Winbond Electronics Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010 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 zero and NT$21,598 thousand as of December 31, 2011 and 2010, respectively; investment (loss) income amounted to NT$(1,341) thousand and NT$1,577 thousand for the years 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, 2011 and 2010, 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.

February 8, 2012

Notice to Readers

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, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	2011		2010	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 6,002,597	10	$ 6,404,091	10
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	3,676	-	64,126	-
Available-for-sale financial assets, current (Notes 2 and 8)	902,713	1	1,805,148	3
Notes receivable, net (Notes 2 and 6)	534	-	2,234	-
Accounts receivable, net (Notes 2 and 6)	4,113,894	7	4,404,990	7
Accounts receivable from related parties, net (Notes 6 and 22)	50,639	-	39,045	-
Other financial assets, current	139,144	-	107,539	-
Inventories (Notes 2 and 7)	7,175,931	12	6,301,862	9
Deferred income tax assets, current (Notes 2 and 20)	281,638	-	197,627	-
Other current assets	420,635	1	624,515	1
Total current assets	19,091,401	31	19,951,177	30
FUND AND INVESTMENTS				
Available-for-sale financial assets, noncurrent (Notes 2 and 8)	353,997	1	218,251	-
Financial assets carried at cost, noncurrent (Notes 2 and 9)	1,245,403	2	1,364,104	2
Long-term equity investments at equity method (Notes 2 and 10)	65,092	-	86,346	-
Total fund and investments	1,664,492	3	1,668,701	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost				
Land	873,493	1	870,681	1
Buildings	19,963,440	33	19,676,678	30
Machinery and equipment	76,529,259	126	71,437,614	107
Other equipment	2,919,022	5	3,056,347	5
Total cost	100,285,214	165	95,041,320	143
Accumulated depreciation	(65,165,653)	(107)	(55,681,912)	(84)
Construction in progress and prepayments on purchase of equipment	126,609	-	57,814	-
Property, plant and equipment, net	35,246,170	58	39,417,222	59
INTANGIBLE ASSETS (Notes 2 and 12)	639,191	1	1,128,628	2
OTHER ASSETS				
Refundable deposits	160,149	-	152,460	1
Deferred income tax assets, noncurrent (Notes 2 and 20)	3,992,639	7	4,119,612	6
Others	130,607	-	137,850	-
Total other assets	4,283,395	7	4,409,922	7
TOTAL	$ 60,924,649	100	$ 66,575,650	100

	2011		2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Note 13)	$ 1,681,092	3	$ 1,615,815	2
Short-term bills payable (Note 14)	199,763	-	-	-
Notes payable	849,713	1	1,137,439	2
Accounts payable	3,211,805	5	2,504,418	4
Payable on equipment	650,233	1	1,094,575	1
Accrued expenses and other payables	2,151,012	4	2,431,889	4
Current portion of long-term liabilities (Note 15)	7,158,327	12	8,491,670	13
Other current liabilities	68,865	-	120,721	-
Total current liabilities	15,970,810	26	17,396,527	26
LONG-TERM LIABILITIES				
Long-term debt (Note 15)	7,966,663	13	10,124,990	15
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 16)	368,676	1	338,958	1
Reserve for product guarantee (Note 2)	94,271	-	59,943	-
Other liabilities - others	99,146	-	88,558	-
Total other liabilities	562,093	1	487,459	1
Total liabilities	24,499,566	40	28,008,976	42
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT				
Common stock (Note 17)	36,802,302	60	36,693,502	55
Capital surplus				
Treasury stock transaction	1,971,862	3	1,971,862	3
Adjustment on long-term equity investments under equity method	23,913	-	23,912	-
Stock option (Notes 2 and 18)	13,960	-	20,104	-
Others	222,784	1	288,066	-
Retained earnings				
Accumulated deficit	(2,483,440)	(4)	(1,640,149)	(2)
Other equity				
Cumulative translation adjustments (Note 2)	359,900	-	242,163	-
Unrealized loss on financial instruments (Note 2)	(1,449,394)	(2)	(51,936)	-
Treasury stock (Notes 2 and 17)	(106,387)	-	(106,387)	-
Equity attributable to stockholders of the parent	35,355,500	58	37,441,137	56
MINORITY INTEREST	1,069,583	2	1,125,537	2
Total stockholders' equity	36,425,083	60	38,566,674	58
TOTAL	$ 60,924,649	100	$ 66,575,650	100

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

(With Deloitte & Touche audit report dated February 8, 2012)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2011		2010	
	Amount	**%**	**Amount**	**%**
NET SALES	$ 34,696,850	100	$ 39,934,358	100
COST OF SALES (Note 7)	28,636,654	83	30,147,853	76
REALIZED INTERCOMPANY PROFIT	266	-	73	-
GROSS PROFIT	6,060,462	17	9,786,578	24
OPERATING EXPENSES				
Selling expenses	968,768	3	897,901	2
General and administrative expenses	954,961	3	1,008,787	3
Research and development expenses	4,306,307	12	4,174,696	10
Total operating expenses	6,230,036	18	6,081,384	15
(LOSS) INCOME FROM OPERATIONS	(169,574)	(1)	3,705,194	9
NON-OPERATING INCOME AND GAINS				
Interest income	39,942	-	22,412	-
Investment income recognized under equity method (Note 10)	11,963	-	24,510	-
Investment income	84,119	-	51,984	-
Gain on disposal of property, plant and equipment (Note 2)	7,690	-	49,907	-
Gain on disposal of investments (Note 10)	69,880	-	819,284	2
Foreign exchange gain (Note 2)	45,765	-	-	-
Reversal of allowance for doubtful accounts	8,872	-	-	-
Gain on valuation of financial instruments (Note 5)	-	-	134,782	1
Others	88,583	1	29,563	-
Total non-operating income and gains	356,814	1	1,132,442	3
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	430,307	1	596,451	1
Other investment loss (Note 9)	86,902	-	17,171	-
Loss on disposal of property, plant and equipment (Note 2)	2,960	-	18,432	-
Foreign exchange loss (Note 2)	-	-	259,669	1
Loss on valuation of financial instruments (Note 5)	154,790	1	-	-
Others	38,886	-	45,738	-
Total non-operating expenses and losses	713,845	2	937,461	2

