# Winbond Electronics Corporation

**Financial Statements for the**
**Years Ended December 31, 2012 and 2011 and**
**Independent Auditors' Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders
Winbond Electronics Corporation

We have audited the accompanying balance sheets of Winbond Electronics Corporation (the "Company") as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. Certain long-term investments were accounted for under the equity method based on financial statements as of and for the year ended December 31, 2011 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 as of December 31, 2011; investment loss amounted to NT$1,341 thousand for the year then ended.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated balance sheets of Winbond Electronics Corporation and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended (not presented herewith), and have expressed in our report thereon an unqualified opinion and an unqualified opinion with explanatory paragraphs dated February 6, 2013, respectively.

February 6, 2013

## *Notice to Readers*

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

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# WINBOND ELECTRONICS CORPORATION

**BALANCE SHEETS**
**DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars)**

| ASSETS | 2012 Amount | 2012 % | 2011 Amount | 2011 % |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | $ 3,707,404 | 7 | $ 3,812,987 | 7 |
| Financial assets at fair value through profit or loss, current (Notes 2 and 5) | 23,551 | - | 1,703 | - |
| Available-for-sale financial assets, current (Notes 2 and 8) | 704,091 | 2 | 707,542 | 1 |
| Notes receivable, net (Notes 2 and 6) | 286 | - | 382 | - |
| Accounts receivable, net (Notes 2 and 6) | 3,004,575 | 6 | 2,447,898 | 4 |
| Accounts receivable from related parties, net (Notes 6 and 22) | 578,568 | 1 | 701,771 | 1 |
| Other financial assets, current | 160,902 | - | 85,609 | - |
| Inventories (Notes 2 and 7) | 7,107,687 | 13 | 6,427,420 | 11 |
| Deferred income tax assets, current (Notes 2 and 20) | 147,000 | - | 210,000 | - |
| Other current assets | 370,674 | 1 | 328,827 | 1 |
| Total current assets | 15,804,738 | 30 | 14,724,139 | 25 |
| FUND AND INVESTMENTS | | | | |
| Available-for-sale financial assets, noncurrent (Notes 2 and 8) | 64,530 | - | 64,800 | - |
| Financial assets carried at cost, noncurrent (Notes 2, 9 and 22) | 56,481 | - | 61,855 | - |
| Long-term equity investments at equity method (Notes 2 and 10) | 5,387,887 | 10 | 4,825,200 | 9 |
| Total fund and investments | 5,508,898 | 10 | 4,951,855 | 9 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11) | | | | |
| Cost | | | | |
| Land | 799,147 | 1 | 799,147 | 1 |
| Buildings | 16,357,176 | 31 | 16,148,157 | 28 |
| Machinery and equipment | 66,351,722 | 124 | 64,599,851 | 111 |
| Other equipment | 2,560,421 | 5 | 2,504,366 | 4 |
| Total cost | 86,068,466 | 161 | 84,051,521 | 144 |
| Accumulated depreciation | (57,765,137) | (108) | (49,782,156) | (85) |
| Construction in progress and prepayments on purchase of equipment | 92,945 | - | 125,671 | - |
| Property, plant and equipment, net | 28,396,274 | 53 | 34,395,036 | 59 |
| INTANGIBLE ASSETS (Notes 2 and 12) | 38,430 | - | 548,754 | 1 |
| OTHER ASSETS | | | | |
| Refundable deposits | 73,522 | - | 80,455 | - |
| Deferred income tax assets, noncurrent (Notes 2 and 20) | 3,595,000 | 7 | 3,532,000 | 6 |
| Others | 142,117 | - | 139,133 | - |
| Total other assets | 3,810,639 | 7 | 3,751,588 | 6 |
| TOTAL | $ 53,558,979 | 100 | $ 58,371,372 | 100 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2012 Amount | 2012 % | 2011 Amount | 2011 % |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 13) | $ 2,716,474 | 5 | $ 1,539,592 | 3 |
| Short-term bills payable (Note 14) | 499,376 | 1 | 199,763 | - |
| Notes payable | 812,253 | 2 | 849,714 | 1 |
| Accounts payable | 2,798,923 | 5 | 2,640,929 | 5 |
| Payable on equipment | 125,116 | - | 632,910 | 1 |
| Accrued expenses and other payables | 1,551,004 | 3 | 1,623,695 | 3 |
| Current portion of long-term liabilities (Note 15) | 4,483,330 | 9 | 7,158,327 | 12 |
| Other current liabilities | 22,962 | - | 23,503 | - |
| Total current liabilities | 13,009,438 | 25 | 14,668,433 | 25 |
| LONG-TERM LIABILITIES | | | | |
| Long-term debt (Note 15) | 6,550,000 | 12 | 7,966,663 | 13 |
| OTHER LIABILITIES | | | | |
| Accrued pension liabilities (Notes 2 and 16) | 193,077 | - | 154,308 | 1 |
| Reserve for product guarantee (Note 2) | 102,297 | - | 94,271 | - |
| Other liabilities - others | 231,728 | 1 | 132,197 | - |
| Total other liabilities | 527,102 | 1 | 380,776 | 1 |
| Total liabilities | 20,086,540 | 38 | 23,015,872 | 39 |
| STOCKHOLDERS' EQUITY | | | | |
| Common stock (Note 17) | 36,856,012 | 69 | 36,802,302 | 63 |
| Capital surplus | | | | |
| Treasury stock transaction | 1,971,862 | 4 | 1,971,862 | 3 |
| Adjustment on long-term equity investments under equity method | 27,868 | - | 23,913 | - |
| Stock option (Notes 2 and 18) | 9,285 | - | 13,960 | - |
| Others | 190,111 | - | 222,784 | 1 |
| Accumulated deficit | (4,335,976) | (8) | (2,483,440) | (4) |
| Other equity | | | | |
| Cumulative translation adjustments (Note 2) | 268,081 | - | 359,900 | 1 |
| Unrealized loss on financial instruments (Note 2) | (1,408,417) | (3) | (1,449,394) | (3) |
| Treasury stock (Notes 2 and 17) | (106,387) | - | (106,387) | - |
| Total stockholders' equity | 33,472,439 | 62 | 35,355,500 | 61 |
| TOTAL | $ 53,558,979 | 100 | $ 58,371,372 | 100 |

