

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 20-F

April 17, 2009

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 20-F**

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

p ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 1-14700

(Exact Name of Registrant as Specified in Its Charter)

Taiwan Semiconductor Manufacturing Company
Limited
(Translation of Registrant's Name Into English)

Republic of China
(Jurisdiction of Incorporation or Organization)

No. 8, Li-Hsin Road 6
Hsinchu Science Park
Hsinchu, Taiwan
Republic of China

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value NT\$10.00 each	The New York Stock Exchange, Inc.*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2008, 25,625,437,256 Common Shares, par value NT\$10 each were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

* Not for trading,
but only in
connection with
the listing on the
New York
Stock
Exchange, Inc.
of American
Depositary
Shares
representing
such Common
Shares

TABLE OF CONTENTS
Taiwan Semiconductor Manufacturing Company Limited

	Page
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</u>	1
<u>PART I</u>	2
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	2
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	2
<u>ITEM 3. KEY INFORMATION</u>	2
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	12
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	22
<u>ITEM 5. OPERATING AND FINANCIAL REVIEWS AND PROSPECTS</u>	22
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	37
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	44
<u>ITEM 8. FINANCIAL INFORMATION</u>	47
<u>ITEM 9. THE OFFER AND LISTING</u>	49
<u>ITEM 10. ADDITIONAL INFORMATION</u>	49
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u>	64
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	66
<u>PART II</u>	66
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	66
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	66
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	66
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	68
<u>ITEM 16B. CODE OF ETHICS</u>	68
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	68
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	69
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	69
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	70
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	70
<u>PART III</u>	74
<u>ITEM 17. FINANCIAL STATEMENTS</u>	74
<u>ITEM 18. FINANCIAL STATEMENTS</u>	74
<u>ITEM 19. EXHIBITS</u>	75
<u>EX-3.2 RULES AND PROCEDURES OF BOARD OF DIRECTORS MEETINGS</u>	
<u>EX-12.1 CERTIFICATION OF CEO - RULE 13A-14(A)</u>	
<u>EX-12.2 CERTIFICATION OF CFO - RULE 13A-14(A)</u>	
<u>EX-13.1 CERTIFICATION OF CEO - RULE 13A-14(B)</u>	
<u>EX-13.2 CERTIFICATION OF CFO - RULE 13A-14(B)</u>	
<u>EX-99.1 CONSENT OF DELOITTE & TOUCHE</u>	

TSMC AND tsmc ARE OUR REGISTERED TRADEMARKS AND NEXSYS, 1T RAM AND VIRTUAL FAB ARE TRADEMARKS USED BY US.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report includes statements that are, or may be deemed to be, forward-looking statements within the meaning of U.S. securities laws. The terms anticipates, expects, may, will, should and other similar expressions identify forward-looking statements. These statements appear in a number of places throughout this annual report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this annual report. Important factors that could cause those differences include, but are not limited to:

- the volatility of the semiconductor and microelectronics industry;
- overcapacity in the semiconductor industry;
- the increased competition from other companies and our ability to retain and increase our market share;
- our ability to develop new technologies successfully and remain a technological leader;
- our ability to maintain control over expansion and facility modifications;
- our ability to generate growth and profitability;
- our ability to hire and retain qualified personnel;
- our ability to acquire required equipment and supplies necessary to meet business needs;
- our reliance on certain major customers;
- the political stability of our local region; and
- general local and global economic conditions.

Forward-looking statements include, but are not limited to, statements regarding our strategy and future plans, future business condition and financial results, our capital expenditure plans, our capacity management plans, expectations as to the commercial production using 45-nanometer and more advanced technologies, technological upgrades, investment in research and development, future market demand, future regulatory or other developments in our industry. Please see Item 3. Key Information Risk Factors for a further discussion of certain factors that may cause actual results to differ materially from those indicated by our forward-looking statements.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**Selected Financial and Operating Data**

The selected income statement data, cash flow data and other financial data for the years ended December 31, 2006, 2007 and 2008, and the selected balance sheet data as of December 31, 2007 and 2008, set forth below, are derived from our audited consolidated financial statements included herein, and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes thereto. The selected income statement data, cash flow data and other financial data for the years ended December 31, 2004 and 2005 and the selected balance sheet data as of December 31, 2004, 2005 and 2006, set forth below, are derived from our audited consolidated financial statements not included herein. The consolidated financial statements have been prepared and presented in accordance with accounting principles generally accepted (GAAP or R.O.C. GAAP) in the Republic of China (R.O.C. or Taiwan), which differ in some material respects from accounting principles generally accepted in the United States of America (U.S. GAAP) as further explained under note 30 to our consolidated financial statements included herein.

	Year ended and as of December 31,					
	2004	2005	2006	2007	2008	2008
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Income Statement Data:						
R.O.C. GAAP						
Net sales	257,213	266,565	317,407	322,630	333,158	10,170
Cost of sales	(141,394)	(148,362)	(161,597)	(180,280)	(191,408)	(5,843)
Gross profit	115,819	118,203	155,810	142,350	141,750	4,327
Operating expenses	(27,337)	(27,234)	(28,545)	(30,628)	(37,315)	(1,139)
Income from operations	88,482	90,969	127,265	111,722	104,435	3,188
Non-operating income and gains ^{(1) (8)}	8,506	9,399	9,839	11,934	10,822	330
Non-operating expenses and losses ^{(1) (8)}	(5,022)	(6,105)	(3,742)	(2,014)	(3,785)	(116)
Income before income tax and minority interest	91,966	94,263	133,362	121,642	111,472	3,402
Income tax benefit (expense)	363	(630)	(7,774)	(11,710)	(10,949)	(334)
Income before cumulative effect of changes in accounting principles	92,329	93,633	125,588	109,932	100,523	3,068
Cumulative effect of changes in accounting			1,607			

principles						
Income before minority interest	92,329	93,633	127,195	109,932	100,523	3,068
Minority interest in loss (income) of subsidiaries	(13)	(58)	(185)	(755)	(590)	(18)
Net income attributable to shareholders of the parent	92,316	93,575	127,010	109,177	99,933	3,050
Basic earnings per share ⁽²⁾	3.43	3.48	4.72	4.06	3.86	0.12
Diluted earnings per share ⁽²⁾	3.43	3.48	4.72	4.06	3.83	0.12
Basic earnings per ADS equivalent ⁽²⁾	17.15	17.41	23.61	20.32	19.28	0.59