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2011		2010	
	Amount	**%**	**Amount**	**%**
(LOSS) INCOME BEFORE INCOME TAX	$ (526,605)	(2)	$ 3,900,175	10
INCOME TAX EXPENSE (Notes 2 and 20)	(152,363)	-	(123,509)	(1)
NET (LOSS) INCOME	$ (678,968)	(2)	$ 3,776,666	9
ATTRIBUTED TO				
Stockholders of the parent	$ (843,291)	(2)	$ 3,550,996	9
Minority interest	164,323	-	225,670	-
	$ (678,968)	(2)	$ 3,776,666	9

	2011		2010	
	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**
(LOSS) EARNINGS PER SHARE (Notes 2 and 21)				
Basic (loss) earnings per share	$ (0.14)	$ (0.23)	$ 1.07	$ 0.97
Diluted (loss) earnings per share	$ (0.14)	$ (0.23)	$ 1.06	$ 0.97

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

(With Deloitte & Touche audit report dated February 8, 2012) (Concluded)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(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, 2010	$ 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 17)	-	(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 17)	128,530	-	-	-	(8,955)	(80,759)	-	-	-	-	-	38,816
Compensation cost of employee stock options (Note 18)	-	-	-	-	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
Net loss for 2011	-	-	-	-	-	-	(843,291)	-	-	-	164,323	(678,968)
Changes in translation adjustments	-	-	-	-	-	-	-	117,737	-	-	-	117,737
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(1,397,458)	-	-	(1,397,458)
Capital surplus from investee under equity method	-	-	-	1	-	-	-	-	-	-	-	1
Issuance of stock from exercising employee stock options (Note 17)	108,800	-	-	-	(10,616)	(65,282)	-	-	-	-	-	32,902
Compensation cost of employee stock options (Note 18)	-	-	-	-	4,472	-	-	-	-	-	-	4,472
Changes in minority interests	-	-	-	-	-	-	-	-	-	-	(220,277)	(220,277)
BALANCE, DECEMBER 31, 2011	$ 36,802,302	$ -	$ 1,971,862	$ 23,913	$ 13,960	$ 222,784	$ (2,483,440)	$ 359,900	$ (1,449,394)	$ (106,387)	$ 1,069,583	$ 36,425,083

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

(With Deloitte & Touche audit report dated February 8, 2012)

WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (678,968)	$ 3,776,666
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation	9,863,064	10,524,025
Amortization	571,933	548,651
(Reversal of) provision for allowance for doubtful accounts	(8,872)	14,987
Loss on decline in market value and obsolescence and abandonment of inventories	492,598	104,031
Gain on disposal of investments	(69,880)	(819,284)
Investment income recognized under equity method	(11,963)	(24,510)
Impairment losses on financial assets carried at cost	86,902	17,171
Net gain on disposal of property, plant and equipment	(4,730)	(31,475)
Loss on obsolescence of spare parts	3,761	153
Compensation cost of employee stock options	4,808	13,856
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	60,450	(38,561)
Notes receivable	1,700	2,952
Accounts receivable	299,968	(999,129)
Accounts receivable from related parties	(11,594)	98,652
Other financial assets, current	(31,605)	20,600
Inventories	(1,366,666)	(1,189,708)
Other current assets	203,880	90,464
Deferred income tax assets	42,962	49,779
Other assets	(13,769)	(4,974)
Notes payable	(287,726)	(123,605)
Accounts payable	707,387	(899,842)
Accrued expenses and other payables	(268,280)	341,270
Other current liabilities	(51,856)	88,953
Other liabilities	74,634	52,091
Net cash provided by operating activities	9,608,138	11,613,213
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(6,130,828)	(7,477,111)
Acquisition of available-for-sale financial assets	(748,232)	(190,437)
Acquisition of financial assets carried at cost	-	(30,000)
Proceeds from disposal of long-term investments under equity method	47,527	-
Proceeds from disposal of available-for-sale financial assets	135,810	399,858
Proceeds from disposal of financial assets carried at cost	2,078	44,890
Proceeds from capital refund by financial assets carried at cost	48,653	4,898
Proceeds from disposal of property, plant and equipment	12,687	51,365
Acquisition of intangible assets	(81,809)	(26,734)
Net cash used in investing activities	(6,714,114)	(7,223,271)

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WINBOND ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	$ 65,277	$ 140,645
Increase in short-term bills payable	199,763	-
Proceeds from long-term debt	5,000,000	3,500,000
Repayment of long-term debt	(8,491,670)	(7,616,673)
(Decrease) increase in minority interest	(174,035)	1,302,071
Proceeds from exercise of employee stock options	32,902	38,816
Net cash used in financing activities	(3,367,763)	(2,635,141)
FOREIGN EXCHANGE ADJUSTMENT	72,245	(98,135)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(401,494)	1,656,666
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,404,091	4,747,425
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,002,597	$ 6,404,091
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	$ 553,428	$ 647,615
Cash paid for income tax during the year	$ 104,058	$ 68,534
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 7,158,327	$ 8,491,670
Cumulative translation adjustments	$ 117,737	$ (204,504)
Unrealized (loss) gain on financial instruments	$ (1,397,458)	$ 202,441
Adjustment to capital surplus due to disposal of investment	$ -	$ (16,200)
Capital surplus from investee under equity method	$ 1	$ 2,688
CASH PAYMENT FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Net increase in acquisition of property, plant and equipment	$ 5,686,486	$ 7,021,914
Add payable for property, plant and equipment, beginning of year	1,094,575	1,549,772
Less payable for property, plant and equipment, end of year	(650,233)	(1,094,575)
Cash payment for acquisitions of property, plant and equipment	$ 6,130,828	$ 7,477,111

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

(With Deloitte & Touche audit report dated February 8, 2012) (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. An initial 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 3,621 and 3,443 employees in Winbond and its subsidiaries (the "Company") as of December 31, 2011 and 2010, 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. The significant accounting principles are summarized as follows:

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.