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

## WINBOND ELECTRONICS CORPORATION

**STATEMENTS OF INCOME**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars, Except Loss Per Share)**

| | 2012 Amount | 2012 % | 2011 Amount | 2011 % |
|---|---|---|---|---|
| NET SALES | $ 25,418,819 | 100 | $ 27,214,454 | 100 |
| COST OF SALES (Note 7) | 23,475,716 | 92 | 24,149,499 | 89 |
| GROSS PROFIT | 1,943,103 | 8 | 3,064,955 | 11 |
| OPERATING EXPENSES | | | | |
| Selling expenses | 675,400 | 3 | 606,800 | 2 |
| General and administrative expenses | 682,970 | 3 | 534,781 | 2 |
| Research and development expenses | 2,600,733 | 10 | 2,548,520 | 9 |
| Total operating expenses | 3,959,103 | 16 | 3,690,101 | 13 |
| LOSS FROM OPERATIONS | (2,016,000) | (8) | (625,146) | (2) |
| NON-OPERATING INCOME AND GAINS | | | | |
| Interest income | 18,901 | - | 24,163 | - |
| Investment income recognized under equity method (Note 10) | 423,149 | 2 | 131,829 | 1 |
| Investment income | - | - | 24,668 | - |
| Gain on disposal of property, plant and equipment (Note 2) | 4,483 | - | 926 | - |
| Gain on disposal of investments | - | - | 7,027 | - |
| Foreign exchange gain (Note 2) | - | - | 58,373 | - |
| Reversal of allowance for doubtful accounts | 68,209 | - | 13,000 | - |
| Gain on valuation of financial instruments (Note 5) | 93,806 | 1 | - | - |
| Others | 17,312 | - | 70,209 | - |
| Total non-operating income and gains | 625,860 | 3 | 330,195 | 1 |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Interest expense | 362,797 | 2 | 425,495 | 2 |
| Other investment loss (Note 9) | 2,922 | - | 9,680 | - |
| Loss on disposal of property, plant and equipment (Note 2) | 27 | - | 1,006 | - |
| Loss on disposal of investment | 17,856 | - | - | - |
| Foreign exchange loss (Note 2) | 56,097 | - | - | - |
| Loss on valuation of financial instruments (Note 5) | - | - | 88,854 | - |
| Others | 22,697 | - | 23,305 | - |
| Total non-operating expenses and losses | 462,396 | 2 | 548,340 | 2 |

(Continued)

# WINBOND ELECTRONICS CORPORATION

**STATEMENTS OF INCOME**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars, Except Loss Per Share)**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| LOSS BEFORE INCOME TAX | $ (1,852,536) | (7) | $ (843,291) | (3) |
| INCOME TAX EXPENSE (Notes 2 and 20) | - | - | - | - |
| NET LOSS | $ (1,852,536) | (7) | $ (843,291) | (3) |

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Before Income Tax** | **After Income Tax** | **Before Income Tax** | **After Income Tax** |
| LOSS PER SHARE (Notes 2 and 21) | | | | |
| Basic loss per share | $ (0.50) | $ (0.50) | $ (0.23) | $ (0.23) |

Proforma amount, assuming common shares held by subsidiaries were not treated as treasury stock:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Before Income Tax** | **After Income Tax** | **Before Income Tax** | **After Income Tax** |
| NET LOSS | | $ (1,852,536) | | $ (843,291) |
| BASIC LOSS PER SHARE | $(0.50) | $(0.50) | $(0.23) | $(0.23) |

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

## WINBOND ELECTRONICS CORPORATION

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars)**

| | | Capital Surplus | | | | | Other Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Total |
| BALANCE, JANUARY 1, 2011 | $ 36,693,502 | $ 1,971,862 | $ 23,912 | $ 20,104 | $ 288,066 | $ (1,640,149) | $ 242,163 | $ (51,936) | $ (106,387) | $ 37,441,137 |
| Net loss for 2011 | - | - | - | - | - | (843,291) | - | - | - | (843,291) |
| Changes in translation adjustments | - | - | - | - | - | - | 117,737 | - | - | 117,737 |
| Changes in unrealized loss on financial instruments | - | - | - | - | - | - | - | (1,397,458) | - | (1,397,458) |
| Issuance of stock from exercising employee stock options (Note 17) | 108,800 | - | - | (10,616) | (65,282) | - | - | - | - | 32,902 |
| Capital surplus from investee under equity method | - | - | 1 | - | - | - | - | - | - | 1 |
| Compensation cost of employee stock options (Note 18) | - | - | - | 4,472 | - | - | - | - | - | 4,472 |
| 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) | 35,355,500 |
| Net loss for 2012 | - | - | - | - | - | (1,852,536) | - | - | - | (1,852,536) |
| Changes in translation adjustments | - | - | - | - | - | - | (92,184) | - | - | (92,184) |
| Changes in unrealized gain on financial instruments | - | - | - | - | - | - | - | 110,462 | - | 110,462 |
| Capital surplus from investee under equity method | - | - | 76 | - | - | - | - | - | - | 76 |
| Issuance of stock from exercising employee stock options (Note 17) | 53,710 | - | - | (4,816) | (32,673) | - | - | - | - | 16,221 |
| Write-off stockholders' equity due to subsidiary merged (Note 10) | - | - | 3,879 | - | - | - | 365 | (69,485) | - | (65,241) |
| Compensation cost of employee stock options (Note 18) | - | - | - | 141 | - | - | - | - | - | 141 |
| BALANCE, DECEMBER 31, 2012 | $ 36,856,012 | $ 1,971,862 | $ 27,868 | $ 9,285 | $ 190,111 | $ (4,335,976) | $ 268,081 | $ (1,408,417) | $ (106,387) | $ 33,472,439 |