2

Table of Contents

	Year ended and as of December 31,					
	2004	2005	2006	2007	2008	2008
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Diluted earnings per ADS equivalent ⁽²⁾	17.15	17.40	23.59	20.30	19.14	0.58
Basic weighted average shares outstanding ⁽²⁾	26,914	26,871	26,897	26,871	25,910	25,910
Diluted weighted average shares outstanding ⁽²⁾	26,917	26,882	26,920	26,892	26,107	26,107
U.S. GAAP						
Net sales	260,035	267,028	317,979	323,221	334,340	10,206
Cost of sales ⁽³⁾	(154,785)	(161,808)	(179,175)	(202,046)	(203,734)	(6,219)
Operating expenses ⁽³⁾	(32,191)	(32,764)	(37,050)	(44,775)	(44,424)	(1,356)
Income from operations	73,059	72,456	101,754	76,400	86,182	2,631
Income before income tax and minority interest	76,838	75,983	106,647	85,973	91,884	2,805
Income tax expense	(508)	(483)	(10,954)	(14,012)	(10,062)	(307)
Cumulative effect of changes in accounting principles			38			
Net income	76,253	75,418	95,711	71,658	81,473	2,487
Income attributable to common shareholders	76,253	75,418	95,711	71,658	81,473	2,487
Basic earnings per share ⁽⁴⁾	3.01	2.95	3.70	2.73	3.17	0.10
Diluted earnings per share ⁽⁴⁾	3.01	2.95	3.69	2.72	3.15	0.10
Basic earnings per ADS equivalent ⁽⁴⁾	15.07	14.75	18.49	13.63	15.85	0.48
Diluted earnings per ADS equivalent ⁽⁴⁾	15.07	14.75	18.47	13.62	15.73	0.48
Basic weighted average shares outstanding ⁽⁴⁾	25,292	25,558	25,882	26,278	25,698	25,698
Diluted weighted average shares outstanding ⁽⁴⁾	25,296	25,569	25,905	26,299	25,894	25,894
Balance Sheet Data:						
R.O.C. GAAP						
Working capital ⁽¹⁾	120,574	177,179	213,457	201,116	195,812	5,977
Long-term investments ⁽¹⁾	38,058	42,383	53,895	36,461	39,982	1,220

Properties	258,911	244,823	254,094	260,252	243,645	7,437
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3

Table of Contents

	Year ended and as of December 31,					
	2004	2005	2006	2007	2008	2008
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Goodwill	7,116	6,011	5,985	5,988	6,044	184
Total assets	499,454	519,510	587,485	570,865	558,917	17,061
Long term bank borrowing	1,915	663	654	1,722	1,420	43
Long-term bonds payable	19,500	19,500	12,500	12,500	4,500	137
Guaranty deposit-in and other liabilities ⁽⁵⁾	15,079	17,986	18,333	17,251	15,817	483
Total liabilities	100,413	73,271	78,347	80,179	78,544	2,398
Capital stock	232,520	247,300	258,297	264,271	256,254	7,822
Cash dividend on common shares	12,160	46,504	61,825	77,489	76,881	2,347
Shareholders equity attributable to shareholders of the parent	398,965	445,631	507,981	487,092	476,377	14,541
Minority interest in subsidiaries	76	608	1,157	3,594	3,996	122
U.S. GAAP						
Goodwill	46,757	46,993	46,940	46,926	47,028	1,436
Total assets	536,286	558,919	626,108	610,843	599,484	18,299
Total liabilities	108,416	80,962	92,549	94,021	84,424	2,577
Capital Stock	232,520	247,300	258,297	264,271	256,254	7,822
Shareholders equity attributable to common shareholders of the parent	427,125	477,297	532,403	513,228	511,089	15,601
Minority interest in subsidiaries	745	660	1,156	3,594	3,971	121
	Year ended and as of December 31,					
	2004	2005	2006	2007	2008	2008
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Other Financial Data:						
R.O.C. GAAP						
Gross margin	45%	44%	49%	44%	42%	42%
Operating margin	34%	34%	40%	35%	31%	31%
Net margin	36%	35%	40%	34%	30%	30%
Capital expenditures	81,095	79,879	78,737	84,001	59,223	1,808
	69,819	75,649	73,715	80,005	81,512	2,488

Depreciation and amortization						
Cash provided by operating activities ⁽¹⁾	153,523	157,225	204,997	183,766	221,494	6,761
Cash used in investing activities ⁽¹⁾	(148,359)	(77,652)	(119,724)	(70,689)	(8,042)	(245)
Cash used in financing activities	(32,181)	(57,969)	(63,783)	(135,410)	(115,393)	(3,522)
Net cash inflow (outflow)	(28,687)	22,181	21,353	(22,851)	99,628	3,041
Operating Data:						
Wafer (200mm equivalent) shipment ⁽⁶⁾	5,008	5,622	7,215	8,005	8,467	8,467
Billing Utilization Rate ⁽⁷⁾	105%	94%	102%	93%	88%	88%

4

Table of Contents

- (1) As a result of the adoption of the R.O.C. Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (R.O.C. SFAS No. 34), and R.O.C. Statements of Financial Accounting Standards No. 36, Financial Instruments: Disclosure and Presentation (R.O.C. SFAS No. 36), the balances in 2004 and 2005 were reclassified to be consistent with the classification used in our consolidated financial statements for 2006 included herein. Amounts in 2004 reflect the reclassification of NT\$2,565 million gains from non-operating expenses and losses to non-operating income and gains, NT\$44 million from long-term investments to current investments in marketable

financial instruments, and NT\$372 million from cash used in investing activities to cash provided by operating activities.