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$	36,802,302	Parent company
Winbond Int'l Corporation ("WIC")	US$	104,240	Winbond holds 100% ownership interest
Winbond Electronics Corp. America ("WECA")	US$	58,917	WIC holds 100% ownership interest
Landmark Group Holdings Ltd. ("Landmark")	US$	16,293	Winbond holds 100% ownership interest
Winbond Electronics Corp. Japan ("WECJ")	JPY	148,500	Landmark holds 100% ownership interest

(Continued)

Name	Capital (In Thousands)		Basis for Consolidation
Winbond Electronics (HK) Limited (“WEHK”)	HK$	500	Winbond holds 100% ownership interest
Pine Capital Investment Limited (“PCI”)	HK$	10,920	Winbond holds 100% ownership interest
Winbond Electronics (Suzhou) Limited (“WECN)	RMB	8,639	PCI holds 100% ownership interest
Mobile Magic Design Corporation (“MMDC”)	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
Marketplace Management Ltd. (“MML”)	US$	7,665	NTC holds 100% ownership interest
Goldbond LLC (“GLLC”)	US$	43,675	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
Pigeon Creek Holding Co., Ltd. (“PCH”)	US$	13,868	NTC holds 100% ownership interest
Nuvoton Technology Corp. America (“NTCA”)	US$	6,050	PCH holds 100% ownership interest
Nuvoton Investment Holding Ltd. (“NIH”)	US$	21,000	NTC holds 100% ownership interest
Nuvoton Technology Israel Ltd. (“NTIL”)	ILS$	1	NIH holds 100% ownership interest
Nuvoton Electronics Technology (H.K.) Limited (“NTHK”)	HK$	107,400	NTC holds 100% ownership interest
Nuvoton Electronics Technology (“Shenzhen”) Limited (“NTSZ”)	RMB	46,434	NTHK holds 100% ownership interest
Win Investment Corporation (“Win”)	NT$	1,800,000	Winbond holds 100% ownership interest
Peaceful River Corp. (“PRC”)	US$	10,720	Win holds 100% ownership interest
Newfound Asian Corp. (“NAC”)	US$	6,555	Winbond holds 100% ownership interest
Baystar Holdings Ltd. (“BHL”)	US$	22,590	NAC holds 100% ownership interest

(Concluded)

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.

Accounting Estimates

In preparing 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 and impairment, tax, pension liabilities and product guarantee, etc. Actual results may differ from these estimates.

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. 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 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.

Impairment of Accounts Receivable

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.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be subject to the provisions of SFAS No. 34. The Company evaluates for indication of impairment of accounts receivable at the end of each reporting period. When objective evidence indicates that the estimated future cash flow of accounts receivable decreases as a result of one or more events that occurred after initial recognition of the accounts receivable, such accounts receivable are deemed to be impaired.

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 necessary selling cost.

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. Private-placement common shares of listed company are stated at the closing price at the balance sheet date but adjusted for the effects of transferred restriction. Marketable securities are stated at the closing price at the balance sheet date.

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 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 investment for which do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks, are carried at their original cost. Accounting policies for dividends received are similar to those for available-for-sale financial assets.

An impairment loss is recognized if there is objective evidence of impairment; 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 and impairment. 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 new 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.

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.

Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

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.

Revenue Recognition

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

Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2011.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This adoption did not result in material effect on the consolidated financial statements for the year ended December 31, 2011.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Company that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Company restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures in the consolidated financial statements as of and for the year ended December 31, 2011.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
Cash on hand	$ 640	$ 651
Cash in bank	1,451,014	1,133,966
Time deposit	3,799,930	4,294,102
Short-term bills	751,013	975,372
	$ 6,002,597	$ 6,404,091

Time deposits in the amounts of $139,964 thousand and $135,994 thousand as of December 31, 2011 and 2010, 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	
	2011	2010
Financial assets at fair value through profit or loss, current		
Listed stocks	$ 3,461	$ 3,901
Forward exchange contracts	215	60,225
	$ 3,676	$ 64,126

For the years ended December 31, 2011 and 2010, 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, 2011 and 2010 were summarized as follows:

	Currencies	Maturity Date	Contract Amount (In Thousands)
December 31, 2011			
Sell forward exchange contracts	USD to NTD	2012.01.03-2012.03.02	USD62,000/NTD1,875,747
Sell forward exchange contracts	USD to JPY	2012.01.05	USD925/JPY72,000

(Continued)

	Currencies	Matutity Date	Contract Amount (In Thousands)
December 31, 2010			
Sell forward exchange contracts	USD to NTD	2011.01.06-2011.02.11	USD64,000/NTD1,917,696
Sell forward exchange contracts	NTD to USD	2011.02.10	NTD148,375/USD5,000

(Concluded)

The transactions of financial instruments at fair value through profit or loss resulted in net losses of $154,790 thousand and net gains of $134,782 thousand for the years ended December 31, 2011 and 2010, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2011	2010
Notes receivable	$ 534	$ 2,234
Accounts receivable	$ 4,426,386	$ 4,726,354
Less allowance for doubtful accounts	(312,492)	(321,364)
	$ 4,113,894	$ 4,404,990
Accounts receivable from related parties (Note 22)	$ 50,639	$ 39,045

7. INVENTORIES

	December 31	
	2011	2010
Finished goods	$ 1,720,658	$ 1,741,597
Work-in-process	5,123,038	4,297,564
Raw materials and supplies	301,875	262,701
Inventories in transit	30,360	-
	$ 7,175,931	$ 6,301,862

As of December 31, 2011 and 2010, the allowance for inventory devaluation was $1,325,592 thousand and $883,588 thousand, respectively.

