Winbond Electronics Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2010 and 2009 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Winbond Electronics Corporation

We have audited the accompanying consolidated balance sheets of Winbond Electronics Corporation and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' 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 financial statements based on our audits. Certain long-term investments were accounted for under the equity method based on financial statements as of and for the years ended December 31, 2010 and 2009 of the investees, which were audited by other auditors. Our opinion, insofar as it relates to such investments, is based solely on the reports of other auditors. The investments in such investees amounted to NT$21,598 thousand and NT$60,873 thousand which constituted 0.03% and 0.09% of the consolidated total assets as of December 31, 2010 and 2009, respectively; investment income amounted to NT$1,577 thousand and NT$6,734 thousand which constituted 0.04% and (0.08%) of the consolidated income (loss) before income tax for the year then ended, respectively.

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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2010 and 2009, and the consolidated results of their operations and their 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 stated in Note 3 to the financial statements, effective January 1, 2009, the Company adopted the newly revised Statement of Financial Accounting Standards No. 10, “Accounting for Inventories”.

March 4, 2011

<u>Notice to Readers</u>

The accompanying consolidated 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 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 consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010		2009	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 6,404,091	10	$ 4,747,425	7
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	64,126	-	25,566	-
Available-for-sale financial assets, current (Notes 2 and 8)	1,805,148	3	2,220,818	3
Notes receivable, net (Notes 2 and 6)	2,234	-	5,186	-
Accounts receivable, net (Notes 2 and 6)	4,404,990	7	3,420,849	5
Accounts receivable from related parties, net (Notes 6 and 22)	39,045	-	137,698	-
Other financial assets, current	107,539	-	128,137	-
Inventories (Notes 2 and 7)	6,228,216	9	5,138,017	8
Deferred income tax assets, current (Notes 2 and 20)	197,627	-	213,475	1
Other current assets	624,515	1	714,979	1
Total current assets	19,877,531	30	16,752,150	25
FUND AND INVESTMENTS				
Available-for-sale financial assets, noncurrent (Notes 2 and 8)	218,251	-	44,375	-
Financial assets carried at cost, noncurrent (Notes 2 and 9)	1,364,104	2	1,443,653	2
Long-term equity investments at equity method (Notes 2 and 10)	86,346	-	60,873	-
Total fund and investments	1,668,701	2	1,548,901	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost				
Land	870,681	1	877,705	1
Buildings	19,676,678	30	19,088,463	29
Machinery and equipment	71,437,614	107	66,211,050	98
Other equipment	3,129,993	5	2,787,345	4
Total cost	95,114,966	143	88,964,563	132
Accumulated depreciation	(55,681,912)	(84)	(46,551,934)	(69)
Construction in progress and prepayments on purchase of equipment	57,814	-	636,103	1
Property, plant and equipment, net	39,490,868	59	43,048,732	64
INTANGIBLE ASSETS (Notes 2 and 12)	1,128,628	2	1,626,395	2
OTHER ASSETS				
Refundable deposits	152,460	1	176,759	1
Deferred income tax assets, noncurrent (Notes 2 and 20)	4,119,612	6	4,153,542	6
Others	137,850	-	130,593	-
Total other assets	4,409,922	7	4,460,894	7
TOTAL	$ 66,575,650	100	$ 67,437,072	100

	2010		2009	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank borrowings (Note 13)	$ 1,615,815	2	$ 1,475,169	2
Notes payable	1,137,439	2	1,261,044	2
Accounts payable	2,504,418	4	3,404,260	5
Payable on equipment	1,094,575	1	1,549,772	3
Accrued expenses and other payables	2,431,889	4	2,130,701	3
Current portion of long-term liabilities (Note 14)	8,491,670	13	7,616,673	11
Other current liabilities	120,721	-	31,769	-
Total current liabilities	17,396,527	26	17,469,388	26
LONG-TERM LIABILITIES				
Long-term debt (Note 14)	10,124,990	15	15,116,660	22
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 15)	338,958	1	305,309	1
Reserve for product guarantee (Note 2)	59,943	-	47,985	-
Other liabilities - others	88,558	-	82,074	-
Total other liabilities	487,459	1	435,368	1
Total liabilities	28,008,976	42	33,021,416	49
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT				
Common stock (Note 16)	36,693,502	55	36,564,972	54
Capital surplus				
Paid-in capital in excess of par - common stock	-	-	10,786,697	16
Treasury stock transaction	1,971,862	3	1,971,862	3
Adjustment on long-term equity investments under equity method	23,912	-	37,424	-
Stock option (Notes 2 and 17)	20,104	-	16,196	-
Others	288,066	-	368,825	1
Retained earnings				
Accumulated deficit	(1,640,149)	(2)	(15,977,842)	(24)
Other equity				
Cumulative translation adjustments (Note 2)	242,163	-	446,667	1
Unrealized loss on financial instruments (Note 2)	(51,936)	-	(254,377)	(1)
Treasury stock (Notes 2 and 16)	(106,387)	-	(106,387)	-
Equity attributable to stockholders of the parent	37,441,137	56	33,854,037	50
MINORITY INTEREST	1,125,537	2	561,619	1
Total stockholders' equity	38,566,674	58	34,415,656	51
TOTAL	$ 66,575,650	100	$ 67,437,072	100

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

(With Deloitte & Touche audit report dated March 4, 2011)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
NET SALES	$ 39,934,358	100	$ 26,695,369	100
COST OF SALES (Note 7)	30,145,765	76	26,698,627	100
REALIZED (UNREALIZED) INTERCOMPANY PROFIT	73	-	(521)	-
GROSS PROFIT (LOSS)	9,788,666	24	(3,779)	-
OPERATING EXPENSES				
Selling expenses	1,204,043	3	1,758,377	6
General and administrative expenses	1,008,787	2	1,022,497	4
Research and development expenses	3,868,554	10	3,201,607	12
Total operating expenses	6,081,384	15	5,982,481	22
INCOME (LOSS) FROM OPERATIONS	3,707,282	9	(5,986,260)	(22)
NON-OPERATING INCOME AND GAINS				
Interest income	22,412	-	23,447	-
Investment income recognized under equity method (Note 10)	24,510	-	6,734	-
Investment income	51,984	-	64,444	-
Gain on disposal of property, plant and equipment (Note 2)	49,907	-	36,376	-
Gain on disposal of investments	819,284	2	-	-
Gain on valuation of financial instruments (Note 5)	134,782	1	41,644	-
Others	29,563	-	137,600	1
Total non-operating income and gains	1,132,442	3	310,245	1
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	596,451	1	662,228	3
Other investment loss	17,171	-	57,400	-
Loss on disposal of property, plant and equipment (Note 2)	20,786	-	75,162	-
Loss on disposal of investments	-	-	1,970,882	8
Foreign exchange loss, net	259,669	1	26,036	-
Others	45,472	-	58,596	-
Total non-operating expenses and losses	939,549	2	2,850,304	11

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
INCOME (LOSS) BEFORE INCOME TAX	$ 3,900,175	10	$ (8,526,319)	(32)
INCOME TAX EXPENSE (Notes 2 and 20)	(123,509)	(1)	(60,732)	-
NET INCOME (LOSS)	$ 3,776,666	9	$ (8,587,051)	(32)
ATTRIBUTED TO				
Stockholders of the parent	$ 3,550,996	9	$ (8,612,939)	(32)
Minority interest	225,670	-	25,888	-
	$ 3,776,666	9	$ (8,587,051)	(32)