Amounts in 2005 reflect the reclassification of NT\$2,331 million gains from non-operating expenses and losses to non-operating income and gains, NT\$46 million from long-term investments to current investments in marketable financial instruments, and NT\$212 million from cash used in investing activities to cash provided by operating activities.

- (2) Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.
- (3) Amounts in 2006, 2007 and 2008 include share-based compensation expenses as a result of the adoption of U.S. Statement of Financial Accounting

Standards No. 123
(revised 2004),
Share-Based
Payment, effective
January 1, 2006.
See note 30.h. to
our consolidated
financial
statements for
additional details
about this new
accounting
standard. Amounts
in 2004 and 2005
reflect the
reclassification of
NT\$232 million
and
NT\$159 million,
respectively, from
net non-operating
income/expenses
to operating
expenses.

- (4) Retroactively
adjusted for all
subsequent stock
dividends.
- (5) Consists of other
long term
payables and total
other liabilities.
- (6) In thousands.
- (7) Billing Utilization
Rate is equal to
annual wafer
shipment divided
by annual
capacity. 2007 and
2008 capacity
include wafers
committed by
Vanguard.
- (8) The specified
2004, 2005, 2006
and 2007 amounts

for gains/losses on settlement and disposal of financial assets at fair value through profit or loss were reclassified into valuation gains/losses on financial instruments for comparison purposes. Such reclassification resulted in a change of non-operating income and gains from NT\$8,581 million and NT\$9,705 million to NT\$8,506 million and NT\$9,839 million and a change in non-operating expenses and losses from NT\$5,097 million and NT\$3,608 million to NT\$5,022 million and NT\$3,742 million for the years ended December 31, 2004 and 2006, respectively.

Exchange Rates

We publish our financial statements in New Taiwan dollars, the lawful currency of the R.O.C. In this annual report, \$, US\$ and U.S. dollars mean United States dollars, the lawful currency of the United States, and NT\$ and NT do mean New Taiwan dollars. This annual report contains translations of certain NT dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2008, which was NT\$32.76 to US\$1.00 on that date. On April 10, 2009, the noon buying rate was NT\$33.78 to US\$1.00.

The following table sets forth, for the periods indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged based on the noon buying rate for cable transfers in NT dollars as certified for customs purposes by the Federal Reserve Bank of New York.

	NT dollars per U.S. dollar			Period-End
	Average ⁽¹⁾	High	Low	
2003	34.41	34.98	33.72	33.99
2004	33.37	34.16	31.74	31.74
2005	32.16	33.77	30.65	32.80
2006	32.51	33.31	31.28	32.59
2007	32.82	33.41	32.26	32.43
2008	31.51	33.55	29.99	32.76
October 2008	32.70	33.50	32.14	32.97
November 2008	33.10	33.42	32.77	33.29
December 2008	33.11	33.55	32.45	32.76
January 2009	33.37	33.70	32.82	33.70
February 2009	34.24	35.00	33.61	35.00
March 2009	34.30	35.21	33.75	33.87
April 2009 (through April 10, 2009)	33.52	33.88	33.05	33.78

(1) Annual averages calculated from month-end rates and monthly averages calculated from daily closing rates.

Table of Contents

No representation is made that the NT dollar or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate or at all.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the Securities and Exchange Commission, among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf and that such factors may adversely affect our business and financial status and therefore the value of your investment:

Risks Relating to Our Business

Recent global systemic economic and financial crisis could negatively affect our business, results of operations, and financial condition.

The recent systemic economic and financial crisis that has been affecting global business, banking and financial sectors has also been affecting the semiconductor market. The recent turmoil in global markets have resulted in sharp declines in electronic products sales from which we generate our income through our goods and services. There could be a number of knock-on effects from such turmoil on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies; and counterparty failures negatively impacting our treasury operations. We currently expect revenues for the semiconductor industry as a whole to decline around 20% in 2009 which is subject to change unexpectedly in response to fluctuating global market conditions. If the global economic crisis continues unabated, we anticipate our results of operations may be materially and adversely affected.

Since we are dependent on the highly cyclical semiconductor and microelectronics industries, which have experienced significant and sometimes prolonged periods of downturns and overcapacity, our revenues, earnings and margins may fluctuate significantly.

The semiconductor market and microelectronics industries have historically been cyclical and subject to significant and often rapid increases and decreases in product demand. Our semiconductor foundry business is affected by market conditions in such highly cyclical semiconductor and microelectronics industries. Most of our customers operate in these industries. Variations in order levels from our customers result in volatility in our revenues and earnings. From time to time, the semiconductor and microelectronics industries have experienced significant, and sometimes prolonged periods of downturns and overcapacity. The current global economic crisis has created significant volatility and uncertainty within the semiconductor and microelectronics industries which may disrupt traditional notions of cyclicity within such industries. As such, the nature, extent and scope of such periods of downturns and overcapacity may vary drastically in accordance with increasingly volatile market demand. Because we are, and will continue to be, dependent on the requirements of semiconductor and microelectronics companies for our services, periods of downturns and overcapacity in the general semiconductor and microelectronics industries lead to reduced demand for overall semiconductor foundry services, including our services. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand, our revenues, margin and earnings will suffer during periods of downturns and overcapacity.