Write-down losses of inventories of $492,598 thousand and $104,031 thousand were included in the cost of sales for the years ended December 31, 2011 and 2010, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2011		2010	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Listed stocks				
Walton Advanced Engineering Inc.	$ 480,601	10	$ 750,940	10
Hannstar Display Corporation	168,612	2	517,361	2
Walsin Lihwa Corporation	143,880	-	305,251	-
Walsin Technology Corporation	103,859	2	221,764	2
Emerging Memory & Logic Solutions Inc.	140,738	7	95,749	6
Japan Material Co., Ltd	14,097	1	-	-
Capella Microsystems, Inc.	69,563	2	122,502	2
Walton Chaintech Corp.	5,760	-	9,832	1
Private-placement shares of listed company				
Hannstar Display Corporation	129,600	2	-	-
	1,256,710		2,023,399	
Less current portion	(902,713)		(1,805,148)	
	$ 353,997		$ 218,251	

In January 2011, the Company acquired 108,000 thousand private-placement shares of Hannstar Display Corporation. According to Securities and Exchange Act, the private-placement shares of Hannstar Display Corporation could be resold freely in an active market only after three years from the delivery date and permitted by the controlling authorities.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2011		2010	
	Amount	Ownership Percentage	Amount	Ownership Percentage
LTIP Trust Fund	$ 411,740	-	$ 396,168	-
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. ("Previously Vita Genomics, Inc.")	83,011	8	105,634	8
Strategic Value Fund II	15,752	24	64,899	24
Vita Genomics, Inc.	30,693	6	31,396	8
Others	228,273	-	290,073	-
	$ 1,245,403		$ 1,364,104	

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.

The Company had evaluated the carrying amount of these financial assets and recognized impairment losses of $86,902 thousand and $17,171 thousand, which were included in other investment loss for the years ended December 31, 2011 and 2010, respectively.

10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

	December 31				
	2011			2010	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Nyquest Technology Co., Ltd. (“Nyquest”)	$ 28,808	$ 65,092	30	$ 64,748	40
CFP Technology Corporation (“CFP”)	-	-	-	21,598	47
	$ 28,808	$ 65,092		$ 86,346	

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

	Years Ended December 31	
	2011	2010
Nyquest	$ 13,304	$ 22,933
CFP	(1,341)	1,577
	$ 11,963	$ 24,510

The investment income (loss) for the years ended December 31, 2011 and 2010 were recognized based on the investees’ audited financial statements. The financial statements for the years ended December 31, 2011 and 2010 of CFP were audited by other auditors. The investment in such investee amounted to zero and $21,598 thousand as of December 31, 2011 and 2010, respectively; investment (loss) income amounted to $(1,341) thousand and $1,577 thousand for the years then ended December 31, 2011 and 2010, respectively. In August 2011, the Company sold partial investments in CFP. As the Company’s ownership in CFP was less than 20% and could not have significant influence over CFP, therefore, the Company reclassified its investment in CFP as financial asset carried at cost.

Nyquest was incorporated in 2006 and mainly engaged in the manufacture and sale of computer related products. In July 2011, the Company sold 900 thousand shares of Nyquest at $35 dollars per share to non-related parties and recognized a disposal income of $18,885 thousand that was included in gain on disposal of investments in 2011. As of December 31, 2011, the Company had a 30% 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	
	2011	2010
Buildings	$ 9,259,781	$ 7,985,054
Machinery and equipment	53,606,482	45,789,253
Other equipment	2,299,390	1,907,605
	$ 65,165,653	$ 55,681,912

Capitalized interest for the years ended December 31, 2011 and 2010 amounted to $122,224 thousand and $52,119 thousand, respectively. The interest rates of interest capitalized were 2.59%-2.70% and 1.57%-1.70%, respectively.

As of December 31, 2011 and 2010, the carrying value of $20,906,790 thousand and $27,883,229 thousand of 12-inch Fab manufacturing facilities was pledged to secure long-term debt, respectively. Please refer to Note 15.

12. INTANGIBLE ASSET

	December 31	
	2011	2010
Deferred technical assets, net	$ 638,357	$ 1,127,467
Others	834	1,161
	$ 639,191	$ 1,128,628

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 LOANS

	December 31			
	2011		2010	
	Interest Rate %	Amount	Interest Rate %	Amount
Materials procurement loans	1.09%-2.73%	$ 1,539,592	1.00%-2.45%	$ 1,316,815
Bank lines of credit	1.89%-2.58%	141,500	1.67%-2.43%	299,000
		$ 1,681,092		$ 1,615,815

14. SHORT-TERM BILLS PAYABLE

	December 31			
	2011		2010	
	Interest Rate	Amount	Interest Rate	Amount
Commercial paper payable	0.92%	$ 200,000	-	$ -
Less unamortized discount on commercial paper payable		(237)		-
		$ 199,763		$ -

15. LONG-TERM DEBT

	December 31			
	2011			2010
	Period	Interest Rate %	Amount	Amount
Chinatrust Commercial Bank syndication agreement (I)	2007.12.28-2011.12.28	-	$ -	$ 5,000,000
Chinatrust Commercial Bank syndication agreement (II)	2008.06.27-2013.06.27	2.59%-2.70%	3,849,990	6,416,660
Bank of Taiwan syndication agreement (I)	2009.07.27-2012.07.27	3.16%-3.33%	2,775,000	3,700,000
Bank of Taiwan syndication agreement (II)	2010.06.18-2015.06.18	2.75%-2.97%	6,000,000	3,500,000
Bank of Taiwan syndication agreement (III)	2011.12.23-2016.12.23	2.49%	2,500,000	-
			15,124,990	18,616,660
Less current portion of long-term debt			(7,158,327)	(8,491,670)
			$ 7,966,663	$ 10,124,990

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. The principal was fully paid on December 28, 2011.

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 will be repaid every six months from December 18, 2012 until maturity; 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.