	2010		2009	
	Before Income Tax and Minority Interest	**After Income Tax and Attributed to Stockholders of the Parent**	**Before Income Tax and Minority Interest**	**After Income Tax and Attributed to Stockholders of the Parent**
EARNINGS (LOSS) PER SHARE (Notes 2 and 21)				
Basic earnings (loss) per share	$ 1.07	$ 0.97	$ (2.34)	$ (2.36)
Diluted earnings (loss) per share	$ 1.06	$ 0.97	$ -	$ -

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

(With Deloitte & Touche audit report dated March 4, 2011) (Concluded)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

		Capital Surplus					Retained Earnings	Other Equity				
	Common Stock	Paid-in Capital in Excess of Par - Common Stock	Treasury Stock Transaction	Adjustments on Long-term Equity Investments under Equity Method	Stock Option	Others	Accumulated Deficit	Cumulative Translation Adjustments	Unrealized Loss on Financial Instruments	Treasury Stock	Minority Interests	Total
BALANCE, JANUARY 1, 2009	$ 37,273,812	$ 10,995,806	$ 1,544,992	$ 96,059	$ 2,246	$ 368,825	$ (7,364,903)	$ 519,091	$ (4,559,530)	$ (622,089)	$ -	$ 38,254,309
Net loss for 2009	-	-	-	-	-	-	(8,612,939)	-	-	-	25,888	(8,587,051)
Changes in translation adjustments	-	-	-	-	-	-	-	(72,424)	-	-	-	(72,424)
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	4,305,153	-	-	4,305,153
Capital surplus from investee under equity method	-	-	-	869	-	-	-	-	-	-	-	869
Adjustment to capital surplus due to disposal of investments	-	-	-	(59,504)	-	-	-	-	-	-	-	(59,504)
Subsidiary dispose treasury stock (Note 16)	-	-	(19,243)	-	-	-	-	-	-	43,866	-	24,623
Cancellation of treasury stock	(708,840)	(209,109)	446,113	-	-	-	-	-	-	471,836	-	-
Compensation cost of employee stock options	-	-	-	-	13,950	-	-	-	-	-	-	13,950
Changes in minority interests	-	-	-	-	-	-	-	-	-	-	535,731	535,731
BALANCE, DECEMBER 31, 2009	36,564,972	10,786,697	1,971,862	37,424	16,196	368,825	(15,977,842)	446,667	(254,377)	(106,387)	561,619	34,415,656
Offsetting accumulated deficit (Note 18)	-	(10,786,697)	-	-	-	-	10,786,697	-	-	-	-	-
Net income for 2010	-	-	-	-	-	-	3,550,996	-	-	-	225,670	3,776,666
Changes in translation adjustments	-	-	-	-	-	-	-	(204,504)	-	-	-	(204,504)
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	202,441	-	-	202,441
Capital surplus from investee under equity method	-	-	-	2,688	-	-	-	-	-	-	-	2,688
Adjustment to capital surplus due to disposal of investments	-	-	-	(16,200)	-	-	-	-	-	-	-	(16,200)
Issuance of stock from exercising employee stock options (Note 16)	128,530	-	-	-	(8,955)	(80,759)	-	-	-	-	-	38,816
Compensation cost of employee stock options	-	-	-	-	12,863	-	-	-	-	-	-	12,863
Changes in minority interests	-	-	-	-	-	-	-	-	-	-	338,248	338,248
BALANCE, DECEMBER 31, 2010	$ 36,693,502	$ -	$ 1,971,862	$ 23,912	$ 20,104	$ 288,066	$ (1,640,149)	$ 242,163	$ (51,936)	$ (106,387)	$ 1,125,537	$ 38,566,674

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

(With Deloitte & Touche audit report dated March 4, 2011)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 3,776,666	$ (8,587,051)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	10,524,025	10,122,312
Amortization	548,651	421,294
Loss on bad debt	14,987	667,155
Loss on (recovery from) decline in market value and obsolescence and abandonment of inventories	101,943	(1,274,332)
Compensation cost of employee stock options	13,856	14,819
(Gain) loss on disposal of investments	(819,284)	1,970,882
Investment income recognized under equity method	(24,510)	(6,734)
Impairment loss on financial assets carried at cost	17,171	57,400
Net (gain) loss on disposal of property, plant and equipment	(29,121)	38,786
Recovery from obsolescence of spare parts	(113)	(16,884)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	(38,561)	(5,713)
Notes receivable	2,952	8,026
Accounts receivable	(999,129)	(1,565,146)
Accounts receivable from related parties	98,652	(135,471)
Other financial assets, current	20,600	(10,059)
Inventories	(1,192,142)	816,288
Other current assets	90,464	100,116
Deferred income tax assets	49,779	6,936
Other assets	(4,974)	74,533
Notes payable	(123,605)	829,930
Accounts payable	(899,842)	1,455,842
Accrued expenses and other payables	341,270	474,254
Other current liabilities	88,953	(59,230)
Other liabilities	52,091	(148,772)
Net cash provided by operating activities	11,610,779	5,249,181
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(7,474,677)	(4,275,826)
Acquisition of long-term investments under equity method	-	(27,370)
Acquisition of available-for-sale financial assets	(190,437)	(149,525)
Acquisition of financial assets carried at cost	(30,000)	(13,696)
Proceeds from disposal of long-term investments under equity method	-	347
Proceeds from disposal of available-for-sale financial assets	399,858	2,703,945
Proceeds from disposal of financial assets carried at cost	44,890	27,358
Proceeds from return of capital by financial assets carried at cost	4,898	40,583
Proceeds from disposal of property, plant and equipment	51,365	365,235
Payments for intangible assets	(26,734)	(1,375,219)
Net cash used in investing activities	(7,220,837)	(2,704,168)

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank borrowings	$ 140,645	$ (2,042,957)
Decrease in commercial paper payable	-	(297,154)
Proceeds from long-term debt	3,500,000	3,700,000
Repayment of long-term debt	(7,616,673)	(7,666,667)
Transfer of treasury stock	-	24,623
Increase in minority interest	1,302,071	750,258
Proceeds from exercise of employee stock options	38,816	-
Net cash used in financing activities	(2,635,141)	(5,531,897)
FOREIGN EXCHANGE ADJUSTMENT	(98,135)	(39,288)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,656,666	(3,026,172)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,747,425	7,773,597
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,404,091	$ 4,747,425
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	$ 647,615	$ 716,441
Cash paid for income tax during the year	$ 68,534	$ 84,269
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 8,491,670	$ 7,616,673
Cumulative translation adjustments	$ (204,504)	$ (72,424)
Unrealized gain on financial instruments	$ 202,441	$ 4,305,153
Adjustment to capital surplus due to disposal of investment	$ (16,200)	$ (59,504)
Capital surplus from investee under equity method	$ 2,688	$ 869
Cancellation of treasury stock	$ -	$ 471,836
CASH PAYMENT FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Net increase in acquisition of property, plant and equipment	$ 7,019,480	$ 3,711,423
Add payable for property, plant and equipment, beginning of year	1,549,772	2,114,175
Less payable for property, plant and equipment, end of year	(1,094,575)	(1,549,772)
Cash payment for acquisitions of property, plant and equipment	$ 7,474,677	$ 4,275,826

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

(With Deloitte & Touche audit report dated March 4, 2011) (Concluded)

1. ORGANIZATION AND OPERATIONS

Winbond Electronics Corporation ("Winbond") was incorporated in the Republic of China (the "ROC") on September 29, 1987 and is engaged in the design, development, manufacture and marketing of Very Large Scale Integration ("VLSI") integrated circuits ("ICs") used in a variety of microelectronic applications. In addition to its own products, Winbond offers a foundry service for other Taiwanese and foreign IC producers and designers. A public offering of Winbond's common stocks was made on October 18, 1995, and the stocks are traded on the Taiwan Stock Exchange.