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

## WINBOND ELECTRONICS CORPORATION

**STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars)**

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (1,852,536) | $ (843,291) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation | 8,489,074 | 9,680,099 |
| Amortization | 529,041 | 523,434 |
| Reversal of allowance for doubtful accounts | (68,209) | (13,000) |
| (Gain) loss on decline in market value and obsolescence and abandonment of inventories | (69,515) | 486,680 |
| Loss (gain) on disposal of investments, net | 17,856 | (7,027) |
| Investment income recognized under equity method, net | (423,149) | (131,829) |
| Impairment losses on financial assets carried at cost | 2,922 | 9,680 |
| Cash dividends from equity method investees | 215,254 | 379,860 |
| Net (gains) losses on disposal of property, plant and equipment | (4,456) | 80 |
| Compensation cost of employee stock options | 141 | 4,472 |
| Net changes in operating assets and liabilities | | |
| Financial assets at fair value through profit or loss, current | (21,848) | 54,403 |
| Notes receivable | 96 | 970 |
| Accounts receivable | (574,969) | 613,230 |
| Accounts receivable from related parties | 122,828 | (275,204) |
| Other financial assets, current | (75,294) | (10,165) |
| Inventories | (610,752) | (1,476,316) |
| Other current assets | (41,847) | 121,595 |
| Other assets | (14,768) | (35,090) |
| Notes payable | (37,460) | (287,725) |
| Accounts payable | 157,993 | 650,223 |
| Accrued expenses and other payables | (72,691) | 71,863 |
| Other current liabilities | (541) | (58,644) |
| Other liabilities | 46,695 | 48,638 |
| Net cash provided by operating activities | 5,713,865 | 9,506,936 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of property, plant and equipment | (3,018,234) | (5,965,461) |
| Acquisition of long-term investments under equity method | (403,856) | (376,670) |
| Acquisition of available-for-sale financial assets | (86,915) | (316,826) |
| Acquisition of financial assets carried at cost | (58,950) | - |
| Proceeds from disposal of available-for-sale financial assets | 71,285 | - |
| Proceeds from disposal of financial assets carried at cost | 62,708 | 335 |
| Proceeds from capital return of long-term investments under equity method | 188,874 | - |
| Proceeds from disposal of property, plant and equipment | 24,584 | 4,448 |
| Net cash used in investing activities | (3,220,504) | (6,654,174) |

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## WINBOND ELECTRONICS CORPORATION

**STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars)**

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term loans | 1,176,883 | (12,223) |
| Increase in short-term bills payable | 299,613 | 199,763 |
| Increase in long-term debt | 3,200,000 | 5,000,000 |
| Repayment of long-term debt | (7,291,660) | (8,491,670) |
| Proceeds from exercise of employee stock options | 16,220 | 32,902 |
| Net cash used in financing activities | (2,598,944) | (3,271,228) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (105,583) | (418,466) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,812,987 | 4,231,453 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 3,707,404 | $ 3,812,987 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for interest during the year | $ 420,219 | $ 549,022 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Current portion of long-term liabilities | $ 4,483,330 | $ 7,158,327 |
| Change in cumulative translation adjustments | $ (92,184) | $ 117,737 |
| Unrealized gain (loss) on financial instruments | $ 110,462 | $ (1,397,458) |
| Acquisitions of available-for-sale financial assets offset by accounts receivable | $ 86,501 | $ - |
| Capital surplus from investee under equity method | $ 76 | $ 1 |
| Write-off stockholders' equity due to subsidiary merged | $ (65,241) | $ - |
| CASH PAYMENT FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT | | |
| Net increase in acquisition of property, plant and equipment | $ 2,510,440 | $ 5,518,277 |
| Add payable for property, plant and equipment, beginning of year | 632,910 | 1,080,094 |
| Less payable for property, plant and equipment, end of year | (125,116) | (632,910) |
| Cash payment for acquisitions of property, plant and equipment | $ 3,018,234 | $ 5,965,461 |

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

## 1. ORGANIZATION AND OPERATIONS

Winbond Electronics Corporation (the “Company”) was incorporated in the Republic of China (“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, the Company offers a foundry service for other Taiwanese and foreign IC producers and designers. An initial public offering of the Company’s common stocks was made on October 18, 1995, and the stocks are traded on the Taiwan Stock Exchange.

There are 2,007 and 2,012 employees in the Company as of December 31, 2012 and 2011, respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC. For readers’ convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. Significant accounting policies are summarized as follows:

### Foreign Currencies

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in current income or loss.

At the balance sheet date, foreign-currency nonmonetary assets and liabilities (e.g., equity instruments) which are measured at fair value shall be revalued using prevailing exchange rates. The exchange differences treated as recognized in shareholders’ equity if the changes in fair value are recognized in shareholders’ equity; recognized in profit and loss if the changes in fair value is recognized in profit or loss. Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Long-term equity investments denominated in foreign currencies are restated at the balance sheet date exchange rates. The related translation adjustments are reported as an adjustment of stockholders’ equity.

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, law and principles, the Company is required to make some estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for loss on inventories, 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 commercial paper with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

**Financial Assets 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 regular way purchases or sales of financial assets, derivative financial instrument are recognized on a settlement date basis, others are recognized on 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**

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 regular way purchases or sales of available-for-sale financial assets are recorded on a 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. 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. Open-end mutual funds are stated at net asset values 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 significant 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.

A merger or acquisition transaction is accounted for by purchase method. When equity investment is made with an asset other than cash, the fair value of the asset given up or of the shares acquired is measured objectively.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. For long-term equity investments for which the Company has significant influence but with no control, the carrying amount of each investment is compared with its own recoverable amount for the purpose of impairment testing. For long-term equity investments for which the Company has control, the carrying amount is compared with the relevant cash-generating units ("CGUs") of the consolidated financial statements.

**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:

| | |
|---|---|
| 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, accumulated depreciation and accumulated amortized 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.

**Loss Per Share**

Basic loss per share is calculated by dividing net loss applicable to common stock by the weighted average number of shares outstanding.

**Share-based Compensation**

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 - stock 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.

The Company’s stock held by subsidiaries is also treated as treasury stock.

**Revenue Recognition**

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

**Reclassifications**

Certain accounts in the financial statements as of and for the year ended December 31, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2012.

## 3. 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 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 disclose in the consolidated financial statements as of and for the year ended December 31, 2011.

## 4. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Cash on hand | $ 230 | $ 230 |
| Checking account | 30,184 | 1,036 |
| Demand deposit | 330,586 | 102,956 |
| Time deposit | 1,618,004 | 3,071,752 |
| Short-term bills | 1,728,400 | 637,013 |
| | $ 3,707,404 | $ 3,812,987 |

Time deposits in the amounts of $70,733 thousand and $77,836 thousand as of December 31, 2012 and 2011, respectively, were pledged to secure purchase orders of materials and customs tariff obligations and are included in refundable deposits.