Decreases in demand and average selling prices for products that contain semiconductors may adversely affect demand for our products and may result in a decrease in our revenues and earnings.

A vast majority of our sales revenue is derived from customers who use our services in communication devices, personal computers and consumer electronics products. Any significant decrease in the demand for the products may decrease the demand for overall global semiconductor foundry services, including our services and may adversely affect our revenues. In addition, the historical and current trend of declining average selling prices of end use applications places downward pressure on the prices of the components that go into such applications. If the average selling prices of end use applications continue decreasing, the pricing pressure on components produced by us may

lead to a reduction of our revenues, margin and earnings.

Table of Contents

If we are unable to compete effectively in the highly competitive foundry segment of the semiconductor industry, we may lose customers and our profit margin and earnings may decrease.

The markets for our foundry services are highly competitive both in Taiwan and internationally. We compete with other dedicated foundry service providers, as well as integrated device manufacturers. Some of these companies may have access to more advanced technologies and greater financial and other resources than us, (such as the possibility of receiving direct or indirect government bailout/economic stimulus funds or other incentives that may be unavailable to us). Our competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Competitive activities may decrease our customer base, or our average selling prices, or both.

If we are unable to remain a technological leader in the semiconductor industry, we may become less competitive.

The semiconductor industry and its technologies are constantly changing. We compete by developing process technologies using increasingly smaller nodes and on manufacturing products with multiple or more advanced functions. We also develop technologies for our mainstream operations. If we do not anticipate these changes in technologies and rapidly develop new and innovative technologies or our competitors unforeseeably gain sudden access additional mainstream or more advanced technologies, we may not be able to provide foundry services on competitive terms. Although we have concentrated on maintaining a competitive edge in research and development, if we fail to achieve advances in technology or processes, or to obtain access to advanced technologies or processes developed by others, we may become less competitive.

If we are unable to manage our capacity and the streamlining of our production facilities effectively, our competitiveness may be weakened.

We perform periodic long term market demand forecasts to estimate market and general economic conditions for our products and services. Based upon these estimates, we manage our overall capacity which may increase or decrease in accordance with market demand. Because market condition may vary significantly and unexpectedly, our market demand forecast may change significantly at any time. Further, some of our facilities shut down during periods of decreased demand may not be able to ramp up in a timely manner during periods of increased demand. During periods of continued decline in demand, our operating facilities may not be able to absorb and complete in a timely manner outstanding orders re-directed from other facilities ordered to be shut down. Based on current demand forecasts, we have been adding capacity to our 300mm wafer fabs in the Hsinchu Science Park and Tainan Science Park, respectively, since 2004. In 2008, the capacity of our 300mm wafer fabs increased from 130,700 wafer per month in 2007 to 154,300 wafer per month. Expansion and modification of our production facilities will, among other factors, increase our costs. For example, we will need to purchase additional equipment, train personnel to operate the new equipment or hire additional personnel. If we do not increase our net sales accordingly in order to offset these higher costs, our financial performance may be adversely affected. See Item 4. Information on the Company Capacity Management and Technology Upgrade Plans for further discussion.

We may not be able to implement our planned growth or development if we are unable to accurately forecast and sufficiently meet our future capital requirements.

Capital requirements are difficult to plan in the highly dynamic, cyclical and rapidly changing semiconductor industry. From time to time, we will continue to need significant capital to fund our operations and manage our capacity in accordance with market demand. Although we currently have adequate financial resources and excellent relations with financial institutions, our continued ability to obtain sufficient external financing is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flow;

- general market conditions for financing activities;

(7)

*

Paul J. Kosasa

45,439

(8)

*

Colbert M. Matsumoto

37,544

(9)

*

Ronald K. Migita

200,449

(10)

*

Crystal K. Rose

14,456

(11)

*

Mike K. Sayama

22,314

(12)

*

Maurice H. Yamasato

31,188

(13)

*

Dwight L. Yoshimura

21,782

(14)

*

Named Executive Officers (15)

Clint Arnoldus (retired August 1, 2008)

		286,140
(16)		
	*	
Blenn A. Fujimoto		
		47,024
(17)		
	*	
Dean K. Hirata		
		45,516
(18)		
	*	
Denis K. Isono		
		29,342
(19)		
	*	
Curtis W. Chinn (until May 29, 2009)		
		10,596
(20)		

*

All Directors and Executive Officers as a Group (17 persons)

878,057

3.05%

* Less than one percent (1%).

(1) Except as otherwise noted below, each person has sole voting and investment powers with respect to the shares listed. The numbers shown include the shares actually owned as of July 31, 2009 and, in accordance with Rule 13d-3 under the Exchange Act, any shares of common stock that the person has the right or will have the right to acquire within sixty (60) days of July 31, 2009.

(2) In computing the percentage of shares beneficially owned by each person or group of persons named above, any shares which the person (or group) has a right to acquire within sixty (60) days after July 31, 2009 are deemed outstanding for the purpose of computing the percentage of common stock beneficially owned by that person (or group) but are not deemed outstanding for the purpose of computing the percentage of shares beneficially owned by any other person.