There are 3,443 and 3,309 employees in Winbond and its subsidiaries (the "Company") as of December 31, 2010 and 2009, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. In preparing consolidated financial statements in conformity with these guidelines and principles, the Company is required to make some estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, pension liabilities and product guarantee. Actual results could differ from these estimates.

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 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 financial statements shall prevail. However, the accompanying consolidated financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

The significant accounting principles are summarized as follows:

Principles of Consolidation

Winbond's investees in which ownership interest is over 50% or with control ability are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated upon consolidation. The consolidated entities (collectively, the "Company") are summarized as follows:

Name	Capital (In Thousands)		Basis for Consolidation
Winbond	NT$	36,693,502	Parent company
Winbond Int'l Corporation ("WIC")	US$	96,830	Winbond holds 100% ownership interest
Winbond Electronics Corp. America ("WECA")	US$	58,917	WIC holds 100% ownership interest
Newfound Asian Corp. ("NAC")	US$	6,555	Winbond holds 100% ownership interest

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Name	Capital (In Thousands)		Basis for Consolidation
Baystar Holdings Ltd. ("BHL")	US$	22,590	NAC holds 100% ownership interest
Win Investment Corporation ("Win")	NT$	1,800,000	Winbond holds 100% ownership interest
Peaceful River Corp. ("PRC")	US$	12,610	Win holds 100% ownership interest
Landmark Group Holdings Ltd. ("Landmark")	US$	12,168	Winbond holds 100% ownership interest
Winbond Electronics Corp. Japan ("WECJ")	JPY	148,500	Landmark holds 100% ownership interest
Winbond Electronics (HK) Limited ("WEHK")	US$	64	Winbond holds 100% ownership interest
Mobile Magic Design Corporation ("MMD")	NT$	50,000	Winbond holds 100% ownership interest
Nuvoton Technology Corporation ("NTC")	NT$	2,075,544	Winbond holds 61% ownership interest directly and 1% ownership interest indirectly
Pigeon Creek Holding Co., Ltd. ("PCH")	US$	12,700	NTC holds 100% ownership interest
Nuvoton Technology Corp. America ("NTCA")	US$	6,050	PCH holds 100% ownership interest
Marketplace Management Ltd. ("MML")	US$	4,835	NTC holds 100% ownership interest
Goldbond LLC ("GLLC")	US$	40,880	MML holds 100% ownership interest
Nuvoton Electronics Technology (Shanghai) Limited ("NTSH")	RMB	16,555	GLLC holds 100% ownership interest
Winbond Electronics (Nanjing) Ltd. ("WENJ")	RMB	4,046	GLLC holds 100% ownership interest
Nuvoton Investment Holding Ltd. ("NIH")	US$	21,000	NTC holds 100% ownership interest
Nuvoton Technology Israel Ltd. ("NTIL")	US$	227 dollars	NIH holds 100% ownership interest
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	US$	13,769	NTC holds 100% ownership interest
Nuvoton Electronics Technology ("Shenzhen") Limited ("NTSZ")	RMB	46,434	NTHK holds 100% ownership interest

(Concluded)

Current/Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents

Cash includes unrestricted cash on hand and cash in bank. Government bonds under repurchase agreements and 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 Instrument at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets and financial liabilities held for trading purpose or upon initial recognition designated by the entity as at fair value through profit or loss. Upon initial recognition, they are recognized at the fair values plus transaction costs. After initial recognition, they are measured at fair values and the changes in the fair values are recognized as the profits or losses. Cash dividends received are recorded as dividends revenue, including the dividends received in the year of acquisition. When the financial instruments are disposed of, the difference between carrying amount and the price received or paid is recognized as the profit or loss. All purchases and sales of investments are recorded on the trade date basis.

Derivatives that are not subject to measurement under hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss. The positive fair values of derivatives are recognized as financial assets; negative fair values are recognized as financial liabilities.

The fair value of open-end mutual fund is the published fair value per unit at the balance sheet date. Marketable securities are stated at the closing price at the balance sheet date.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is determined by the Company’s management based on the evaluation of the probability of collection of notes and accounts receivable. The Company determines the amount of allowance for doubtful accounts by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition

Sales are recognized when titles of products and risks of ownership are transferred to customers.

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item-by-item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and selling costs.

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 of the financial assets. After initial recognition, they are measured at fair value and the changes in fair value of available-for-sale financial assets are recorded as an adjustment of stockholders’ equity. When the financial assets are disposed of, the related accumulated fair value changes are taken out of stockholders’ equity and recognized in the profit and loss. All purchases and sales of available-for-sale financial assets are recorded on the trade date basis.

Stock dividends are recorded as an increase in the number of shares and do not affect investment income or the carrying amount of the investment.

The fair value of open-end mutual fund is the published fair value per unit at the balance sheet date. Marketable securities are stated at the closing price at the balance sheet date.

If there is objective evidence which indicates that the financial assets are 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 stockholders’ 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.

Financial Assets Carried at Cost

Equity instruments, including unlisted stocks, are measured by the original cost since their fair value can't be reliably measured. Accounting policies for dividends received are similar to those in available-for-sale financial assets.

An impairment loss is recognized if there is objective evidence of impairment and subsequent reversal of such impairment loss is not allowed.

Long-term Equity Investments Accounted for Using Equity Method

Investments in corporations in which the Company's ownership interest is over 20% or the Company exercises influence on the operating and financial policy decision are accounted for by the equity method.

When equity investments are made, the excess of the purchase cost over the fair value of net assets representing goodwill will not be amortized, but will be tested for impairment periodically, or more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable.

When the Company subscribes for additional investee shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee will differ from the amount of the Company's share of the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. If the balance of the capital surplus account relating to a long-term equity investment is not sufficient to absorb such an adjustment, any excess is charged against retained earnings.

If there is objective evidence which indicates that the financial assets are impaired, a loss is recognized. For those investees over which the Company exercises significant influence on their operating and financial decision, the assessment of impairment is based on carrying value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of property, plant and equipment are capitalized.

Interest is capitalized during the construction period of property, plant and equipment until a qualifying asset is substantially completed and ready for its intended use.

Depreciation is provided on the straight-line method over the following estimated useful lives of the related assets, plus one additional year for salvage:

Buildings	5 to 20 years
Machinery and equipment	5 years
Other equipment	3 to 5 years

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

When an indication of significant impairment is determined, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in the future period, the subsequent reversal of the impairment loss would be recognized as a gain. However, the increased carrying amount of an asset due to reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognized for the assets in prior years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts and any related gain or loss is included in non-operating income or non-operating expenses.