## 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Financial assets at fair value through profit or loss, current | | |
| Forward exchange contracts | $ 23,551 | $ 1,703 |

For the years ended December 31, 2012 and 2011, the Company's entered into derivative contracts to manage exposures due to exchange rate and interest rate fluctuation. The financial risk management objective of the Company is to minimize risks due to changes in fair value or cash flows.

Outstanding forward exchange contracts as of December 31, 2012 and 2011 were as follows:

| | Currencies | Maturity Date | Contract Amount (In Thousands) |
|---|---|---|---|
| December 31, 2012 | | | |
| Sell forward exchange contracts | USD to NTD | 2013.01.03-2013.03.14 | USD116,000/NTD3,378,206 |
| Sell forward exchange contracts | NTD to USD | 2013.02.07 | NTD289,220/USD10,000 |
| December 31, 2011 | | | |
| Sell forward exchange contracts | USD to JPY | 2012.01.05 | USD925/JPY72,000 |
| Sell forward exchange contracts | USD to NTD | 2012.01.05-2012.02.02 | USD41,000/NTD1,241,738 |

The transactions of financial instruments at fair value through profit or loss resulted in net gains of $93,806 thousand and net losses of $88,854 thousand for the years ended December 31, 2012 and 2011, respectively.

## 6. NOTES AND ACCOUNTS RECEIVABLE

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Notes receivable | $ 286 | $ 382 |
| Accounts receivable | $ 3,083,063 | $ 2,726,898 |
| Less allowance for doubtful accounts | (78,488) | (279,000) |
| | $ 3,004,575 | $ 2,447,898 |
| Accounts receivable from related parties (Note 22) | $ 578,568 | $ 701,771 |

## 7. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Finished goods | $ 1,505,625 | $ 1,606,347 |
| Work-in-process | 5,321,377 | 4,517,692 |
| Raw materials and supplies | 263,894 | 289,609 |
| Inventories in transit | 16,791 | 13,772 |
| | $ 7,107,687 | $ 6,427,420 |

As of December 31, 2012 and 2011, the allowance for inventory devaluation was $876,268 thousand and $985,877 thousand, respectively.

Gain on recovery of loss of inventory and loss on write-down of inventories of $69,515 thousand and $486,680 thousand were recognized as the cost of sales for the years ended December 31, 2012 and 2011, respectively. Gain on recovery of decline in market value amounted to $109,608 thousand in the year ended December 31, 2012, due to net realizable value improvement.

Unallocated fixed manufacturing costs were recognized as cost of sales in the years ended December 31, 2012 and 2011 amounted to $513,589 thousand and $548,177 thousand, respectively.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Amount | Ownership Percentage | Amount | Ownership Percentage |
| Listed stocks | | | | |
| Walton Advanced Engineering Inc. | $ 420,526 | 10 | $ 480,601 | 10 |
| Hannstar Display Corporation | 192,061 | 2 | 123,082 | 1 |
| Walsin Technology Corporation | 91,504 | 2 | 103,859 | 2 |
| Private-placement shares of listed company | | | | |
| Hannstar Display Corporation | 64,530 | 1 | 64,800 | 1 |
| | 768,621 | | 772,342 | |
| Less current portion | (704,091) | | (707,542) | |
| | $ 64,530 | | $ 64,800 | |

In January 2011, the Company acquired 54,000 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. In September 2012, Hannstar Display Corporation carried out a capital reduction to offset a deficit, and the proportion of capital reduction is 50%. The Company deducted 27,000 thousand private-placement shares of Hannstar Display Corporation. As of December 31, 2012, the Company had 27,000 thousand of Hannstar Display Corporation's private-placement shares.

## 9. FINANCIAL ASSETS CARRIED AT COST

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Amount | Ownership Percentage | Amount | Ownership Percentage |
| Harbinger Venture III Capital Corp. | $ 43,228 | 5 | $ - | - |
| YH Bio Explore & Application Co., Ltd. | - | - | 35,520 | 3 |
| Vita Genomic, Inc. | - | - | 13,082 | 3 |
| Others | 13,253 | - | 13,253 | - |
| | $ 56,481 | | $ 61,855 | |

a. 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.

b. The Company assessed the recoverable amount of the above financial assets; as a result, the Company recognized an impairment loss of $2,922 thousand, recorded as "other investment loss" for the year ended December 31, 2012.

c. In September 2012, the Company acquired 4,080 thousand shares of Harbinger Venture III Capital Corp. at $10.60 per share from related-party Win Investment Corporation (the price was determined by the investee's net value). As of December 31, 2012, the Company held 4,080 thousand shares of the investee with a 5% ownership interest.

d. In September 2012, the Company acquired 2,495 thousand shares of Dynacard Co., Ltd. from related-party Win Investment Corporation (the price was determined by the investee's net value). As of December 31, 2012, the Company sold all of its shares in the investee.

## 10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 2012 | | | 2011 | |
| | Original Investment Cost | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| Nuvoton Technology Corporation ("NTC") | $ 727,548 | $ 1,854,961 | 61 | $ 1,705,202 | 61 |
| Chin Xin Investment | 1,723,588 | 1,654,103 | 35 | - | - |
| Winbond Int'l Corporation ("WIC") | 3,269,237 | 1,546,387 | 100 | 1,596,774 | 100 |
| Landmark Group Holdings Ltd. ("Landmark") | 325,728 | 240,659 | 100 | 372,360 | 100 |
| Mobile Magic Design Corporation ("MMDC") | 50,000 | 54,093 | 100 | 50,910 | 100 |
| Pine Capital Investment Limited ("PCI") | 41,398 | 37,684 | 100 | 42,805 | 100 |
| Newfound Asian Corp. ("NAC") | 208,960 | - | 100 | - | 100 |
| Winbond Electronics (H.K.) Limited ("WEHK") | 1,948 | - | 100 | - | 100 |
| Win Investment Corporation ("Win") | - | - | - | 1,057,149 | 100 |
| | $ 6,348,407 | $ 5,387,887 | | $ 4,825,200 | |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| NTC | $ 383,019 | $ 259,730 |
| WIC | 16,599 | (108,116) |
| Landmark | (13,733) | (37,508) |
| MMDC | 3,126 | 4,364 |
| PCI | (3,590) | (1,005) |
| NAC | (261) | (263) |
| WEHK | (1,083) | 5,764 |
| Win | 39,072 | 8,863 |
| | $ 423,149 | $ 131,829 |

The financial statements for the year ended December 31, 2011 of CFP Technology Corp. ("CFP") were audited by other auditors. In August 2011, Win sold partial investments of CFP. As Win's ownership interest in CFP was less than 20% and could not have significant influence over CFP, Win reclassified its investment in CFP as "financial assets carried at cost".