(3) 3,135 shares of common stock are directly held by Mr. Blangiardi with full voting power. Of the 3,135 shares, 635 shares he does not have investment power over. 4,301 shares of common stock are those he has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(4) 2,121 shares of common stock are directly held by Ms. Camp with full voting power. Of the 2,121 shares, 635 shares she does not have investment power over. 2,265 shares of common stock are held in her Simplified Employee Pension Plan Individual Retirement Account. 2,810 shares of common stock are held in her account and benefit under the Central Pacific Financial Corp. Directors' Deferred Compensation Plan. 4,301 shares of common stock are those she has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(5) 1,220 shares of common stock are directly held by Mr. Fry with full voting and investment power. 5,000 shares of common stock are held in the Fry Family Trust. 5,532 shares of common stock are held in the Central Pacific Financial Corp. Directors' Deferred Compensation Plan. 4,301 shares of common stock are those he has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(6) 2,363 shares of common stock are directly held by Ms. Hedberg with full voting power. Of the 2,363 shares, 635 shares she does not have investment power over. 125 shares of common stock are held as a custodian for her grandson. 1,000 shares of common stock are held in a 401-K Retirement Savings Plan. 1,247 shares of common stock are held for her account and benefit under the Central Pacific Financial Corp. Directors' Deferred Compensation Plan. 750 shares of common stock are held in her trust. 200 shares are held in her daughter's Individual Retirement Account. 4,301 shares of common stock are those she has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(7) 25,443 shares of common stock are directly held by Dr. Hirota with full voting power. Of the 25,443 shares, 635 shares he does not have investment power over. 11,520 shares of common stock are held jointly with his wife for which he has shared voting and investment powers with his wife. 31 shares of common stock are held by Dr. Hirota, as President of Sam O. Hirota, Inc. 4,301 shares of common stock are those he has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(8) 41,138 shares of common stock are directly held by Mr. Kosasa with full voting power. Of the 41,138 shares, 635 shares he does not have investment power over. 4,301 shares of common stock are those he has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(9) 1,763 shares of common stock are directly held by Mr. Matsumoto with full voting power. Of the 1,763 shares, 635 shares he does not have investment power over. 10,368 shares of common stock are held for his account and benefit under the Central Pacific Financial Corp. Directors' Deferred Compensation Plan. 10,000 shares are held by Island Insurance Foundation of which he serves as President and Director. 6,000 shares are held jointly with his wife for which he has shared voting and investment powers with his wife. 9,413 shares of common stock are those he has the right to acquire by the exercise of stock options vested pursuant to the CB Bancshares, Inc. Directors' Stock Option Plan, the Agreement and Plan of Merger dated April 22, 2004 between Central Pacific Financial Corp. and CB Bancshares, Inc., the Company's 1997 Stock Option Plan, and the Company's 2004 Stock Compensation Plan.

(10) 200,087 shares of common stock are held in Mr. Migita's trust. 362 shares of common stock are directly held with full voting and investment power.

(11) 1,763 shares of common stock are directly held by Ms. Rose with full voting power. Of the 1,763 shares, 635 shares she does not have investment power over. 2,000 shares of common stock are held by her as trustee of her pension plan and 6,392 shares of common

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stock are held for her account and benefit under the Central Pacific Financial Corp. Directors' Deferred Compensation Plan. 4,301 shares of common stock are those she has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(12) 5,295 shares of common stock are directly held by Dr. Sayama with full voting power. Of the 5,295 shares, 635 shares he does not have investment power over. 4,008 shares of common stock are held jointly with his wife for which he has shared voting and investment powers with his wife. 13,011 shares of common

stock are those that he has the right to acquire by the exercise of stock options vested pursuant to the CB Bancshares, Inc. Directors Stock Option Plan, the Agreement and Plan of Merger dated April 22, 2004 between Central Pacific Financial Corp. and CB Bancshares, Inc., the Company's 1997 Stock Option Plan, and the Company's 2004 Stock Compensation Plan.

(13) 16,887 shares of common stock are directly held by Mr. Yamasato with full voting power. Of the 16,887 shares, 635 shares he does not have investment power over. 10,000 shares are held jointly with his wife for which he has shared voting and investment powers with his wife. 4,301 shares of common stock are those he has a right to acquire by exercise of stock options vested pursuant to the Company's 2004 Stock Compensation Plan.

(14) 7,488 shares of common stock are directly held by Mr. Yoshimura with full voting power. Of the 7,488 shares, 635 shares he does not have investment power over. 14,294 shares of common stock are those that he has the right to acquire by the exercise of stock options vested pursuant to the CB Bancshares, Inc. Directors Stock Option Plan, the Agreement and Plan of Merger dated April 22, 2004 between Central Pacific Financial Corp. and CB Bancshares, Inc., the Company's 1997 Stock Option Plan, and the Company's 2004 Stock Compensation Plan.

(15) The following includes information regarding all the Named Executive Officers except for Mr. Migita, whose information is included in this table under the section heading Directors .

(16) 6,425 shares of common stock are held by a family trust for which Mr. Arnoldus and his wife are co-trustees. 5,335 shares of common stock are held under his account under the Central Pacific Bank 401(k) Retirement Savings Plan. 4,775 shares of common stock are held jointly with his wife for which he has shared voting and investment powers with his wife. 269,605 shares of common stock are those that he has the right to acquire by the exercise of stock options vested pursuant to the Company's 1997 Stock Option Plan and 2004 Stock Compensation Plan.

(17) 4,019 shares of common stock are directly held by Mr. Fujimoto with full voting and investment power. 4,075 shares of common stock are held under his account under the Central Pacific Bank 401(k) Retirement Savings Plan. 33,065 shares of common stock are those that he has the right to acquire by the exercise of stock options vested pursuant to the Company's 1997 Stock Option Plan. 5,865 shares of common stock are those that he has the right to acquire by the exercise of Stock Appreciation Rights vested pursuant to the Company's 2004 Stock Compensation Plan.

(18) 4,507 shares of common stock are held in Mr. Hirata's Individual Retirement Account. 2,114 shares of common stock are held under his account under the Central Pacific Bank 401(k) Retirement Savings Plan. 2,149 shares of common stock are directly held by Mr. Hirata with full voting and investment power. 30,719 shares of common stock are those that he has the right to acquire by the exercise of stock options vested pursuant to the CB Bancshares, Inc. Stock Compensation Plan, the Agreement and Plan of Merger dated April 22, 2004 between Central Pacific Financial Corp. and CB Bancshares, Inc., and the Company's 1997 Stock Option Plan. 6,027 shares of common stock are those that he has the right to acquire by the exercise of Stock Appreciation Rights vested pursuant to the Company's 2004 Stock Compensation Plan.