Intangible Assets

Intangible assets are stated at acquisition cost less accumulated amortization and included in assets. Such assets are amortized over three to five years from the commencement of production using the straight-line method. If the assets' future benefits are impaired, the excess of carrying amount will be recognized in current loss to present the fair value of the assets.

Reserve for Product Guarantee

For potential product risk, the Company accrues reserve for product guarantee based on the commitment to specific customers.

Benefit Pension Plan

For employees under defined contribution plans, pension costs are recorded based on the actual contributions made to employee's personal pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Transaction in Foreign Currencies and Translation of Foreign Currency Financial Statements

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

Foreign non-currency assets and liabilities (e.g., equity instrument) which are measured at fair value shall be revalued at the balance sheet date exchange rates. The related translation adjustment on available-for-sale financial assets is included in stockholders' equity; and the translation adjustment on financial instrument at fair value through profit or loss is recorded in current year's profit or loss. Financial assets carried at cost are measured at historical rate on the transaction dates.

The aforesaid balance sheet date exchange rates are based on the middle prices of the major transaction banks.

Income Tax

The Company uses an inter-period tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effect of temporary differences, operating loss carryforwards and investment tax credits. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Income tax credits, such as for purchase of machinery, research and development expenses and training expenses, are recognized as deduction of current income tax expense.

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

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) applicable to common stock by the weighted average number of shares outstanding. For a diluted basis, net earnings and shares outstanding are adjusted for diluted potential common stock.

Stock-based Compensation

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (“ARDF”). Under the interpretations, the Company adopted the intrinsic value method. Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, “Accounting for Share-based Payment.” Under SFAS No. 39, the Company adopted the fair value method.

Treasury Stock

The cost of shares purchased or fair value of shares donated by outside parties is charged to the treasury stock account.

Upon reissuance, the discrepancy between the cost of the treasury shares and the price received is reflected in stockholders’ equity accounts.

3. CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

On January 1, 2009, the Company adopted the newly revised SFAS No. 10, “Accounting for Inventories”. The adoption resulted in an increase of $91,057 thousand in net loss and an increase of $0.02 in after income tax basic loss per share for the year ended December 31, 2009.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2010	**2009**
Cash on hand	$ 651	$ 670
Cash in bank	1,133,966	1,571,370
Time deposit	4,294,102	2,692,466
Short-term bills	975,372	482,919
	$ 6,404,091	$ 4,747,425

Time deposits in the amounts of $135,994 thousand and $135,858 thousand as of December 31, 2010 and 2009, respectively, were pledged to secure land lease agreement, purchase orders of materials, customs tariff obligations and sales deposits and are included in refundable deposits.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2010	2009
Financial assets at fair value through profit or loss, current		
Listed stocks	$ 3,901	$ 3,631
Forward exchange contracts	60,225	21,935
	$ 64,126	$ 25,566

For the years ended December 31, 2010 and 2009, the Company's strategy for forward exchange contracts is to hedge its exposures to fluctuations of foreign exchange rate. The Company's financial risk management objective is to hedge most of market price risk and cash flows risk.

Outstanding forward exchange contracts as of December 31, 2010 and 2009 were summarized as follows:

	Currencies	Contract Expiration Date	Contract Amount (In Thousands)
December 31, 2010			
Sell forward exchange contracts	USD to NTD	2011.01.06-2011.02.11	US$64,000/NT$1,917,696
Sell forward exchange contracts	NTD to USD	2011.02.10	NT$148,375/US$5,000
December 31, 2009			
Sell forward exchange contracts	USD to NTD	2010.01.07-2010.03.04	US$56,000/NT$1,807,551
Sell forward exchange contracts	USD to JPY	2010.02.11-2010.02.25	US$5,000/JPY452,170

The transactions of financial instruments at fair value through profit or loss resulted in net gains of $134,782 thousand and $41,644 thousand for the years ended December 31, 2010 and 2009, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2010	2009
Notes receivable	$ 2,234	$ 5,186
Accounts receivable	$ 4,726,354	$ 3,727,225
Less allowance for doubtful accounts	(321,364)	(306,376)
	$ 4,404,990	$ 3,420,849
Accounts receivable from related parties (Note 22)	$ 39,045	$ 137,698

7. INVENTORIES

	December 31	
	2010	2009
Finished goods	$ 1,741,597	$ 1,040,158
Work-in-process	4,297,564	3,917,886
Raw materials and supplies	189,055	163,079
Inventories in transit	-	16,894
	$ 6,228,216	$ 5,138,017

As of December 31, 2010 and 2009, the allowance for inventory devaluation was $789,011 thousand and $711,075 thousand, respectively.

Write-down loss and recovery gain of inventories of $101,943 thousand and $1,274,332 thousand were included in the cost of sales for the years ended December 31, 2010 and 2009, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2010		2009	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Listed stocks				
Walton Advanced Engineering Inc.	$ 750,940	10	$ 930,434	11
Hannstar Display Corporation	517,361	2	847,894	2
Walsin Lihwa Corporation	305,251	-	197,175	1
Walsin Technology Corporation	221,764	2	226,244	2
Capella Microsystems, Inc. (Capella)	122,502	2	-	-
Emerging Memory & Logic Solutions Inc.	95,749	6	44,375	7
Walton Chaintech Corp.	9,832	1	19,071	1
	2,023,399		2,265,193	
Less current portion	(1,805,148)		(2,220,818)	
	$ 218,251		$ 44,375	

A public offering of Capella's common stock was made in year 2010. Thus, the Company reclassified the carrying value from financial assets carried at cost to available-for-sale financial assets - noncurrent.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2010		2009	
	Amount	Ownership Percentage	Amount	Ownership Percentage
LTIP Trust Fund	$ 396,168	-	$ 435,064	-
Dachien Investing Co.	199,870	10	199,870	10
United Industrial Gases Co., Ltd.	154,867	8	154,867	8
Walsin Color Corporation	121,197	9	121,197	9
YH Bio Explore & Application Co., Ltd.	105,634	8	140,432	8
Strategic Value Fund II	64,899	24	71,271	24
Vita Genomics, Inc.	31,396	8	-	-
Others	290,073	-	320,952	-
	$ 1,364,104		$ 1,443,653	

The Company's financial assets carried at cost do not have a quoted market price in an active market, and the fair value cannot be reliably measured. Impairment loss is evaluated periodically.

10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

	December 31				
	2010			2009	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Nyquest Technology Co., Ltd. ("Nyquest")	$ 36,606	$ 64,748	40	$ 41,819	40
CFP Technology Corporation ("CFP")	20,000	21,598	47	19,054	47
	$ 56,606	$ 86,346		$ 60,873	

Equity in gains of equity method investee was summarized as follows:

	Years Ended December 31	
	2010	2009
Nyquest	$ 22,933	$ 5,237
CFP	1,577	1,497
	$ 24,510	$ 6,734

The investment income (loss) for the years ended December 31, 2010 and 2009 was recognized based on the investees' audited financial statements. The financial statements for the years ended December 31, 2010 and 2009 of CFP Technology Corp. and the financial statements for the year ended December 31, 2009 of Nyquest Technology Co., Ltd. were audited by other auditors.

CFP was incorporated in 2000 and is engaged in the design and sale of IC. As of December 31, 2010, the capital of CFP was $43,000 thousand and the Company had a 47% ownership interest in CFP, an equity-method investee.

