE ASSETS</b>				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2 and 13)	7,068,055	1	5,179,415	1
Total intangible assets	8,635,811	1	6,747,171	1
<b>OTHER ASSETS</b>				
Deferred income tax assets (Notes 2 and 17)	4,724,630	1	8,489,812	1
Refundable deposits	2,722,875		2,552,561	1
Others (Note 2)	281,402		64,278	
Total other assets	7,728,907	1	11,106,651	2
<b>TOTAL</b>	<b>\$ 597,268,700</b>	<b>100</b>	<b>\$ 620,245,280</b>	<b>100</b>

**LIABILITIES AND SHAREHOLDERS EQUITY**

**CURRENT LIABILITIES**

Financial liabilities at fair value through profit or loss (Notes 2 and 5)	\$ 115,320		\$ 3,460	
Accounts payable	8,734,095	2	7,497,105	1
Payables to related parties (Note 24)	2,486,070		3,108,623	1
Income tax payable (Notes 2 and 17)	5,718,520	1	4,410,166	1
Cash dividends payable (Note 19)	76,881,311	13	77,489,064	12
Bonuses payable to employees and directors (Notes 3 and 19)	12,753,706	2	4,572,798	1
Payables to contractors and equipment suppliers	8,614,287	1	16,515,598	3
Accrued expenses and other current liabilities (Note 15)	19,154,139	4	9,835,302	1
Current portion of bonds payable (Note 14)	8,000,000	1	4,500,000	1
Total current liabilities	142,457,448	24	127,932,116	21

**LONG-TERM LIABILITIES**

Bonds payable (Note 14)	4,500,000	1	12,500,000	2
Other long-term payables (Note 15)	1,005,988		1,343,935	
Total long-term liabilities	5,505,988	1	13,843,935	2

## OTHER LIABILITIES

Accrued pension cost (Notes 2 and 16)	3,691,624	1	3,583,542	1
Guarantee deposits (Note 26)	1,704,666		3,001,515	
Deferred credits (Notes 2 and 24)	668,408		997,610	

Total other liabilities	6,064,698	1	7,582,667	1
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Total liabilities	154,028,134	26	149,358,718	24
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## CAPITAL STOCK \$10 PAR VALUE (Note 19)

Authorized: 28,050,000 thousand shares in 2008

28,050,000 thousand shares in 2007

Issued: 25,631,371 thousand shares in 2008

26,423,517 thousand shares in 2007

To be issued	5,221,238	1		
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	256,313,709	43	264,235,168	43
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	5,221,238	1		
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	261,534,947	44	264,235,168	43
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CAPITAL SURPLUS (Notes 2 and 19)	50,916,645	9	53,725,604	8
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## RETAINED EARNINGS (Note 19)

Appropriated as legal capital reserve	67,324,393	11	56,406,684	9
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Appropriated as special capital reserve	391,857		629,550	
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Unappropriated earnings	84,236,793	14	96,973,825	16
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	151,953,043	25	154,010,059	25
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## OTHERS (Notes 2, 21 and 23)

Cumulative translation adjustments	(6,787,320)	(1)	(613,674)	
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Unrealized gain on financial instruments	468,749		447,480	
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Treasury stock: 250,770 thousand shares in 2008