(19) 2,124 shares of common stock are directly held by Mr. Isono with full voting and investment power. 10,463 shares of common stock are held jointly with his wife for which he has shared voting and investment powers with his wife. 300 shares of common stock

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are held by his sons and wife jointly. 2,363 shares of common stock are held under his account under the Central Pacific Bank 401(k) Retirement Savings Plan. 8,388 shares of common stock are those that he has the right to acquire by the exercise of stock options vested pursuant to the Company's 1997 Stock Option Plan. 5,704 shares of common stock are those that he has the right to acquire by the exercise of Stock Appreciation Rights vested pursuant to the Company's 2004 Stock Compensation Plan.

(20) 4,060 shares of common stock are directly held by Mr. Chinn with full voting and investment power. 813 shares of common stock are held under his account under the Central Pacific Bank 401(k) Retirement Savings Plan. 3,500 shares of common stock are held in Mr. Chinn's Individual Retirement Account.

2,223 shares of common stock are those that he has the right to acquire by the exercise of Stock Appreciation Rights vested pursuant to the Company's 2004 Stock Compensation Plan.

PROPOSAL 1: PROPOSAL TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES (THE COMMON STOCK PROPOSAL)

On August 10, 2009, our Board approved a resolution that Item 1 of Article IV of our Restated Articles of Incorporation be amended to increase the number of authorized shares of our common stock, no par value per share, from 100,000,000 shares to 185,000,000 shares, subject to the approval of shareholders of our common stock, and we are now asking you to approve this amendment. No change is being proposed to the authorized number of shares of our preferred stock, which will remain at 1,000,000 shares.

Our Restated Articles of Incorporation currently provide for 100,000,000 shares of authorized common stock, of which _____ shares were issued and outstanding at the close of business on the record date. Also, on the record date, there were 1,585,748 shares of common stock issuable upon exercise of a warrant issued to the United States Department of Treasury, _____ shares of common stock subject to stock awards outstanding as of the record date, _____ shares of common stock reserved for future issuance under our 2004 Stock Compensation Plan and _____ shares issuable under the Central Pacific Financial Corp. Direct Purchase and Dividend Reinvestment Plan, leaving _____ shares unissued and unreserved.

If the Common Stock Proposal is approved, we intend to file a certificate of amendment to our Restated Articles of Incorporation with the Hawaii Department of Commerce and Consumer Affairs, which will become effective upon filing. The certificate of amendment would provide that Item 1 of Article IV of our Restated Articles of Incorporation be amended to read as follows:

The amount of authorized capital stock of the Corporation shall be ONE HUNDRED EIGHTY FIVE MILLION (185,000,000) shares of common stock, no par value per share, and ONE MILLION (1,000,000) shares of preferred stock, no par value per share. The Corporation shall have the privilege of subsequent extensions of its capital stock from time to time in the manner provided by law.

Why We Are Seeking Shareholder Approval

Pursuant to the law of our state of incorporation, Hawaii, our Board must approve any amendment to our Restated Articles of Incorporation and submit the amendment to shareholders for their approval. The affirmative vote of two-thirds of the outstanding shares of our common stock at the close of business on the record date is required to approve the Common Stock Proposal.

Our Board adopted a resolution declaring it advisable and in the best interests of the Company and its shareholders to amend our Restated Articles of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 185,000,000 shares. The Board further directed that the proposed action be submitted for consideration by the Company's shareholders at a meeting to be called for that purpose. If the shareholders approve the amendment, Item 1 of Article IV of the Restated Articles of Incorporation will be amended to increase the number of authorized shares of common stock as described above. If adopted by the shareholders, the increase will become effective on the filing of the amendment to the Company's Restated Articles of Incorporation with the Hawaii Department of Commerce and Consumer Affairs. The only change in the Company's existing Restated Articles of Incorporation as a result of the Common Stock Proposal would be the numeric change required to reflect the increase of the number of authorized shares of common stock as proposed in this proxy statement.

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The proposed increase in our authorized common stock is to provide the Company with additional flexibility to raise capital from time to time. The Company believes that issuing equity would be a prudent measure due to the ongoing economic downturn and the resultant deterioration in the Hawaii and California commercial real estate markets in which the Company does business. Such conditions have been adversely impacting the Company's credit portfolio and financial condition. On July 14, 2009, the Company commenced a public offering of common stock to raise \$100 million. On July 29, 2009, the Company announced that it had postponed the offering given the number of its authorized but unissued shares of common stock combined with the then current price level of its

common stock and that it planned to increase the number of its authorized shares of common stock, subject to shareholder approval.

We believe it is appropriate and important to have increased shares of authorized common stock because of both the time required to hold a special meeting of shareholders and the high vote required to amend our Restated Articles of Incorporation to increase the authorized common stock. Having increased authorized shares of common stock will provide us with additional flexibility in our capital raising efforts, taking into account the desired amount of additional capital, the current price of our common stock and recent fluctuations in our stock price.

In addition, the increase in the authorized shares of common stock, if approved by our shareholders, will be available from time to time for other corporate purposes, including stock-based acquisitions of other companies, stock splits and stock dividends and stock-based compensation. We do not have any current intention or plan to issue shares of common stock for any such purpose, other than upon the exercise of outstanding stock options and future issuances under our shareholder-approved equity compensation plans to the extent deemed appropriate by the Compensation Committee of our Board.