Nyquest was incorporated in 2006 and mainly engaged in the manufacture and sale of computer related products. As of December 31, 2010, the capital of Nyquest was $102,000 thousand and the Company had a 40% ownership interest in Nyquest, an equity-method investee.

11. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation of property, plant and equipment consisted of the following:

	December 31	
	2010	**2009**
Buildings	$ 7,985,054	$ 6,760,260
Machinery and equipment	45,789,253	38,246,054
Other equipment	1,907,605	1,545,620
	$ 55,681,912	$ 46,551,934

Capitalized interest for the years ended December 31, 2010 and 2009 amounted to $52,119 thousand and $34,987 thousand, respectively. The interest rates of interest capitalized were 1.57%-1.70% and 1.55%-1.81%, respectively.

As of December 31, 2010, the carrying value of $27,883,229 thousand of 12-inch Fab manufacturing facilities was pledged to secure long-term debt. Please refer to Note 14.

12. INTANGIBLE ASSET

	December 31	
	2010	**2009**
Deferred technical assets, net	$ 1,127,467	$ 1,625,287
Others	1,161	1,108
	$ 1,128,628	$ 1,626,395

In connection with certain technical transfer agreements, the Company made technical transfer fee payments. Such deferred assets are amortized over three to five years from the commencement of production using the straight-line method and tested for impairment periodically.

13. SHORT-TERM BANK BORROWINGS

	December 31			
	2010		**2009**	
	Interest Rate %	**Amount**	**Interest Rate %**	**Amount**
Materials procurement loans	1.00%-2.45%	$ 1,316,815	0.91%-2.63%	$ 273,169
Bank lines of credit	1.67%-2.43%	299,000	1.61%-2.52%	1,202,000
		$ 1,615,815		$ 1,475,169

14. LONG-TERM DEBT

	December 31			
	2010			2009
	Period	Interest Rate %	Amount	Amount
Loan collateralized by 12-inch Fab equipment in Central Taiwan Science Park	2005.06.23-2010.06.23	-	$ -	$ 1,333,333
Loan collateralized by 12-inch Fab and equipment in Central Taiwan Science Park	2005.12.29-2010.12.29	-	-	5,000,000
Chinatrust Commercial Bank syndication agreement (I)	2007.12.28-2011.12.28	3.43%-3.91%	5,000,000	5,000,000
Chinatrust Commercial Bank syndication agreement (II)	2008.06.27-2013.06.27	2.49%-2.63%	6,416,660	7,700,000
Bank of Taiwan syndication agreement (I)	2009.07.27-2012.07.27	3.22%-3.42%	3,700,000	3,700,000
Bank of Taiwan syndication agreement (II)	2010.06.18-2013.06.18	2.79%-2.96%	3,500,000	-
			18,616,660	22,733,333
Less current portion of long-term debt			(8,491,670)	(7,616,673)
			$ 10,124,990	$ 15,116,660

Loan Collateralized by 12-inch Fab Equipment in Central Taiwan Science Park

a. On January 24, 2005, Winbond entered into a syndication agreement, amounting to $8 billion, with a group of financial institutions to procure equipment for 12-inch Fab.

b. The principal will be repaid every six months from December 23, 2007 until maturity.

c. The principal was fully paid on June 23, 2010.

Loan Collateralized by 12-inch Fab and Equipment in Central Taiwan Science Park

a. On October 24, 2005, Winbond entered into a syndication agreement, amounting to $15 billion, with a group of financial institutions to build plant factory and procure equipments for 12-inch Fab.

b. The principal will be repaid every six months from June 29, 2008 until maturity.

c. The principal was fully paid on December 29, 2010.

Chinatrust Commercial Bank Syndication Agreement (I)

a. In September 2007, Winbond entered into a syndication agreement, amounting to $5 billion, with a group of financial institutions to finance the working capital.

b. The principal will be repaid every six months from June 28, 2011 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing.

Chinatrust Commercial Bank Syndication Agreement (II)

a. On June 4, 2008, Winbond entered into a syndication agreement, amounting to $7.7 billion, with a group of financial institutions to procure equipment for 12-inch Fab.

b. The principal will be repaid every six months from December 27, 2010 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing.

Bank of Taiwan Syndication Agreement (I)

a. On July 15, 2009, Winbond entered into a syndication agreement, amounting to $3.7 billion, with a group of financial institutions to fund the long-term loan payments and finance the working capital.

b. The principal will be repaid every three months from October 27, 2011 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing and Note 22 for the joint guarantor.

Bank of Taiwan Syndication Agreement (II)

a. On May 31, 2010, Winbond entered into a syndication agreement, with a group of financial institutions to procure equipment for 12-inch Fab and fund the long-term loan payments, credit line was divided into two parts, which amounted to $3.5 billion, respectively.

b. Part A have not been drawn-down as of December 31, 2010; part B will be repaid from June 18, 2012 at 20%, 20% and 60% of the principal, respectively.

c. Please refer to Note 11 collateral on bank borrowing and Note 22 for the joint guarantor.

Winbond is required to maintain certain financial covenants, including current ratio, debt ratio and tangible net equity, on June 30 and December 31 during the tenors of the loans. Additionally, the principal and interest coverage ratio should be also maintained on December 31 during the tenors of the loans except for the interest coverage of ratio Bank of Taiwan syndication agreement which should be maintained on June 30 and December 31. The computations of financial ratios mentioned above are done based on the audited consolidated financial statements. Although the tangible net equity on December 31, 2010 did not meet the requirements of Chinatrust Commercial Bank syndication agreement, Winbond had obtained the waivers from the majority of banks in March 2011.

15. PENSION PLAN

The Company have defined contribution plan based on the “Labor Pension Act.” According to the Act, the Company have made monthly contributions equal to 6% of each employee’s monthly salaries to employee’s individual pension accounts. Such pension costs were $114,687 thousand and $103,931 thousand for the years ended December 31, 2010 and 2009, respectively.

The Company have defined benefit pension plan covering all eligible employees. Based on the Labor Standards Law of the Republic of China, the Company’s policy is to fund the plan at 2% of employees’ salaries and wages. The fund is administered by a Pension Fund Administration Committee and is deposited in the Bank of Taiwan in the committee’s name.

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

a. The components of net pension cost:

	Years Ended December 31	
	2010	**2009**
Service cost	$ 32,472	$ 40,218
Interest cost	32,436	38,611
Expected return on plan assets	(14,949)	(26,317)
Amortization, net	8,335	11,679
Curtailment gain	-	(47,027)
Net pension cost	$ 58,294	$ 17,164

Curtailment gain was recorded as deduction of salary expense.

b. The assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

	December 31	
	2010	2009
Discount rate	2.25%	2.25%
Expected long-term rate of return on plan assets	2.00%	1.50%
Rate of increase in compensation	1%-3%	1%-3%

c. Reconciliation of funded status of the plan and accrued pension liabilities were summarized as follows:

	December 31	
	2010	2009
Benefit obligation		
Vested benefit obligation	$ 319,584	$ 341,177
Accumulated benefit obligation	1,190,036	1,078,679
Projected benefit obligation	1,576,828	1,449,422
Funded status		
Projected benefit obligation	(1,576,828)	(1,449,422)
Fair value of plan assets	999,371	991,522
Funded status	(577,457)	(457,900)
Unrecognized net transition obligation	104,126	111,035
Unrecognized net gain	134,373	41,556
Accrued pension liabilities	$ (338,958)	$ (305,309)

16. STOCKHOLDERS' EQUITY

Winbond's Common Stock

	December 31	
	2010	2009
Authorized capital		
Shares (in thousand shares)	6,700,000	6,700,000
Par value (in dollars)	$ 10	$ 10
Capital	$ 67,000,000	$ 67,000,000
Outstanding capital		
Shares (in thousand shares)	3,669,350	3,656,497
Par value (in dollars)	$ 10	$ 10
Capital	$ 36,693,502	$ 36,564,972

As of December 31, 2009, the balance of Winbond's capital account amounted to $36,564,972 thousand, divided into 3,656,497,193 shares at par $10.00 dollars per share.