Pine Capital Investment Limited ("PCI") was incorporated in January 2011. PCI's principal activity is to invest in various businesses. As of December 31, 2012, the balance of PCI's capital account amounted to HK$10,920 thousand and the Company held a 100% ownership interest directly.

In September 2012, the board of directors of Landmark Company resolved capital reduction amounted to $188,874 thousand.

In November 2012, the Company bought 40,000 thousand shares of Chin Xin Investment from related-party Walsin Lihwa Corporation. On December 31, 2012, Win Investment, a subsidiary of the Company was merged into Chin Xin Investment, and accordingly Win Investment was dissolved. The Company acquired 130,713 thousand shares of Chin Xin Investment after such merger. As of December 31, 2012, the Company had 170,713 thousand shares of Chin Xin Investment with a 35% ownership interest.

The Company has written off $65,241 thousand of stockholders' equity due to the abovementioned merger transaction.

The unrealized valuation loss on financial assets recognized as stockholders' equity amounted to $277,475 thousand as of December 31, 2012.

As of December 31, 2012, fair value of publicly traded stocks of NTC accounted for under equity method was $4,026,519 thousand.

## 11. PROPERTY, PLANT AND EQUIPMENT

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

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Buildings | $ 6,998,943 | $ 5,745,036 |
| Machinery and equipment | 48,531,960 | 42,006,660 |
| Others | 2,234,234 | 2,030,460 |
| | $ 57,765,137 | $ 49,782,156 |

Capitalized interest for the years ended December 31, 2012 and 2011 amounted to $49,146 thousand and $122,224 thousand, respectively. The interest rates of interest capitalized were 2.62%-2.70% and 2.59%-2.70%, respectively.

As of December 31, 2012 and 2011, the carrying value of $20,557,599 thousand and $20,906,790 thousand of land and 12-inch Fab manufacturing facilities were pledged to secure long-term debt. Please refer to Note 15 to the financial statements.

## 12. INTANGIBLE ASSET

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Deferred technical assets, net | $ 38,430 | $ 548,754 |

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 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Interest Rate | Amount | Interest Rate | Amount |
| Materials procurement loans | 1.11%-1.70% | $ 154,374 | 1.09%-2.73% | $ 1,539,592 |
| Bank lines of credit | 1.33%-1.87% | 2,562,100 | - | - |
| | | $ 2,716,474 | | $ 1,539,592 |

## 14. SHORT-TERM BILLS PAYABLE

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | | 2011 |
| | Bills Financial Corporation | Interest Rate | Amount | Amount |
| Commercial paper payable | China bills | 0.85% | $ 200,000 | $ 200,000 |
| | MEGA bills | 1.15% | 300,000 | - |
| Less unamortized discount on commercial paper payable | | | (624) | (237) |
| | | | $ 499,376 | $ 199,763 |

## 15. LONG-TERM DEBT

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | | 2011 |
| | Period | Interest Rate | Amount | Amount |
| Chinatrust Commercial Bank syndication agreement (II) | 2008.06.27-2013.06.27 | 2.68%-2.70% | $ 1,283,330 | $ 3,849,990 |
| Bank of Taiwan syndication agreement (I) | 2009.07.27-2012.07.27 | - | - | 2,775,000 |
| Bank of Taiwan syndication agreement (II) | 2010.06.18-2015.06.18 | 2.97%-3.11% | 4,850,000 | 6,000,000 |
| Bank of Taiwan syndication agreement (III) | 2011.12.23-2016.12.23 | 2.49%-2.63% | 2,900,000 | 2,500,000 |
| Chinatrust Commercial Bank syndication agreement (III) | 2012.12.27-2015.12.27 | 2.65% | 2,000,000 | - |
| | | | 11,033,330 | 15,124,990 |
| Less current portion of long-term debt | | | (4,483,330) | (7,158,327) |
| | | | $ 6,550,000 | $ 7,966,663 |

**Chinatrust Commercial Bank Syndication Agreement (II)**

a. On June 4, 2008, the Company 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, the Company 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.

d. The agreement was fully redeemed on July 27, 2012.

**Bank of Taiwan Syndication Agreement (II)**

a. On May 31, 2010, the Company 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 part a and b, which amounted to $3.3 billion and $3.5 billion, respectively, the total line of credit $6.8 billion.

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 for collateral on bank borrowing and Note 22 for the joint guarantor.

**Bank of Taiwan Syndication Agreement (III)**

a. On September 19, 2011, the Company 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.

**Chinatrust Commercial Bank Syndication Agreement (III)**

a. On November 19, 2012, the Company entered into a syndication agreement, amounting to $5 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 six months from December 27, 2014 until maturity.

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

The Company 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 (II), (III) and Chinatrust Commercial Bank Syndication Agreement (III) 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 $89,666 thousand and $81,040 thousand for the years ended December 31, 2012 and 2011, respectively.

The Company has a 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 | |
|---|---|---|
| | **2012** | **2011** |
| Service cost | $ 17,276 | $ 14,485 |
| Interest cost | 18,930 | 17,929 |
| Expected return on plan assets | (9,687) | (9,949) |
| Amortization, net | 8,867 | 5,720 |
| Net pension cost | $ 35,386 | $ 28,185 |

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

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Discount rate | 2.25% | 2.25% |
| Expected long-term rate of return on plan assets | 2.00% | 2.00% |
| Rate of increase in compensation | 3.00% | 3.00% |

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

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Benefit obligation | | |
| Vested benefit obligation | $ 334,645 | $ 181,956 |
| Accumulated benefit obligation | 683,759 | 622,254 |
| Projected benefit obligation | 928,140 | 855,929 |
| Funded status | | |
| Projected benefit obligation | (928,140) | (855,929) |
| Fair value of plan assets | 490,682 | 492,265 |
| Funded status | (437,458) | (363,664) |
| Unrecognized net transition obligation | 8,500 | 9,767 |
| Unrecognized net gain | 252,788 | 199,589 |
| Intangible asset - deferred pension cost | (16,907) | - |
| Accrued pension liabilities | $ (193,077) | $ (154,308) |

## 17. STOCKHOLDERS' EQUITY

### Common Stock

| | December 31 2012 | December 31 2011 |
|---|---|---|
| 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) | 3,685,601 | 3,680,230 |
| Par value (in dollars) | $ 10 | $ 10 |
| Capital | $ 36,856,012 | $ 36,802,302 |

As of December 31, 2011, the balance of the Company's capital account amounted to $36,802,302 thousand, divided into 3,680,230 thousand shares at par $10.00 dollars per share.