Bank of Taiwan Syndication Agreement (III)

a. On September 19, 2011, Winbond entered into a syndication agreement, amounting to $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 June 23, 2014 until maturity.

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

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 should be also maintained on December 31 during the tenors of the loans except for the interest coverage ratio of 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.

16. PENSION PLAN

The Company has defined contribution plan based on the "Labor Pension Act." According to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salaries to employee's individual pension accounts. Such pension costs were $129,544 thousand and $114,687 thousand for the years ended December 31, 2011 and 2010, respectively.

The Company has 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	
	2011	**2010**
Service cost	$ 27,848	$ 32,472
Interest cost	35,352	32,436
Expected return on plan assets	(20,125)	(14,949)
Amortization, net	11,362	8,335
Net pension cost	$ 54,437	$ 58,294

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

	December 31	
	2011	**2010**
Discount rate	2%-2.25%	2.25%
Expected long-term rate of return on plan assets	2%	2%
Rate of increase in compensation	1%-3%	1%-3%

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

	December 31	
	2011	**2010**
Benefit obligation		
Vested benefit obligation	$ 373,292	$ 319,584
Accumulated benefit obligation	1,213,549	1,190,036
Projected benefit obligation	1,606,975	1,576,828
Funded status		
Projected benefit obligation	(1,606,975)	(1,576,828)
Fair value of plan assets	951,013	999,371
Funded status	(655,962)	(577,457)
Unrecognized net transition obligation	97,217	104,126
Unrecognized net gain	190,069	134,373
Accrued pension liabilities	$ (368,676)	$ (338,958)

17. STOCKHOLDERS' EQUITY

Winbond's Common Stock

	December 31	
	2011	**2010**
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)	3,680,230	3,669,350
Par value (in dollars)	$ 10	$ 10
Capital	$ 36,802,302	$ 36,693,502

As of December 31, 2010, the balance of Winbond's capital account amounted to $36,693,502 thousand, divided into 3,669,350 thousand shares at par $10.00 dollars per share.

Employees executed the stock option at $3.02-$5.57 per share totaling 10,880 thousand shares during the year of 2011. As of December 31, 2011, the balance of Winbond's capital account amounted to $36,802,302 thousand, divided into 3,680,230 thousand 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, 2011.

According to the Company Law of the ROC and Winbond's Articles of Incorporation, if Winbond has surplus earnings at the end of a fiscal year, after covering all losses incurred in prior years and paying all taxes, Winbond shall set aside 10% of said earnings as legal reserve. However, legal reserve need not be made when the accumulated legal reserve equals the paid-in capital of Winbond. After setting aside or reversing special reserve pursuant to applicable laws and regulations and orders of competent authorities from (1) the remaining amount plus undistributed retained earnings; or (2) the differences between the undistributed retained earnings and the losses suffered by Winbond at the end of a fiscal year if the losses can be fully covered by the undistributed retained earnings, Winbond shall distribute the remaining amount (if not otherwise set aside as special reserve and reserved based on business needs) in the following order:

a. 1% to 2% as remuneration to directors and supervisors;

b. 10% to 15% as bonus to employees;

c. The remaining amount as bonus to shareholders. Not less than 10% of the total shareholders bonus shall be distributed in form of cash.

"Employees" referred to in Item b of the proceeding paragraph, when distributing the stock bonus, include the employees of subsidiaries of Winbond meeting certain criteria. It is authorized to the Board of Directors to determine the above "certain criteria" or the Board of Directors may authorize the Chairman to ratify the above "certain criteria".

On June 18, 2010, Winbond's regular stockholders' meeting approved to offset deficits by capital surplus amounted to $10,786,697 thousand.

Treasury Stock

Treasury stock transactions for the year ended December 31, 2011 were summarized as follows:

Purpose of Buyback	Treasury Stock Held as of January 1, 2011	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2011
Common shares held by subsidiaries	7,518,364	-	-	7,518,364

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

Purpose of Buyback	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

As of December 31, 2011, Winbond's subsidiary - BayStar Holdings Ltd. (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.

Winbond's stock held by subsidiaries is treated as treasury stock, and the holders are entitled to the rights of stockholders, except for the right to participate in Winbond's share issuance for cash and vote in stockholders' meeting.

18. EMPLOYEE STOCK OPTION

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			
	2011		2010	
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	27,459	$ 3.12	43,387	$ 3.10
Warrants granted	-	-	-	-
Warrants exercised	(10,880)	3.02	(12,853)	3.02
Warrants cancelled	-	-	-	-
Warrants expired	(1,063)	3.05	(3,075)	3.21
Outstanding balance, end of year	15,516	3.20	27,459	3.12
Warrants exercisable, end of year	14,596	3.11	6,726	3.02

Information about outstanding warrants was as follows:

December 31			
2011		2010	
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	1.87	$3.02-$6.46	2.86

Winbond used the fair value method to evaluate the option using Black-Scholes model, the assumptions and proforma result 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 costs recognized under the fair value method were $4,808 thousand and $13,856 thousand for the years ended December 31, 2011 and 2010, respectively.

19. PERSONNEL EXPENSE, DEPRECIATION, AND AMORTIZATION

	Year Ended December 31, 2011			
	Classified as Cost of Sales	Classified as Operation Expenses	Classified as Non-operation Expenses and Losses	Total
Personnel expense				
Salary	$ 1,783,498	$ 2,393,995	$ -	$ 4,177,493
Insurance	133,954	140,209	-	274,163
Pension	113,247	162,565	-	275,812
Others	9,764	42,926	-	52,690
	$ 2,040,463	$ 2,739,695	$ -	$ 4,780,158
Depreciation	$ 9,703,620	$ 156,858	$ 2,586	$ 9,863,064
Amortization	$ -	$ 558,823	$ 13,110	$ 571,933

	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

20. INCOME TAX

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

	Years Ended December 31	
	2011	2010
Current income tax (credit) expense	$ (55,797)	$ 629,445
Deferred income tax assets and valuation allowance adjustment	171,234	(509,856)
Others	36,926	3,920
Income tax expense	$ 152,363	$ 123,509