34,096 thousand shares in 2007	(14,845,498)	(3)	(918,075)	
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	(21,164,069)	(4)	(1,084,269)	
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Total shareholders' equity	443,240,566	74	470,886,562	76
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TOTAL	\$ 597,268,700	100	\$ 620,245,280	100
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The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated July 10, 2008)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
GROSS SALES (Notes 2 and 24)	\$ 173,877,093		\$ 138,166,350	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	3,052,847		1,967,831	
NET SALES	170,824,246	100	136,198,519	100
COST OF SALES (Notes 18 and 24)	94,108,599	55	81,342,396	60
GROSS PROFIT	76,715,647	45	54,856,123	40
UNREALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	130,977		178,259	
REALIZED GROSS PROFIT	76,584,670	45	54,677,864	40
OPERATING EXPENSES (Notes 18 and 24)				
Research and development	9,874,836	6	7,279,536	5
General and administrative	5,171,447	3	3,436,220	2
Marketing	1,261,930	1	705,335	1
Total operating expenses	16,308,213	10	11,421,091	8
INCOME FROM OPERATIONS	60,276,457	35	43,256,773	32
NON-OPERATING INCOME AND GAINS				
Valuation gain on financial instruments, net (Notes 2, 5 and 23)	1,737,652	1		
Interest income	1,441,583	1	1,447,702	1
Equity in earnings of equity method investees, net (Notes 2 and 10)	946,787	1	1,983,358	2
Settlement income (Note 26)	456,195		491,385	1
Gain on settlement and disposal of financial assets, net (Notes 2, 5 and 23)	391,888		233,970	
Technical service income (Notes 24 and 26)	364,485		353,441	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 24)	153,449		144,800	
Foreign exchange gain, net (Note 2)			214,508	
Others (Note 24)	314,240		488,028	

Total non-operating income and gains	5,806,279	3	5,357,192	4
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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Foreign exchange loss, net (Note 2)	\$ 1,790,609	1	\$	
Provision for litigation loss (Note 26h)	459,078			
Interest expense	177,500		300,973	
Valuation loss on financial instruments, net (Notes 2, 5 and 23)			579,646	1
Others	47,052		29,957	
<b>Total non-operating expenses and losses</b>	<b>2,474,239</b>	<b>1</b>	<b>910,576</b>	<b>1</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>63,608,497</b>	<b>37</b>	<b>47,703,389</b>	<b>35</b>
<b>INCOME TAX EXPENSE (Notes 2 and 17)</b>	<b>6,694,609</b>	<b>4</b>	<b>3,380,808</b>	<b>2</b>
<b>NET INCOME</b>	<b>\$ 56,913,888</b>	<b>33</b>	<b>\$ 44,322,581</b>	<b>33</b>

	<b>2008</b>		<b>2007</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
<b>EARNINGS PER SHARE (NT\$, Note 22)</b>				
Basic earnings per share	\$ 2.49	\$ 2.22	\$ 1.81	\$ 1.68
Diluted earnings per share	\$ 2.48	\$ 2.22	\$ 1.81	\$ 1.68

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):

	<b>2008</b>	<b>2007</b>
<b>NET INCOME</b>	<b>\$ 57,016,167</b>	<b>\$ 44,424,343</b>
<b>EARNINGS PER SHARE (NT\$)</b>		
Basic earnings per share	\$ 2.23	\$ 1.68
Diluted earnings per share	\$ 2.22	\$ 1.68

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

(With Deloitte & Touche audit report dated July 10,  
2008)

(Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

Common Shares Amount	To Be Issued Shares (in Thousands)		Capital Surplus	Legal Capital Reserve	Retained Earnings		Total	Cumulative Translation Adjustments	Other Unrealized Gain (Loss) Financial Instruments
	Amount	Amount			Capital Reserve	Unappropriated Earnings			
264,271,037	\$		\$ 53,732,682	\$ 56,406,684	\$ 629,550	\$ 161,828,337	\$ 218,864,571	\$ (1,072,853)	\$ 680,9
				10,917,709		(10,917,709)			
					(237,693)	237,693			
						(3,939,883)	(3,939,883)		
	393,988	3,939,883				(3,939,883)	(3,939,883)		
						(76,881,311)	(76,881,311)		
	51,254	512,542				(512,542)	(512,542)		
						(176,890)	(176,890)		
	76,881	768,813	(768,813)						
						56,913,888	56,913,888		
			(186,344)						