Effect on Outstanding Common Stock

Authorized but unissued shares of our common stock may be issued from time to time upon authorization by our Board, at such times, to such persons and for such consideration as the Board may determine in its discretion and generally without further approval by shareholders, except as may be required for a particular transaction by applicable law, regulation or stock exchange rule. When and if such shares are issued, they would have the same voting and other rights and privileges as the currently issued and outstanding shares of common stock.

The authorization of the additional shares would not, by itself, have any effect on the rights of shareholders. However, holders of our common stock have no preemptive rights to acquire additional shares of our common stock. Therefore, the future issuance of shares of common stock, in particular as part of our efforts to raise substantial amounts of capital, would have an immediate and significant dilutive effect on earnings per share and the voting power of existing shareholders at the time of the issuance. The issuance of additional shares, or the perception that additional shares may be issued, may also adversely affect the market price of our common stock.

Approval of the Common Stock Proposal could adversely affect the ability of third parties to take over or change the control of the Company. It is possible that an increase in authorized shares could render such an acquisition more difficult under certain circumstances or discourage an attempt by a third party to obtain control of us by making possible the issuance of shares that would dilute the share ownership of a person attempting to obtain control or otherwise make it difficult to obtain any required shareholder approval for a proposed transaction for control. The Board has no current intention to authorize the issuance of additional shares for such purposes and is not aware of any present attempt to obtain control of us or otherwise accumulate our common stock.

The Board recommends that you vote FOR the Common Stock Proposal to approve an amendment to the Restated Articles of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 185,000,000 shares.

**PROPOSAL 2: PROPOSAL TO APPROVE AN AMENDMENT TO THE COMPANY'S
RESTATED ARTICLES OF INCORPORATION TO REDUCE THE TWO-THIRDS
SUPERMAJORITY VOTE APPLICABLE TO US UNDER HAWAII LAW AS A
CORPORATION INCORPORATED BEFORE JULY 1, 1987, TO A MAJORITY OF
THE OUTSTANDING SHARES ENTITLED TO VOTE, FOR AMENDMENTS
TO THE RESTATED ARTICLES OF INCORPORATION
(THE SUPERMAJORITY VOTE REDUCTION PROPOSAL)**

On August 10, 2009, our Board approved a resolution that a new Article X be added to our Restated Articles of Incorporation to reduce the two-thirds supermajority vote applicable to us under Section 414-283 of the Hawaii Business Corporations Act (HBCA) as a corporation incorporated before July 1, 1987, to a majority of the outstanding shares entitled to vote, for amendments to the Restated Articles of Incorporation, subject to the approval of shareholders of our common stock. We are now asking you to approve this amendment.

Section 414-283 of the HBCA provides that an amendment to the articles of incorporation of a corporation incorporated before July 1, 1987 (which is the case for the Company) requires the affirmative vote of the holders of two-thirds of the shares entitled to vote thereon, unless the HBCA, the articles of incorporation or the board of directors (acting pursuant to subsection (c) of Section 414-283 which permits the board of directors to condition its submission of the proposed amendment on any basis) requires a greater vote or a vote by voting groups. Section 414-283 also provides that the articles of incorporations may be amended by such two-thirds vote to provide for a lesser proportion of shares, or of any class or series thereof, provided that the lesser proportion shall not be less than a majority of the shares entitled to vote on an amendment of the articles of incorporation.

The Board believes it is in the best interest of the Company to amend the Restated Articles of Incorporation to provide that an amendment of the Restated Articles of Incorporation, except as otherwise provided in the Restated Articles of Incorporation, will require the affirmative vote of the holders of a majority of the shares of the Company entitled to vote thereon. Such a reduced vote requirement is permitted by Section 414-283 and is the vote required with respect to corporations incorporated on or after July 1, 1987 pursuant to Section 414-283.

Approval of the Supermajority Vote Reduction Proposal will not reduce the vote required to approve the Common Stock Proposal at the meeting, so your vote on both proposals is very important.

If the Supermajority Vote Reduction Proposal is approved, we intend to file a certificate of amendment to our Restated Articles of Incorporation with the Hawaii Department of Commerce and Consumer Affairs (which may be part of the same certificate of amendment that may be filed in connection with the approval of the Common Stock Proposal), which will become effective upon filing. The certificate of amendment would add a new Article X to the Restated Articles of Incorporation to read as follows:

ARTICLE X

1. The Corporation may amend these Articles of Incorporation at any time in the manner now or hereafter prescribed or permitted by law, provided that, except as otherwise provided in these Articles of Incorporation, any amendment shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon, unless any class of shares is entitled to vote thereon as a separate voting group, in which event the proposed amendment shall be approved by the affirmative vote of the holders of a majority of the shares of each class of shares entitled to vote thereon as a separate voting group and of the total shares entitled to vote thereon.

Why We Are Seeking Shareholder Approval

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Pursuant to the law of our state of incorporation, Hawaii, our Board must approve any amendment to our Restated Articles of Incorporation and submit the amendment to shareholders for their approval. The affirmative vote of two-thirds of the outstanding shares of our common stock at the close of business on the record date is required to approve the Supermajority Vote Reduction Proposal.

Our Board adopted a resolution declaring it advisable and in the best interests of the Company and its shareholders to amend our Restated Articles of Incorporation to reduce the two-thirds supermajority vote applicable

to us under Section 414-283 of the HBCA as a corporation incorporated before July 1, 1987, to a majority of the outstanding shares entitled to vote, for amendments to our Restated Articles of Incorporation. The Board further directed that the proposed action be submitted for consideration by the Company's shareholders at a meeting to be called for that purpose. If the shareholders approve the amendment, a new Article X will be added to the Restated Articles of Incorporation to reduce the two-thirds supermajority to a majority vote requirement as described above. If adopted by the shareholders, the amendment will become effective on the filing of the amendment to the Company's Restated Articles of Incorporation with the Hawaii Department of Commerce and Consumer Affairs. The only change in the Company's existing Restated Articles of Incorporation as a result of the Supermajority Vote Reduction Proposal would be the addition of the new Article X as proposed in this proxy statement.