Employees executed the stock option at $3.02 per share in totalling 12,853,000 shares during the fourth quarter of 2010. As of December 31, 2010, the balance of the Company's capital account amounted to $36,693,502 thousand, divided into 3,669,350,193 shares at par $10.00 dollars per share. Walsin Lihwa is a major stockholder of Winbond and held approximately 23% ownership interest in Winbond as of December 31, 2010.

Treasury Stock

Treasury stock transactions for the year ended December 31, 2010 were summarized as follows:

Purpose of Purchase	Treasury Stock Held as of January 1, 2010	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2010
Common shares held by subsidiaries	7,518,364	-	-	7,518,364

Treasury stock transactions for the year ended December 31, 2009 were summarized as follows:

Purpose of Purchase	Treasury Stock Held as of January 1, 2009	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2009
For transferring to the employees	33,884,000	-	33,884,000	-
To maintain Winbond's credibility and shareholders' interest	37,000,000	-	37,000,000	-
Common shares held by subsidiaries	10,618,364	-	3,100,000	7,518,364
	81,502,364	-	73,984,000	7,518,364

Securities and Exchange Law Article 28.2 stipulates that the number of treasury stock held by Winbond shall not exceed 10% of the outstanding shares and the amount shall be no more than the total of retained earnings and realized capital surplus, such as additional paid-in capital.

As of December 31, 2008, Winbond's subsidiary - Baystar Holdings Ltd. (BHL) held 10,618,364 shares of Winbond's common stock. In May 2009, BHL sold 3,100,000 shares of Winbond's common stock resulting in a loss of $19,243 thousand, which was recorded as a deduction of "Capital surplus - treasury stock transaction." As of December 31, 2010, BHL held 7,518,364 shares of Winbond's common stock which amounted to $106,387 thousand. The shares held by BHL were treated as treasury stocks.

Under the Securities and Exchange Act, Winbond shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. Winbond's stock held by subsidiaries is treated as treasury stock, and the holders are entitled to the rights of shareholders, except for the right to participate in Winbond's share issuance for cash and vote in shareholders' meeting.

17. EMPLOYEE STOCK WARRANTS

In 2008 and 2009, Winbond granted employee stock warrants in the quantity of 45,764 thousand and 1,585 thousand units, respectively. Each individual employee stock warrant is granted the right to purchase Winbond's new issued one common share. The warrants were granted to qualified employees of Winbond and its subsidiaries. The warrants granted are valid for 5 years and exercisable at certain percentages after the second anniversary year from the grant date. The warrants were granted at an exercise price equal to the closing price of Winbond's common shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in Winbond's paid-in capital, the exercise price and the number of options are adjusted accordingly.

Employee stock warrants were summarized as follows:

	Years Ended December 31			
	2010		2009	
Employee Stock Warrants	Number of Options (In Thousands)	Weighted Average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted Average Exercise Price (NT$)
Outstanding balance, beginning of year	43,387	$ 3.10	45,719	$ 3.02
Warrants granted	-	-	1,585	5.15
Warrants exercised	(12,853)	3.02	-	-
Warrants cancelled	-	-	-	-
Warrants expired	(3,075)	3.21	(3,917)	3.02
Outstanding balance, end of year	27,459	3.12	43,387	3.10
Warrants exercisable, end of year	6,726	3.02	-	-

Information about outstanding warrants was as follows:

December 31			
2010		2009	
Range of Exercise Price (NT$)	Weighted Average Remaining Contractual Life (Years)	Range of Exercise Price (NT$)	Weighted Average Remaining Contractual Life (Years)
$3.02-$6.46	2.86	$3.02-$6.46	3.85

Winbond used the fair value method to evaluated the option using Black-Scholes model, the assumptions and proforma result for the year ended December 31, 2010 were as follows:

Grant-date share price (NT$)	$3.02-$6.46
Exercise price (NT$)	$3.02-$6.46
Expected volatility	52.03%-74.48%
Expected life (years)	3.75
Expected dividend yield	0%
Risk-free interest rate	0.94%-1.95%

Compensation cost recognized under the fair value method were $13,856 thousand and $14,819 thousand for the years ended December 31, 2010 and 2009, respectively.

18. EARNINGS DISTRIBUTION AND DIVIDEND POLICY

According to the Company Law of the ROC and Winbond's Articles of Incorporation, Winbond's annual net income (after income tax) should first be appropriated in the following order:

a. Offset any accumulated deficit;

b. Appropriate 10% of the remainder thereafter as a legal reserve until such reserve equals to the amount of common stock; and

c. Appropriate necessary special reserve as regulated by laws or domestic authorities.

Unappropriated earnings could be retained for operating needs, if necessary. The priority and the percentage of distribution as stipulated by Winbond's Articles of Incorporation are as follows:

a. 2% as bonus to directors and supervisors;

b. 11% as bonus to employees;

c. The remainder, thereafter, as dividends and bonuses to stockholders.

The total amount of stockholders' dividends and bonuses could be appropriated, in part or in whole, as general special reserve and then, be distributed.

The aforesaid bonuses to employees include the employees of subsidiaries meeting the conditions set by the board of Directors or, by Winbond's chairman duly authorized by the board of directors.

Winbond had been approved in used $10,786,697 thousand of capital surplus to offset deficit in the stockholders' meetings on June 18, 2010.

19. PERSONNEL EXPENSE, DEPRECIATION, AND AMORTIZATION

	Year Ended December 31, 2010			
	Classified as Cost of Sales	**Classified as Operation Expenses**	**Classified as Non-operation Expenses and Losses**	**Total**
Personnel expense				
Salary	$ 1,816,841	$ 2,498,783	$ -	$ 4,315,624
Insurance	116,416	126,246	-	242,662
Pension	93,893	151,986	-	245,879
Others	9,176	54,671	-	63,847
	$ 2,036,326	$ 2,831,686	$ -	$ 4,868,012
Depreciation	$ 10,358,816	$ 162,435	$ 2,774	$ 10,524,025
Amortization	$ -	$ 527,012	$ 21,639	$ 548,651

	Year Ended December 31, 2009			
	Classified as Cost of Sales	**Classified as Operation Expenses**	**Classified as Non-operation Expenses and Losses**	**Total**
Personnel expense				
Salary	$ 1,521,471	$ 2,298,535	$ -	$ 3,820,006
Insurance	105,320	119,013	-	224,333
Pension	90,341	154,472	-	244,813
Others	13,327	46,708	-	60,035
	$ 1,730,459	$ 2,618,728	$ -	$ 4,349,187
Depreciation	$ 9,923,880	$ 195,541	$ 2,891	$ 10,122,312
Amortization	$ -	$ 399,711	$ 21,583	$ 421,294