Components of deferred income tax assets were as follows:

	December 31	
	2011	2010
Deferred tax assets		
Net operating loss carryforwards	$ 4,504,203	$ 4,495,758
Investment tax credits	2,783,976	4,092,376
Allowance for inventory devaluation losses	167,000	149,000
Other temporary differences	338,990	265,749
Deferred income tax assets	7,794,169	9,002,883
Less valuation allowance	(3,519,892)	(4,675,644)
	4,274,277	4,327,239
Deferred income tax liabilities		
Unrealized gain on financial instruments	-	(10,000)
Deferred income tax assets, net	4,274,277	4,317,239
Deferred income tax assets, noncurrent	(3,992,639)	(4,119,612)
Deferred income tax assets, current	$ 281,638	$ 197,627

a. In May 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 20% to 17%. The amendment was 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) expense and income tax (credit) expense at statutory rate of 17% was as follows:

	Years Ended December 31	
	2011	2010
Income tax (credit) expense at statutory rate	$ (30,444)	$ 842,972
Increase (decrease) in tax resulting from		
Tax-exempt income on disposal of domestic investments	(8,090)	(139,970)
Unrealized investment losses (gain)	2,460	(77,450)
Dividend income	(14,020)	(7,260)
Others	(5,703)	11,153
Current income tax (credit) expense	$ (55,797)	$ 629,445

Winbond and NTC's investment tax credits and operating loss carryforwards as of December 31, 2011 were as follows:

Expiry Year	**Investment Tax Credit**	**Operating Loss Carryforwards**
2012	$ 1,533,000	$ -
2013	678,000	288,000
2014-2021	240,000	3,706,000
	$ 2,451,000	$ 3,994,000

As of December 31, 2011, WECA has operating loss carryforwards of US$16,369 thousand, which will expire in 2025.

The information of the imputation credit account of Winbond was as follows:

	December 31	
	2011	2010
Balance of Imputation Credit Account	$ 217,239	$ 174,853
Undistributed earnings for the years of 1997 and before	$ -	$ -
Accumulated deficit for the years of 1998 and thereafter	$ (2,483,440)	$ (1,640,149)

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

As of December 31, 2011, Winbond has tax refund receivable under other assets - others amounted to $25,986 thousand which occurred in 2011 and years prior to 2011.

21. EARNINGS (LOSS) PER SHARE

	Year Ended December 31, 2011				
	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	$ (526,605)	$ (843,291)	3,666,391	$ (0.14)	$ (0.23)

	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

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, 2011
Nyquest Technology Co., Ltd ("Nyquest")	An equity-method investee
Global Brands Manufacture Ltd. ("GBM")	GBM's chairman is one of the immediate family members of Winbond's chairman
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
Walton Chaintech Corp. ("Walton Chaintech")	Related party in substance
Global Brands Manufacture (Dongguan) Ltd. ("GBM (Dongguan)")	Related party in substance
Walton Advanced Engineering (Suzhou) Inc. ("Walton (Suzhou)")	Related party in substance

Major transactions with related parties were summarized below:

Sales

	Years Ended December 31	
	2011	2010
Nyquest	$ 217,818	$ 241,234
GBM	88,117	-
GBM (Dongguan)	38,030	-
Walton Chaintech	-	539,449
Others	14,249	25,361
	$ 358,214	$ 806,044

Purchase

	Years Ended December 31	
	2011	2010
Nyquest	$ 4,403	$ 5,941

Manufacturing Expenses

	Years Ended December 31	
	2011	2010
Walton	$ 1,395,376	$ 1,478,790
Walton (Suzhou)	571,541	393,560
	$ 1,966,917	$ 1,872,350

General and Administrative Expenses

	Years Ended December 31	
	2011	2010
Walsin	$ 8,062	$ 8,677

Research and Development Expenses

	Years Ended December 31	
	2011	2010
Nyquest	$ -	$ 32

Notes and Accounts Receivable

	December 31	
	2011	2010
Nyquest	$ 36,506	$ 34,822
GBM (Dongguan)	14,068	-
Others	65	4,223
	$ 50,639	$ 39,045

Other Financial Assets, Current and Other Current Assets

	December 31	
	2011	2010
Walsin	$ 1,438	$ 1,429

Refundable Deposits

	December 31	
	2011	2010
Walsin	$ 203	$ 203

Notes and Accounts Payable

	December 31	
	2011	2010
Walton	$ 547,613	$ 460,029
Walton (Suzhou)	165,665	62,348
Others	2,639	4,598
	$ 715,917	$ 526,975

Other Payables

	December 31	
	2011	2010
Walton	$ 9,326	$ 3,700
Others	2,529	2,749
	$ 11,855	$ 6,449

The related-party transaction was conducted under normal terms.

Guarantee

As of December 31, 2011, 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 15.

Compensation Information of Directors, Supervisors, and Management Personnel

	Years Ended December 31	
	2011	2010
Salary	$ 158,219	$ 127,533
Bonus and special compensation	46,262	64,179
	$ 204,481	$ 191,712

Total compensation expense for the years ended December 31, 2011 and 2010 included salaries, duty allowance, retirement pension and income from exercise of employee stock options.

23. PLEDGED AND COLLATERALIZED ASSET

Please refer to Note 4, Note 11 and Note 15.

24. COMMITMENTS AND CONTINGENCIES

Letters of Credit

The Company's available amounts under unused letters of credit as of December 31, 2011 were approximately US$5,145 thousand, JPY323,464 thousand and EUR115 thousand.

Guarantee

As of December 31, 2011, Winbond guaranteed $500,000 thousand for its subsidiary, Win.