The proposed reduction in the required vote to amend our Restated Articles of Incorporation will enhance the Company's corporate governance and provide for a more customary simple majority vote requirement as is applicable under Section 414-283 of the HBCA to corporations incorporated on or after July 1, 1987. The Board, in reviewing the current provisions of the Restated Articles of Incorporation and the HBCA, as well as best practices in corporate governance, has evaluated the need and propriety for a two-thirds supermajority vote and has determined that it is in the Company's best interests for amendments of the Restated Articles of Incorporations that would have required that two-thirds vote under Section 414-283 to instead require a simple majority vote.

Effect of the Amendment

If the proposed amendment is approved, any amendment to the Restated Articles of Incorporation that would have required a two-thirds vote under Section 414-283 of the HBCA, except as otherwise provided in the Restated Articles of Incorporation, will instead require the affirmative vote of the holders of a majority of the shares of the Company entitled to vote thereon.

The Board recommends that you vote FOR the Supermajority Vote Reduction Proposal to approve an amendment to the Restated Articles of Incorporation to reduce the two-thirds supermajority vote applicable to us under Hawaii law as a corporation incorporated before July 1, 1987, to a majority of the outstanding shares entitled to vote, for amendments to the Restated Articles of Incorporation.

PROPOSAL 3: ADJOURNMENT OF THE SPECIAL MEETING IF THE COMPANY, IN ITS DISCRETION, ELECTS TO DO SO (THE ADJOURNMENT PROPOSAL)

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If at the meeting the number of shares of common stock present in person or represented by proxy and voting in favor of the Common Stock Proposal is insufficient to approve such proposal, management may move to adjourn the meeting in order to enable the Board to continue to solicit additional proxies in favor of such proposal. However, the meeting may not be adjourned to a date later than _____, 2009. In that event, you will be asked to vote only upon the Adjournment Proposal but not on the Common Stock proposal or the Supermajority Vote Reduction Proposal.

In this proposal, the Company is asking you to authorize the holder of any proxy solicited by its Board to vote in favor of adjourning the meeting and any later adjournments. If the shareholders approve the Adjournment Proposal, the Company could adjourn the meeting, and any adjourned session of the meeting, to use the additional time to solicit proxies in favor of the Common Stock Proposal not receiving votes sufficient for approval, including the solicitation of proxies from the shareholders that have previously voted against such proposal. Among other effects, approval of the Adjournment Proposal could mean that, even if proxies representing a sufficient number of votes against the Common Stock Proposal have been received, the Company could adjourn the meeting without a vote on such proposal and seek to convince the holders of those shares to change their votes to vote in favor of such proposal.

Approving the Adjournment Proposal requires the affirmative vote of the holders of a majority of the votes cast in person or by proxy at the meeting and entitled to vote thereon. No proxy that is specifically marked AGAINST the Common Stock Proposal will be voted in favor of the Adjournment Proposal unless the proxy is specifically marked FOR the Adjournment Proposal.

The Board believes that if the number of shares of its common stock present in person or represented by proxy at the meeting and voting in favor of the Common Stock Proposal is insufficient to approve such proposal, in particular because approval of the Common Stock Proposal requires the affirmative vote of two-thirds of the shares of common stock outstanding on the record date, it is in the best interests of the shareholders to enable the Board, for a limited period of time, to continue to seek to obtain a sufficient number of additional votes to approve such proposal.

The Board has approved and recommends a vote FOR the Adjournment Proposal adjourning the meeting to a date not later than _____, 2009, if the Company, in its discretion, elects to do so.

OTHER MATTERS

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The Board is not aware of any other matters which may come before the meeting. Currently, in accordance with our bylaws, the only matters to be acted on at the meeting are those described in this proxy statement, along with any necessary procedural matters related to the meeting. As to procedural matters, or any other matters that are determined to be properly brought before the meeting calling for a vote of the shareholders, it is the intention of the persons named in the accompanying proxy, unless otherwise directed in that proxy, to vote on those matters in accordance with their best judgment.

Shareholder proposals intended to be considered for inclusion in the Company's proxy statement and voted on at the Company's regularly scheduled 2010 annual meeting of shareholders must be received at the Company's offices at 220 South King Street, Honolulu, Hawaii 96813, Attention: Corporate Secretary, by no later than one hundred twenty (120) calendar days before the first anniversary date of the release of the Company's 2009 annual meeting proxy statement (i.e., by no later than December 7, 2009) pursuant to Rule 14a-8 of the Exchange Act. Applicable Commission rules and regulations govern the submission of shareholder proposals and the Company's consideration of them for inclusion in the proxy statement and form of proxy for the 2010 annual meeting.

The Company's bylaws contain procedures that shareholders must follow to present business at a meeting of shareholders if such business is not specified in the proxy statement. A shareholder may obtain a copy of these procedures from the Company's Corporate Secretary. In addition to other applicable requirements, for business to be properly brought before the 2010 annual meeting of shareholders, a shareholder must give notice of the matter to be presented at the meeting in a proper written form to the Company's Corporate Secretary. The Corporate Secretary must receive this written notice at the principal offices of the Company not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days prior to the anniversary date of the preceding year's annual meeting. Shareholder proposals not made in accordance with these requirements may be disregarded by the chairperson of the meeting.

CENTRAL PACIFIC FINANCIAL CORP.

Glenn K.C. Ching
Senior Vice President and Corporate
Secretary

Honolulu, Hawaii
August 10, 2009