Employees executed the stock options at $3.02 per share totaling 5,371 thousand shares during the year of 2012. As of December 31, 2012, the balance of the Company's capital account amounted to $36,856,012 thousand, divided into 3,685,601 thousand shares at par $10.00 dollars per share. Walsin Lihwa is a major stockholder of the Company and held approximately 23% ownership interest in the Company as of December 31, 2012.

According to the Company Law of the ROC and the Company's Articles of Incorporation, if the Company has surplus earnings at the end of a fiscal year, after covering all losses incurred in prior years and paying all taxes, the Company 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 the Company. 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 the Company at the end of a fiscal year if the losses can be fully covered by the undistributed retained earnings, the Company 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 the Company 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".

The Company loss of the year ended 2011, so the stockholders' meeting is not assigned. The relevant information is available on MOPS. And the Company were operating loss of the year 2012, it is not estimated bonus to employees, directors and supervisors.

**Treasury Stock**

Treasury stock transactions for the year ended December 31, 2012 were summarized as follows:

| Purpose of Buyback | Treasury Stock Held as of January 1, 2012 | Increase During the Year | Decrease During the Year | Treasury Stock Held as of December 31, 2012 |
|---|---|---|---|---|
| Common shares held by subsidiaries | 7,518,364 | - | - | 7,518,364 |

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 |

As of December 31, 2012 and 2011, Winbond's subsidiary - Baystar Holdings Ltd. (BHL) held 7,518,364 shares of the Company's common stock which amounted to $106,387 thousand. The purpose to hold the share, in order to maintain stockholder's equity. The shares held by BHL were treated as treasury stocks.

The Company'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 the Company's share issuance for cash and vote in stockholders' meeting.

## 18. EMPLOYEE STOCK OPTION

In 2008 and 2009, the Company 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 the Company's new issued one common share. The warrants were granted to qualified employees of the Company 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 the Company's common shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options are adjusted accordingly.

Employee stock warrants were summarized as follows:

| Employee Stock Warrants | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | 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 | 15,516 | $ 3.20 | 27,459 | $ 3.12 |
| Warrants granted | - | - | - | - |
| Warrants exercised | (5,371) | 3.02 | (10,880) | 3.02 |
| Warrants cancelled | - | - | - | - |
| Warrants expired | (371) | 3.49 | (1,063) | 3.05 |
| Outstanding balance, end of year | 9,774 | 3.28 | 15,516 | 3.20 |
| Warrants exercisable, end of year | 9,751 | 3.28 | 14,596 | 3.11 |

Information about outstanding warrants was as follows:

| December 31 | | | |
|---|---|---|---|
| 2012 | | 2011 | |
| 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 | 0.9 | $3.02-$6.46 | 1.87 |

The Company 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 duration (years) | 3.75 |
| Expected dividend yield | 0% |
| Risk-free interest rate | 0.94%-1.95% |

Compensation costs recognized under the fair value method were $141 thousand and $4,472 thousand for the years ended December 31, 2012 and 2011, respectively.

## 19. PERSONNEL EXPENSE, DEPRECIATION, AND AMORTIZATION

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Classified as Cost of Sales | Classified as Operation Expenses | Classified as Non-operation Expenses and Losses | Total |
| Personnel expense | | | | |
| Salary | $ 1,233,322 | $ 799,780 | $ - | $ 2,033,102 |
| Insurance | 95,920 | 52,128 | - | 148,048 |
| Pension | 78,486 | 46,566 | - | 125,052 |
| Others | 6,850 | 3,698 | - | 10,548 |
| | $ 1,414,578 | $ 902,172 | $ - | $ 2,316,750 |
| Depreciation | $ 8,372,380 | $ 116,694 | $ - | $ 8,489,074 |
| Amortization | $ - | $ 510,324 | $ 18,717 | $ 529,041 |

| | 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 | $ 1,174,666 | $ 713,232 | $ - | $ 1,887,898 |
| Insurance | 88,412 | 45,174 | - | 133,586 |
| Pension | 80,185 | 39,226 | - | 119,411 |
| Others | 6,595 | 3,333 | - | 9,928 |
| | $ 1,349,858 | $ 800,965 | $ - | $ 2,150,823 |
| Depreciation | $ 9,579,362 | $ 100,737 | $ - | $ 9,680,099 |
| Amortization | $ - | $ 510,324 | $ 13,110 | $ 523,434 |

## 20. INCOME TAX

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

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Current income tax credit | $ (377,000) | $ (165,000) |
| Deferred income tax assets and valuation allowance adjustment | 377,000 | 165,000 |
| Income tax expense | $ - | $ - |

Components of deferred income tax assets were as follows:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Deferred income tax assets | | |
| Net operating loss carryforwards | $ 4,387,000 | $ 3,994,000 |
| Investment tax credits | 648,000 | 2,119,000 |
| Allowance for inventory devaluation losses | 148,000 | 167,000 |
| Allowance for doubtful accounts | 7,000 | 42,000 |
| Unrealized reserve for product guarantee | 18,000 | 17,000 |
| Unrealized exchange loss | - | 1,000 |
| Unrealized investment loss | 6,000 | 6,000 |
| Deferred income tax assets | 5,214,000 | 6,346,000 |
| Less valuation allowance | (1,464,000) | (2,604,000) |
| | 3,750,000 | 3,742,000 |
| Deferred income tax liabilities | | |
| Unrealized gain on financial instruments | (4,000) | - |
| Unrealized exchange gains | (4,000) | - |
| Deferred income tax assets, net | 3,742,000 | 3,742,000 |
| Deferred income tax assets, current (under other current assets) | (147,000) | (210,000) |
| Deferred income tax assets, noncurrent (under other assets) | $ 3,595,000 | $ 3,532,000 |