20. INCOME TAX

Components of income tax expense (credit) were summarized as follows:

	Years Ended December 31	
	2010	2009
Current income tax expense (credit)	$ 629,445	$ (1,524,610)
Deferred income tax assets and valuation allowance adjustment	(509,856)	1,588,134
Others	3,920	(2,792)
Income tax expense	$ 123,509	$ 60,732

Components of deferred income tax assets were as follows:

	December 31	
	2010	2009
Deferred tax assets		
Net operating loss carryforwards	$ 4,495,758	$ 5,755,310
Investment tax credits	4,092,376	6,453,881
Allowance for inventory devaluation losses	149,000	161,000
Deferred technical assets	-	32,000
Other temporary differences	265,749	355,279
Deferred income tax assets	9,002,883	12,757,470
Less valuation allowance	(4,675,644)	(8,387,453)
	4,327,239	4,370,017
Deferred income tax liabilities		
Unrealized gain on financial instruments	(10,000)	(3,000)
Deferred income tax assets, net	4,317,239	4,367,017
Deferred income tax assets, noncurrent	(4,119,612)	(4,153,542)
Deferred income tax assets, current	$ 197,627	$ 213,475

a. In May 2009 and June 2010, Article 5 of the Income Tax Law of the Republic of China was amended to reduce the income tax rate of profit-seeking enterprises from 25% to 20%, and then from 20% to 17%, respectively. The amendments were both effective on January 1, 2010.

b. Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

Reconciliation of current income tax credit and income tax credit at statutory rate were as follows:

	Years Ended December 31	
	2010	**2009**
Income tax expense (credit) at statutory rate	$ 842,972	$ (2,017,522)
Increase (decrease) in tax credit resulting from		
Tax-exempt (income) loss on disposal of domestic investments	(139,970)	415,463
Unrealized investment (gain) losses	(77,450)	94,721
Dividend income	(7,260)	(9,386)
Others	11,153	(7,886)
Current income tax expense (credit)	$ 629,445	$ (1,524,610)

Winbond and NTC's investment tax credits and operating loss carryforwards as of December 31, 2010 were as follows:

Expiry Year	**Investment Tax Credit**	**Operating Loss Carryforwards**
2011	$ 1,471,000	$ -
2012	1,361,000	-
2013	667,000	297,000
2014-2018	240,000	3,701,000
	$ 3,739,000	$ 3,998,000

At December 31, 2010, WECA has operating loss carryforwards of US$16,581 thousand, which will expire in 2025.

The information of the integrated income tax system of Winbond was as follows:

	December 31	
	2010	**2009**
Balance of Imputation Credit Account	$ 174,853	$ 89,416
Undistributed earnings for the years of 1997 and before	$ -	$ -
Accumulated deficit for the years of 1998 and thereafter	$ (1,640,149)	$ (15,977,842)

Winbond's income tax returns through 2007 have been examined and approved by the tax authority.

As of December 31, 2010, Winbond has tax refund receivable under other assets - others amounted to $23,588 thousand which occurred in 2010 and years prior to 2010.

21. EARNINGS (LOSS) PER SHARE

	Year Ended December 31, 2010				
	Amounts (Numerator)			Earnings Per Share (NT$)	
	Before Income Tax and Minority Interest	After Income Tax and Attributed to Stockholders of the Parent	Shares (Denominator) (In Thousands)	Before Income Tax and Minority Interest	After Income Tax and Attributed to Stockholders of the Parent
Basic earnings per share					
Net income attributed to common shareholders	$ 3,900,175	$ 3,550,996	3,651,328	$ 1.07	$ 0.97
Effect of dilutive potential common stock					
Employee stock option	-	-	17,130		
Dilutive earnings per share					
Net income plus dilutive effect	$ 3,900,175	$ 3,550,996	3,668,458	$ 1.06	$ 0.97

	Year Ended December 31, 2009				
	Amounts (Numerator)			Loss Per Share (NT$)	
	Before Income Tax and Minority Interest	After Income Tax and Attributed to Stockholders of the Parent	Shares (Denominator) (In Thousands)	Before Income Tax and Minority Interest	After Income Tax and Attributed to Stockholders of the Parent
Basic loss per share					
Net loss attributed to common shareholders	$ (8,526,319)	$ (8,612,939)	3,647,945	$ (2.34)	$ (2.36)

22. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
Walsin Lihwa Corporation ("Walsin")	Walsin's chairman is one of the immediate family members of Winbond's chairman and Walsin holds a 23% ownership of Winbond as of December 31, 2010
Walton Advanced Engineering Inc. ("Walton ")	Walton's chairman is one of the immediate family members of Winbond's chairman. Winbond is one of the Walton's directors
Walsin Technology Corporation ("WTC")	WTC's chairman is one of the immediate family members of Winbond's chairman. Winbond is a supervisor of WTC
Int'l Concord Investment Co. ("Int'l Concord")	Int'l Concord's chairman is one of the immediate family members of the Company's chairman (in the process of liquidation since February 2009)
Hannstar Display Corporation ("Hannstar Display")	Hannstar Display's chairman is one of the immediate family members of Winbond's chairman
Prosperity Dielectrics Co. Ltd. ("Prosperity Dielectrics")	Prosperity Dielectrics's chairman is one of the immediate family member of the Company's chairman
Nyquest Technology Co., Ltd ("Nyquest")	An equity-method investee
Walton Chaintech Corp. ("Walton Chaintech")	Related party in substance
Robert Hsu	The Winbond's managing director

Major transactions with related parties were summarized below:

Sales

	Years Ended December 31	
	2010	**2009**
Walton Chaintech	$ 539,449	$ 1,102,860
Nyquest	241,234	131,428
Others	25,361	23,056
	$ 806,044	$ 1,257,344

Purchase

	Years Ended December 31	
	2010	**2009**
Nyquest	$ 5,941	$ 3,822

Processing Costs

	Years Ended December 31	
	2010	**2009**
Walton	$ 1,478,790	$ 1,416,702

General and Administrative Expenses

	Years Ended December 31	
	2010	**2009**
Walsin	$ 8,677	$ 7,631

Research and Development Expenses

	Years Ended December 31	
	2010	**2009**
Nyquest	$ 32	$ 98

Notes and Accounts Receivable

	December 31	
	2010	**2009**
Nyquest	$ 34,822	$ 33,814
Walton Chaintech	-	98,881
Others	4,223	5,003
	$ 39,045	$ 137,698

Notes and Accounts Payable

	December 31	
	2010	2009
Walton	$ 460,029	$ 752,722
Others	4,598	5,681
	$ 464,627	$ 758,403

Other Payables and Other Current Liabilities

	December 31	
	2010	2009
Walton	$ 3,700	$ 2,567
Others	2,638	1,269
	$ 6,338	$ 3,836

Guarantee Deposits Received

	December 31	
	2010	2009
Hannstar Display	$ -	$ 1,695
WTC	-	1,695
Others	-	1,705
	$ -	$ 5,095

The related-party transaction was conducted under normal terms.