25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

	December 31			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss, current	$ 3,461	$ 3,461	$ 3,901	$ 3,901
Available-for-sale financial assets (current and noncurrent)	1,256,710	1,256,710	2,023,399	2,023,399
Liabilities				
Long-term debt (including current portion)	15,124,990	15,124,990	18,616,660	18,616,660
Derivative financial instruments				
Financial assets at fair value through profit or loss, current				
Forward exchange contracts	215	215	60,225	60,225

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 loans, 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. Available-for-sale financial assets which are private-placement shares are based on their quoted prices in an active market but adjusted for effects of any transferred restriction.

d. 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.

e. 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, 2011 and 2010, the discount rate used in determining the fair values is 3.24% and 3.13%, 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, 2011		
	Quoted Market Price in Active Market	Other Method of Valuation	Total
Assets			
Financial assets at fair value through profit or loss, current	$ 3,461	$ 215	$ 3,676
Available-for-sale financial assets, current and noncurrent	1,127,110	129,600	1,256,710

	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 and noncurrent	2,023,399	-	2,023,399

Valuation (losses) gains arising from changes in fair value of financial instruments determined using valuation techniques were $(60,010) thousand and $38,290 thousand for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011, financial assets and liabilities exposure to cash flow risk that resulted from interest rate changes amounted to $280,648 thousand and $15,463,475 thousand, respectively. Financial assets and liabilities exposure to fair value risk that resulted from interest rate changes amounted to $4,410,259 and $1,542,370 thousand, respectively, as of December 31, 2011.

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, as of December 31, 2010.

Adjustment of stockholders' equity due to the fair value changes of available-for-sale financial assets amounted to $1,449,394 thousand and $51,936 thousand as of December 31, 2011 and 2010, respectively.

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 change of 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 $154,635 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					
	2011			2010		
	Foreign Currencies (Thousands)	**Exchange Rate**	**New Taiwan Dollars (Thousands)**	**Foreign Currencies (Thousands)**	**Exchange Rate**	**New Taiwan Dollars (Thousands)**
Financial assets						
Monetary items						
USD	$ 198,558	30.275	$ 6,011,352	$ 201,462	29.13	$ 5,868,589
EUR	2,075	39.18	81,307	2,271	38.92	88,383
JPY	2,617,609	0.3906	1,022,438	2,198,644	0.3582	787,554
RMB	38,935	4.8049	187,081	27,839	4.409	122,741
ILS	28,287	7.925	224,175	5,901	8.1987	48,382
AUD	2,706	30.735	83,169	-	-	-
Non-monetary item						
USD	16,140	30.275	488,647	19,455	29.13	566,439
KRW	5,351,246	0.0263	140,738	3,696,840	0.0259	95,748
Financial liabilities						
Monetary items						
USD	114,872	30.275	3,477,755	16,261	29.13	473,695
EUR	2,197	39.18	86,063	45	38.92	1,733
JPY	2,398,822	0.3906	936,980	87,550	0.3582	31,361
ILS	3,082	7.925	24,425	3,744	8.1987	30,695

27. OPERATING SEGMENT FINANCIAL INFORMATION

a. Basic information of operating segment

The Company's reportable segments under SFAS No. 41 are as follows:

1) Segment of DRAM IC product

The DRAM IC product segment engages mainly in the manufacturing, selling, researching, designing and after-sales service of Mobile RAM, Specialty DRAM, Graphic DRAM and Commodity DRAM.

2) Segment of Flash IC product

The Flash IC product segment engages mainly in the manufacturing, selling, researching, designing and after-sales service of Flash IC product.

3) Segment of Logic IC product

The Logic IC product segment engages mainly in the manufacturing, selling, researching, designing and after-sales service of Logic IC product.

Principles of measuring reportable segments, profit, assets and liabilities:

1) The significant accounting principles of each operating segment are the same as those stated in Note 2 to the consolidated financial statements. The Company's operating segment profit or loss represents the profit or loss earned by each segment. The profit or loss is controllable by segment managers and is the basis for assessment of segment performance.

2) Individual segment assets are disclosed as zero since those measures are not reviewed by the chief operating decision maker. Major liabilities are arranged based on the capital cost and deployment of the whole company, which are not controlled by individual segment managers.

b. Segment revenues and operating results

	Segment Revenue		**Segment Profit and Loss**	
	Years Ended December 31		**Years Ended December 31**	
	2011	**2010**	**2011**	**2010**
DRAM IC product	$ 17,953,304	$ 23,582,553	$ (742,959)	$ 1,663,650
Flash IC product	9,440,302	8,442,599	1,730,491	2,553,675
Logic IC product	7,299,233	7,904,406	546,545	899,982
Total segment revenue	34,692,839	39,929,558	1,534,077	5,117,307
Others	4,011	4,800	4,011	4,800
Total net sales	$ 34,696,850	$ 39,934,358		
Unallocated expenses				
Administrative and supporting expenses			(629,601)	(636,901)
Sales and other common expenses			(1,078,061)	(780,012)
Total operating (loss) income			(169,574)	3,705,194
Non-operating gains and losses				
Interest income (expense), net			(390,365)	(574,039)
Investment income recognized under equity method			11,963	24,510
Investment (loss) income			(2,783)	34,813
Gain on disposal of property, plant and equipment			4,730	31,475
Gain on disposal of investments			69,880	819,284
Foreign exchange gain (loss)			45,765	(259,669)
Reversal of allowance for doubtful accounts			8,872	-
Valuation (loss) gain on financial instruments			(154,790)	134,782
Other income (losses)			49,697	(16,175)
(Loss) profit before tax			$ (526,605)	$ 3,900,175

c. Geographical information

The Company's net sales and the non-current assets by geographical location are detailed below.

	For the Years Ended December 31			
	2011		2010	
	Non-current Assets	Net Sales	Non-current Assets	Net Sales
Asia	$ 35,736,577	$ 32,407,678	$ 40,455,682	$ 37,120,647
United States	279,391	1,383,826	228,018	1,610,405
Europe	-	762,320	-	1,051,886
Others	-	143,026	-	151,420
	$ 36,015,968	$ 34,696,850	$ 40,683,700	$ 39,934,358

Non-current assets excluded those classified as held for sale, financial instruments, deferred tax assets, and pension liabilities.

d. Major customers information

No revenue from any individual customer exceeded 10% of the Company's net sales for the years ended December 31, 2011 and 2010.

28. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company pre-discloses the following information on the adoption of International Financial Reporting Standards (IFRSs) as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is the vice-president of the Company. The main contents of the plan, time schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
Assessing phase (2010.01.01-2011.12.31)		
• Setting up a project team and making a plan to adopt the IFRSs	Accounting division	Completed
• Processing the first phase internal training for employees	Accounting division	Completed

(Continued)

Contents of Plan	**Responsible Department**	**Status of Execution**
• Comparing and analyzing the difference between the existing accounting policies and IFRSs	Accounting division	Completed
• Assessing the adjustments for the existing accounting policies	Accounting division	Completed
• Assessing the adoption of IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Accounting division	Completed
• Assessing the adjustments for the information systems	Information division	Completed
• Assessing the adjustments for the internal controls	Related departments	Completed
Preparing phase (2011.01.01-2012.12.31)		
• Deciding how to adjust existing accounting policies according to IFRSs	Accounting division	Completed
• Deciding how to adopt IFRS1 "First-time Adoption of International Financial Reporting Standards"	Accounting division	Positively assessing
• Adjusting related information systems	Information division	Positively executing
• Adjusting internal controls	Related departments	Positively executing
• Processing the second phase internal training for employees	Accounting division	Positively executing
Implementing phase (2012.01.01-2013.12.31)		
• Testing the operation of related information system	Information division	Positively executing
• Collecting materials and preparing to draw up the opening balance for balance sheet and comparative financial statements	Accounting division	Positively executing
• Drawing up financial statements according to IFRSs	Accounting division	Positively executing

(Concluded)

b. As of December 31, 2011, the Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

Accounting Issues	Description of Differences
Employee pension plan	1) According to Statement of Financial Accounting Standard ("SFAS") No. 18, the gain or loss due to the changes of actuarial assumptions should be amortized to current income or loss. According to IFRS IAS 19 "Employee Benefits", all actuarial gains and losses could be recognized immediately as current income or loss or other comprehensive income; or could be amortized to current income or loss by using the "corridor" method. Actuarial gains and losses that have been recognised directly in other comprehensive income shall be recognised immediately in retained earnings. They shall not be recognised in profit or loss in a subsequent period. 2) According to SFAS No. 18, the unrecognized transition obligation due to first adoption of SFAS No. 18 should be amortized over expected remaining working lives of employees. On the date of transition to IFRSs, the above-mentioned unrecognized transition obligation should be recognized as deduction of retained earnings.
Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control	According to SFAS No. 5, the gain or loss on disposal of a parent's ownership that do not result in the loss of control should be reported as current income or loss. According to IFRS IAS 27, the gain or loss on disposal of a parent's ownership that do not result in the loss of control is accounted for within equity instead of current income or loss.
Deferred tax assets and liabilities	According to SFAS No. 22, a deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, deferred income tax assets that result from operating loss carryforwards and investment tax credit do not relate to an asset or liability in the financial statements; thus, they are classified as either current or noncurrent based on the expected length of time before they are realized or settled. According to IFRS IAS 12, deferred tax assets or liabilities should be classified as noncurrent assets or liabilities.

(Continued)

Accounting Issues	Description of Differences
Determining the functional currency of a foreign operation	According to SFAS No. 14, a foreign operation considers the following factors in determining its functional currency: a) The currency of a foreign operation's cash flows, b) The currency that mainly influences sales prices for goods, c) The currency in which funds from financing activities are generated. According to IFRS IAS 21, a foreign operation not only considers the aforesaid factors but also considers whether the activities of the foreign operation are carried out as an extension of the reporting entity in determining its functional currency. Based on these factors, the functional currency of the Company's foreign investment holding companies (Landmark, WIC, MML, GLLC, PCH, NIH, PRC, NAC and BHL, included) would be changed from USD to NTD. On the date of transition to IFRSs, the balance of assets and liabilities of the above-listed companies should be remeasured and retrospectively adjusted.

(Concluded)

c. The Company has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Standards Board continues to issue or amend standards (as listed), and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in the future may differ from those contemplated during the assessments.

IFRS/IAS No.	Primary Contents	Effective Date Based on IASB	Issuance Date of IASB
IFRS (adjusted)	The improvements to IFRS in 2010	2010.07.01 and 2011.01.01	May 2010
IFRS 1 (adjusted)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	2010.07.01	January 2010
IFRS 1 (adjusted)	Hyperinflation and the removal of fixed date for first-time adopters	2010.07.01	December 2010
IFRS 7 (adjusted)	Disclosure - the transfer of financial assets	2011.07.01	October 2010
IFRS 7 (adjusted)	Disclosure - the offset of financial assets and liabilities	2013.01.01	December 2011
IFRS 7 (adjusted)	The effective date of enforcement and transitional disclosure	2015.01.01	December 2011
IFRS 9 (revised)	Financial instruments	2015.01.01	October 2010
IFRS 9 (adjusted)	The effective date of enforcement and transitional disclosure	2015.01.01	December 2011
IFRS 10	Consolidated financial statements	2013.01.01	May 2011
IFRS 11	Joint arrangements	2013.01.01	May 2011
IFRS 12	Disclosure of interests in other entities	2013.01.01	May 2011
IFRS 13	Fair value measurement	2013.01.01	May 2011
IAS 1 (adjusted)	The presentation of other comprehensive income	2012.07.01	June 2011
IAS 12 (adjusted)	Deferred tax - recovery of revalued assets	2012.01.01	December 2010
IAS 19 (revised)	Employee benefits	2013.01.01	June 2011
IAS 27 (revised)	Separate financial statements	2013.01.01	May 2011
IAS 28 (revised)	Investment in associates and joint ventures	2013.01.01	May 2011
IAS 32 (adjusted)	The offset of financial assets and liabilities	2014.01.01	December 2011