**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
(In Thousands of New Taiwan Dollars)

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 56,913,888	\$ 44,322,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,227,938	36,293,514
Unrealized gross profit from affiliates	130,977	178,259
Amortization of premium/ discount of financial assets	(51,144)	(64,051)
Gain on disposal of available-for-sale financial assets, net	(391,218)	(233,970)
Gain on disposal of financial assets carried at cost, net	(670)	
Equity in earnings of equity method investees, net	(946,787)	(1,983,358)
Dividends received from equity method investees	589,071	
Gain on disposal of property, plant and equipment and other assets, net	(153,449)	(142,673)
Deferred income tax	1,780,514	(518,685)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(113,239)	(134,930)
Receivables from related parties	2,561,826	(3,805,658)
Notes and accounts receivable	(3,000,987)	(645,137)
Allowance for doubtful receivables	(1,353)	3,108
Allowance for sales returns and others	337,843	(155,227)
Other receivables from related parties	222,924	(145,024)
Other financial assets	(86,124)	107,743
Inventories	170,176	(2,525,744)
Prepaid expenses and other current assets	(65,956)	23,538
Increase (decrease) in:		
Accounts payable	(751,723)	1,353,426
Payables to related parties	(513,560)	(218,293)
Income tax payable	(5,259,443)	(3,440,252)
Bonuses payable to employees and directors	8,636,933	
Accrued expenses and other current liabilities	302,852	1,421,840
Accrued pension cost	33,945	53,426
Deferred credits	(47,873)	(47,872)
 Net cash provided by operating activities	 96,525,361	 69,696,561
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale financial assets	(4,300,000)	(2,151,252)
Held-to-maturity financial assets	(549,455)	
Financial assets carried at cost	(1,142)	(34,375)
Investments accounted for using equity method	(301,607)	(2,054,634)

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Property, plant and equipment	(36,086,150)	(38,511,341)
Proceeds from disposal or redemption of:		
Financial assets carried at cost	2,451	
Available-for-sale financial assets	21,235,748	15,163,560
Held-to-maturity financial assets	7,788,000	6,825,120
Property, plant and equipment and other assets	1,764,920	4,787
		(Continued)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**  
**(In Thousands of New Taiwan Dollars)**

	<b>2008</b>	<b>2007</b>
Proceeds from return of capital by investees	\$ 114,255	\$ 44,258
Increase in deferred charges	(1,854,102)	(1,322,268)
Decrease (increase) in refundable deposits	18,663	(1,246,327)
 Net cash used in investing activities	 (12,168,419)	 (23,282,472)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term bonds payable		(2,500,000)
Decrease in guarantee deposits	(536,011)	(808,446)
Proceeds from exercise of employee stock options	171,563	296,830
Bonus to directors and supervisors		(285,800)
Repurchase of treasury stock	(9,668,896)	
 Net cash used in financing activities	 (10,033,344)	 (3,297,416)
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 74,323,598	 43,116,673
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	 72,422,102	 100,139,709
 <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	 \$ 146,745,700	 \$ 143,256,382
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 355,000	\$ 420,000
Income tax paid	\$ 10,105,861	\$ 7,330,375
 <b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant and equipment	\$ 39,310,697	\$ 44,357,416
Increase in payables to contractors and equipment suppliers	(3,224,547)	(5,846,075)
 Cash paid	 \$ 36,086,150	 \$ 38,511,341
 Disposal of property, plant and equipment and other assets	 \$ 1,901,048	 \$ 7,313
Increase in other payables to related parties	(136,128)	(2,526)

Cash received	\$ 1,764,920	\$ 4,787
Repurchase of treasury stock	\$ 13,927,423	\$
Increase in accrued expenses and other current liabilities	(4,258,527)	
Cash paid	\$ 9,668,896	\$
NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	\$ 8,000,000	\$ 4,500,000
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 2,012,071	\$ 2,433,227

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

(With Deloitte & Touche audit report dated July 10, 2008)

(Concluded)

**Taiwan Semiconductor Manufacturing Company Limited**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 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 June 30, 2008 and 2007, the Company had 20,835 and 20,572 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, repurchase agreements collateralized by short-term notes 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.

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### **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 period. For debt securities, fair value is determined using the average of bid and asked prices at the end of the period.

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

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

### **Held-to-maturity Financial Assets**

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

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

### **Allowance for Doubtful Receivables**

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

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**Revenue Recognition and Allowance for Sales Returns and**