Stock Transactions

a. Winbond’s sale of investment to related parties in 2009 was summarized as follows:

Related Party	Securities Name	Shares	Selling Price	Disposal Income
Walton	NTC	2,000,000	$ 35,892	$ 11,630
Prosperity Dielectrics	NTC	1,000,000	17,946	5,730
Robert Hsu	NTC	450,000	5,384	417
			$ 59,222	$ 17,777

The above selling prices were determined in accordance with the investee’s net value.

b. The Company's acquisition of investment from related parties in 2009 was summarized as follows:

Related Party	Securities Name	Shares	Amount
Int'l Concord	Concord II Venture Capital Corp.	1,758,627	$ 12,785
Int'l Concord	Parawin Venture Capital Corp.	95,749	479
Int'l Concord	Concord III Venture Capital Co., Ltd.	123,577	433
			$ 13,697

Property Transactions

Winbond's sale of property to related party in 2009 was summarized as follows:

Related Party	Sales Items	Selling Price	Carrying Value	Disposal Loss
Walton	Machinery and equipment	$ 74,452	$ 81,887	$ 7,435

Guarantee

As of December 31, 2010, the chairman of Winbond is a joint guarantor of the long-term debt - Bank of Taiwan syndication agreement (I) and (II). Please refer to Note 14.

Compensation Information of Directors, Supervisors, and Management Personnel

	Years Ended December 31	
	2010	2009
Salary	$ 127,533	$ 140,528
Bonus and special compensation	62,820	38,355
	$ 190,353	$ 178,883

The compensation information mentioned above included salary, duty allowance and retirement pension that the Company paid to directors, supervisors and management personnel.

23. PLEDGED AND COLLATERALIZED ASSET

Please refer to Note 4, Note 11 and Note 14.

24. COMMITMENTS AND CONTINGENCIES

Letters of Credit

The Company's available amounts under unused letters of credit as of December 31, 2010 were approximately US$18,419 thousand, JPY242,150 thousand and EUR115 thousand.

Guarantee

As of December 31, 2010, Winbond guaranteed $500,000 thousand and $23,036 thousand for its subsidiary, Win and NTC, respectively.

25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Carrying value and fair value of financial instruments were summarized as follows:

	December 31							
	2010				2009			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
Nonderivative financial instruments								
Assets								
Financial assets at fair value through profit or loss, current	$	3,901	$	3,901	$	3,631	$	3,631
Available-for-sale financial assets, current and noncurrent		2,023,399		2,023,399		2,265,193		2,265,193
Liabilities								
Long-term debt (including current portion)		18,616,660		18,616,660		22,733,333		22,733,333
Derivative financial instruments								
Financial assets at fair value through profit or loss, current								
Forward exchange contracts		60,225		60,225		21,935		21,935

Methods and assumptions used in determining fair values of financial instruments were summarized as follows:

a. The fair value of cash and cash equivalents, notes and accounts receivable, other financial assets, refundable deposits, short-term bank borrowings, notes and accounts payable, and other payables, approximates their carrying value due to the short-term maturities of these financial instruments.

b. The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets are quoted by market price. The fair value of forward exchange contracts is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters. The fair value of foreign exchange option contracts is measured, according to its specific contract's settlement rate, by the discount rate and volatility quoted by underwriting bank.

c. The Company's financial assets carried at cost do not have a quoted market price in an active market, and the fair value cannot be reliably measured.

d. The fair values of long-term debt are estimated by discounted cash flow analysis, based on the Company's current rates for long- term borrowings with similar types. As of December 31, 2010 and 2009, the discount rate used in determining the fair values is 3.13% and 2.98%, respectively.

The fair value of financial instruments that used the quoted market price in active market or other method of valuation is summarized as follows:

	December 31, 2010		
	Quoted Market Price in Active Market	**Other Method of Valuation**	**Total**
Assets			
Financial assets at fair value through profit or loss, current	$ 3,901	$ 60,225	$ 64,126
Available-for-sale financial assets, current	1,805,148	-	1,805,148
Available-for-sale financial assets, noncurrent	218,251	-	218,251

	December 31, 2009		
	Quoted Market Price in Active Market	**Other Method of Valuation**	**Total**
Assets			
Financial assets at fair value through profit or loss, current	$ 3,631	$ 21,935	$ 25,566
Available-for-sale financial assets, current	2,220,818	-	2,220,818
Available-for-sale financial assets, noncurrent	44,375	-	44,375

Valuation gains arising from changes in fair value of financial instruments determined using valuation techniques were $38,290 thousand and $4,346 thousand for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, financial assets and liabilities exposure to cash flow risk that resulted from interest rate changes amounted to $271,005 thousand and $13,716,785 thousand, respectively. Financial assets and liabilities exposure to fair value risk that resulted from interest rate changes amounted to $5,134,764 and $6,515,690 thousand, respectively.

Adjustment of stockholders' equity due to the fair value changes of available-for-sale financial assets amounted to $51,936 thousand as of December 31, 2010.

Financial Risk Information

a. Market risk

All the derivative financial instruments the Company entered into are forward exchange contracts in order to hedge changes in fair value of foreign-currency assets and liabilities. The fair value of forward exchange contracts will fluctuate because of changes in foreign exchange rates.

b. Credit risk

The Company is exposed to the credit risk that counter-parties or third-parties may breach the contracts. The risk results from the concentrations of credit risk, elements, contract price, and accounts receivable. The Company requested its major transaction parties to provide collaterals or other rights to reduce such risk.

c. Liquidity risk

The Company has sufficient operating capital to meet the cash demand for the contracts. Thus, the fund-raising and cash flow risks are not material.

d. Cash flow risk on interest rate

The Company's long-term debt is with floating interest rate. Effective rate and future cash flow of the Company will fluctuate as a result of changes in market interest rate. If the market interest rate increases by 1%, the cash outflow will increase by $137,168 thousand per year.

26. OTHERS

Information of financial assets and liabilities, which were denominated in foreign currencies, with significant influence on the Company was as follows:

	December 31					
	2010			2009		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**	**Foreign Currencies**	**Exchange Rate**	**New Taiwan Dollars**
Financial assets						
Monetary items						
USD	$ 199,461	29.13	$ 5,810,311	$ 156,145	31.99	$ 4,995,094
EUR	2,271	38.92	88,383	2,349	46.10	108,284
JPY	2,206,877	0.3582	790,503	2,066,100	0.3472	717,350
RMB	45,455	4.409	200,413	47,563	4.6857	222,867
ILS	4,353	8.1987	35,689	1,576	8.4787	13,365
Non-monetary item						
USD	22,598	29.13	658,285	21,411	31.99	684,949
Financial liabilities						
Monetary items						
USD	109,633	29.13	3,193,613	82,826	31.99	2,649,595
EUR	2,023	38.92	78,748	2,962	46.10	136,551
JPY	2,162,151	0.3582	774,482	2,210,122	0.3472	767,354
ILS	3,744	8.1987	30,695	4,945	8.4787	41,930

27. FOREIGN SALES AND MAJOR CUSTOMERS

	Years Ended December 31	
	2010	**2009**
Asia	$ 28,769,853	$ 14,825,071
Europe	1,051,886	1,791,627
America	1,610,662	1,143,768
Others	151,420	185,749
	$ 31,583,821	$ 17,946,215
Percentage to total net sales	79%	67%

There was no customer that accounted for 10% or more of the Company's sales.