A reconciliation of income tax credit based on loss before income tax at statutory rate of 17% and income tax loss was as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Income tax credit at statutory rate | $ (315,000) | $ (143,000) |
| Decrease in tax resulting from | | |
| Unrealized investment income | (71,000) | (23,000) |
| Tax-exempt income on disposal of domestic investments | - | (1,000) |
| Others | 9,000 | 2,000 |
| Current income tax credit | (377,000) | (165,000) |
| Provision for deferred tax assets | (60,000) | 90,000 |
| Income tax loss | $ (437,000) | $ (75,000) |

The Company’s investment tax credits and operating loss carryforwards as of December 31, 2012 were as follows:

| Expiry Year | Investment Tax Credits | Operating Loss Carryforwards |
|---|---|---|
| 2013 | $ 409,000 | $ 286,000 |
| 2014-2022 | 239,000 | 4,101,000 |
| | $ 648,000 | $ 4,387,000 |

The information of the integrated income tax was as follows:

| | December 31 2012 | December 31 2011 |
|---|---|---|
| Balance of imputation credit account | $ 252,935 | $ 217,239 |
| Undistributed earnings for the years of 1997 and before | $ - | $ - |
| Undistributed deficit for the years of 1998 and thereafter | $ (4,335,976) | $ (2,483,440) |

The tax returns through 2010, except 2009, have been assessed by the tax authorities.

As of December 31, 2012, the Company has tax refund receivable under other assets - others amounted to $7,136 thousand which occurred in 2012 and years prior to 2011.

## 21. LOSS PER SHARE

Calculation of loss per share was summarized as follows:

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amounts (Numerator) | | Shares | Loss Per Share (NT$) | |
| | Before Tax | After Tax | (Denominator) (In Thousands) | Before Tax | After Tax |
| Basic loss per share | | | | | |
| Net loss attributed to common shareholders | $ (1,852,536) | $ (1,852,536) | 3,676,698 | $ (0.50) | $ (0.50) |

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Amounts (Numerator) | | Shares | Loss Per Share (NT$) | |
| | Before Tax | After Tax | (Denominator) (In Thousands) | Before Tax | After Tax |
| Basic loss per share | | | | | |
| Net loss attributed to common shareholders | $ (843,291) | $ (843,291) | 3,666,391 | $ (0.23) | $ (0.23) |

Proforma amount, assuming common shares were not treated as treasury stock:

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amounts (Numerator) | | Shares | Loss Per Share (NT$) | |
| | Before Tax | After Tax | (Denominator) (In Thousands) | Before Tax | After Tax |
| Basic loss per share | | | | | |
| Net loss attributed to common shareholders | $ (1,852,536) | $ (1,852,536) | 3,684,216 | $ (0.50) | $ (0.50) |

| | Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Amounts (Numerator) | | Shares | Loss Per Share (NT$) | |
| | Before Tax | After Tax | (Denominator) (In Thousands) | Before Tax | After Tax |
| Basic loss per share | | | | | |
| Net loss attributed to common shareholders | $ (843,291) | $ (843,291) | 3,673,910 | $ (0.23) | $ (0.23) |

## 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 the Company's chairman and Walsin holds a 23% ownership in the Company as of December 31, 2012 |
| Winbond Electronics (H.K.) Limited ("WEHK") | The Company holds a 100% ownership interest directly |
| Mobile Magic Design Corporation ("MMDC") | The Company holds a 100% ownership interest directly |
| Win Investment Corporation ("Win") (Note) | The Company holds a 100% ownership interest directly |
| Winbond Electronics (Suzhou) Limited ("WECN") | The Company holds a 100% ownership interest indirectly |
| Winbond Electronics Corporation America ("WECA") | The Company holds a 100% ownership interest indirectly |
| Winbond Electronics Corporation Japan ("WECJ") | The Company holds a 100% ownership interest indirectly |
| Nuvoton Technology Corporation ("NTC") | The Company holds a 61% ownership interest directly |
| Walton Advanced Engineering Inc. ("Walton") | Walton's chairman is one of the immediate family members of the Company's chairman. The Company is a director of Walton. |
| Global Brands Manufacture Ltd. ("GBM") | GBM's chairman is one of the immediate family members of the Company's chairman |
| Global Brands Manufacture (Dongguan) Ltd. ("GBM (Dongguan)") | Related party in substance |
| Walton Advanced Engineering (Suzhou) Inc. ("Walton (Suzhou)") | Related party in substance |

Note: As of December 31, 2012, Win was merged into Chin Xin Investment.

Major transactions with related parties were summarized below:

**Sales**

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| WEHK | $ 3,964,101 | $ 5,008,443 |
| WECJ | 2,284,033 | 2,058,803 |
| WECN | 217,583 | - |
| WECA | 177,813 | 146,446 |
| GBM (Dongguan) | 153,402 | 38,030 |
| NTC | 79,893 | 38,309 |
| GBM | - | 88,117 |
| Others | 482 | 12 |
| | $ 6,877,307 | $ 7,378,160 |

**Manufacturing Expenses**

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Walton | $ 1,559,452 | $ 1,395,376 |
| Walton (Suzhou) | 582,901 | 571,541 |
| MMDC | 2,563 | 20,081 |
| | $ 2,144,916 | $ 1,986,998 |

**Selling Expenses**

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| WECA | $ 112,054 | $ 68,224 |
| WECJ | 7,801 | 9,823 |
| | $ 119,855 | $ 78,047 |

**General and Administrative Expenses**

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Walsin | $ 7,891 | $ 8,062 |

**Research and Development Expenses**

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| WECA | $ 260,166 | $ 176,860 |
| MMDC | 119,917 | 108,968 |
| WECJ | 67,785 | 55,163 |
| NTC | - | 500 |
| | $ 447,868 | $ 341,491 |

**Service Revenue (Recorded as “Non-operating Income and Gains - Others”)**

| | Years Ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| MMDC | $ 396 | $ 396 |

**Accounts Receivable**

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| WEHK | $ 413,799 | $ 558,870 |
| WECJ | 87,568 | 121,316 |
| WECN | 44,975 | - |
| GBM (Dongguan) | 14,915 | 14,073 |
| Others | 17,311 | 7,512 |
| | $ 578,568 | $ 701,771 |

**Other Financial Assets, Current and Other Current Assets**

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| NTC | $ 3,026 | $ 2,202 |
| MMDC | 99 | 99 |
| Walsin | 20 | 1,438 |
| | $ 3,145 | $ 3,739 |

**Refundable Deposits**

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| NTC | $ 440 | $ 440 |
| Walsin | 203 | 203 |
| | $ 643 | $ 643 |

**Notes and Accounts Payable**

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Walton | $ 394,197 | $ 547,613 |
| Walton (Suzhou) | 137,081 | 165,665 |
| Walsin | 2,654 | 2,113 |
| | $ 533,932 | $ 715,391 |

**Other Payables**

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| WECA | $ 135,610 | $ 165,469 |
| MMDC | 52,095 | 58,040 |
| WECJ | 12,040 | 12,662 |
| Walton | 6,199 | 9,326 |
| Walsin | 1,076 | 2,496 |
| Walton (Suzhou) | 288 | 33 |
| NTC | - | 2,202 |
| | $ 207,308 | $ 250,228 |

The related party transactions were conducted under normal terms.

**Security Transactions**

The Company's sale of investment to related parties in 2012 was summarized as follows:

| Related Party | Securities Name | Shares (Thousands) | Selling Price | Disposal Gain |
|---|---|---|---|---|
| Win | YH Bio Explore & Application Co., Ltd. | 6,955 | $ 36,472 | $ 952 |
| Win | Vita Genomic, Inc. | 1,115 | 10,065 | (96) |
| | | | $ 46,537 | $ 856 |

The above selling prices were determined in accordance with the investee's net value. The Company deferred these gains on disposal of investment to the subsidiary.

The Company's purchase of investment from related parties in 2012 was summarized as follows:

| Related Party | Securities Name | Shares (Thousands) | Purchase Cost |
|---|---|---|---|
| Walsin | Chin Xin Investment | 40,000 | $ 403,856 |
| Win | Harbinger Venture III Capital Corp. | 4,080 | 43,228 |
| Win | Dynacard Co., Ltd. | 2,495 | 12,138 |
| | | | $ 459,222 |

The above purchase prices were determined in accordance with the investee's net value. The gain or loss of the transactions have been fully deferred.

**Financing**

The board of directors of WECA consented to lend up US$14,000 thousand to the Company. As of December 31, 2012 and 2011, no amount was drawn.

**Property Transactions**

The Company's sale of property to related parties was summarized as follows:

| | Year Ended December 31, 2011 | | | |
|---|---|---|---|---|
| **Related Party** | **Sales Items** | **Selling Price** | **Carrying Value** | **Disposal Gain** |
| NTC | Machinery and equipment | $ 235 | $ 46 | $ 189 |

**Guarantee**

a. Please refer to Note 24.

b. As of December 31, 2012, the chairman of the Company is a joint guarantor of the long-term debt - Bank of Taiwan syndication agreement (II). Please refer to Note 15.

**Compensation Information of Directors, Supervisors, and Management Personnel**

| | Years Ended December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Salary | $ 44,000 | $ 50,579 |
| Bonus and special compensation | 16,718 | 18,004 |
| | $ 60,718 | $ 68,583 |

Total compensation expense for the years ended December 31, 2012 and 2011 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**

Amounts available under unused letters of credit as of December 31, 2012 were approximately US$2,035 thousand and JPY3,900 thousand.

## 25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

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

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Nonderivative financial instruments | | | | |
| Assets | | | | |
| Available-for-sale financial assets (current and noncurrent) | $ 768,621 | $ 768,621 | $ 772,342 | $ 772,342 |
| Liabilities | | | | |
| Long-term debt (including current portion) | 11,033,330 | 11,033,330 | 15,124,990 | 15,124,990 |
| Derivative financial instruments | | | | |
| Financial assets at fair value through profit or loss, current | | | | |
| Forward exchange contracts | 23,551 | 23,551 | 1,703 | 1,703 |

Methods and assumptions used in determining fair value 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 value of financial instruments at fair value through profit or loss and available-for-sale financial assets is 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.

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, 2012 and 2011, the discount rates used in determining the fair values were 2.86% and 3.24%, 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, 2012 | | |
|---|---|---|---|
| | Quoted Market Price in Active Market | Other Method of Valuation | Total |
| Assets | | | |
| Financial assets at fair value through profit or loss, current | $ - | $ 23,551 | $ 23,551 |
| Available-for-sale financial assets, current and noncurrent | 704,091 | 64,530 | 768,621 |

| | 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 | $ - | $ 1,703 | $ 1,703 |
| Available-for-sale financial assets, current and noncurrent | 707,542 | 64,800 | 772,342 |

Valuation gains (losses) arising from changes in fair value of financial instruments determined using valuation techniques were $21,848 thousand and $(54,403) thousand for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012, financial assets and liabilities exposure to cash flow risk that resulted from interest rate changes amounted to $9,192 thousand and $11,200,934 thousand, respectively. Financial assets and liabilities exposure to fair value risk that resulted from interest rate changes amounted to $3,407,945 thousand and $3,048,246 thousand, respectively, as of December 31, 2012.

As of December 31, 2011, financial assets and liabilities exposure to cash flow risk that resulted from interest rate changes amounted to $272,836 thousand and $15,463,475 thousand, respectively. Financial assets and liabilities exposure to fair value risk that resulted from interest rate changes amounted to $3,513,764 thousand and $1,400,870 thousand, respectively, as of December 31, 2011.

Adjustment of stockholders' equity due to the fair value changes of available-for-sale financial assets amounted to $1,130,942 thousand and $1,040,306 thousand as of December 31, 2012 and 2011, 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 $112,009 thousand per year.

## 26. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

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

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 171,780 | 29.04 | $ 4,988,486 | $ 139,235 | 30.275 | $ 4,215,347 |
| EUR | 951 | 38.49 | 36,586 | 2,049 | 39.18 | 80,298 |
| JPY | 316,678 | 0.3364 | 106,531 | 2,264,748 | 0.3906 | 884,611 |
| RMB | 46,856 | 4.6202 | 216,483 | - | - | - |
| Investment accounted for by the equity method | | | | | | |
| USD | 61,537 | 29.04 | 1,787,046 | 65,042 | 30.275 | 1,969,134 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | 72,005 | 29.04 | 2,091,023 | 107,175 | 30.275 | 3,244,717 |
| EUR | 1,264 | 38.49 | 48,656 | 2,197 | 39.18 | 86,063 |
| JPY | 747,460 | 0.3364 | 251,445 | 2,336,787 | 0.3906 | 912,749 |

## 27. OPERATING SEGMENT FINANCIAL INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements.

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

The Company has disclosure information for the adoption of International Financial Reporting Standards (IFRSs) in the consolidated financial statements.