CHARTERED SEMICONDUCTOR MANUFACTURING LTD

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To Our Shareholders

The year 2008 started with much promise, but that promise was short-lived. The unprecedented developments in the financial markets and the subsequent impact on the global macro economy and the semiconductor industry resulted in a severe drop-off in demand by the last quarter of the year.

For the year, Chartered achieved overall revenue growth of 23 percent, mainly driven by the ramp of our leading-edge 65-nanometer (nm) technology and additional revenues from Fab 3E, which we acquired in March 2008. Excluding Fab 3E, our revenues grew 13 percent, still out-pacing semiconductor and foundry industry growth. However, intense industry competition, cost pressures resulting from many factors including high energy costs, as well as a sub-optimal mix of our 12-inch output, put pressure on our profitability resulting in a net loss of $93 million for the year.

Despite the challenges, we achieved several milestones during the year, which included:

- More than doubling revenues from leading-edge 65nm technology, compared to 2007;
- Increasing revenues from mature, “value-added” technologies by more than 30 percent compared to the previous year; and
- Extending our joint-development efforts to include 22nm technology.

Financial Highlights

(in millions of US Dollars, unless otherwise stated)	**2006**	**2007**	**2008**
Net Revenue	1,415	1,355	1,661
Gross Profit	344	260	214
Research and Development	153	160	178
Income (Loss) before Income Taxes	91	10	(97)
Net Income (Loss)	67	102	(93)
Diluted Net Earnings (Loss) per ADS (US Dollars)	0.23	0.35	(0.40)
Diluted Net Earnings (Loss) per share (US Dollars)	0.02	0.04	(0.04)
Cash and Cash Equivalents (a)	719	743	525
Total Debt and Capital Lease Obligations (a)	1,409	1,849	1,840
Shipments (thousands of eight-inch equivalent wafers) (b)	1,365	1,549	1,928
Capacity (thousands of eight-inch equivalent wafers) (b)	1,784	1,960	2,443
Utilization (b)	77%	79%	79%

(a) Cash and Cash Equivalents and Total Debt and Capital Lease Obligations are as of 31 Dec of the year.

(b) Data includes Chartered’s share of Silicon Manufacturing Partners.

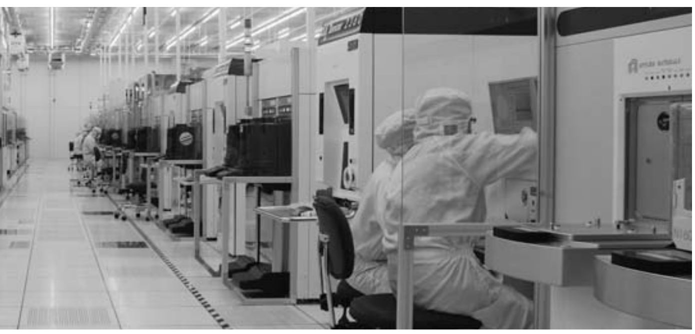
As we move into 2009, like most businesses, we are facing a global economic contraction and clouded visibility of our end markets. In order to manage the current challenges and align our operations to the market conditions, we have identified three near-term priorities for the Company to focus on: lowering our breakeven utilization, positioning for the early phase of demand recovery, and preserving our cash and liquidity position.

To achieve our breakeven utilization target, we will be optimizing our product mix, improving productivity and reducing our cost base. As part of our cost-reduction efforts, we have implemented several initiatives including a temporary salary reduction for our employees, elimination of overtime, and more recently, re-sizing our workforce in line with current industry outlook and utilization levels. In addition to these payroll-related initiatives, we have also redeployed resources to lower costs in manufacturing and procurement areas.

While we are working on these initiatives, it is also important that we do not lose sight of the longer-term opportunities and remain focused on positioning Chartered to take advantage of the industry recovery at the earliest stage possible. We are on track for all of our 65nm and 45nm programs. We expect the ramp to happen as we progress through the year, although at a slower pace than we had previously expected due to the prevailing conditions. On the mature technologies, we plan to further leverage the gains from the value-added solutions. To support these programs, we have planned for capital expenditures of approximately $375 million. This is a 35 percent reduction compared to the amount spent in 2008 and will help us to preserve our cash and liquidity position in the current year.

We are committed to further enhancing our competitiveness and more importantly, our financial performance. We would like to thank our shareholders, customers, partners and employees for their patience and continued support.

Chia Song Hwee
President & CEO



Annual Report to Shareholders

for the Year 2008*

Management Discussion and Analysis
and
Financial Statements for the Years Ended
December 31, 2006, 2007 and 2008

Chartered

*Abridged from year 2008 Form 20-F
Complete Form 20-F is available at Chartered's web site, www.charteredsemi.com

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this document particularly in the cautionary risk factors described in "Item 3. Key Information — D. Risk Factors" in our Annual Report on Form 20-F filed with the Securities and Exchange Commission, or the SEC.

EXECUTIVE OVERVIEW

Chartered Semiconductor Manufacturing Ltd., or Chartered, is one of the world's leading dedicated semiconductor foundries. We provide comprehensive wafer fabrication services and technologies to semiconductor suppliers and systems companies and focus on providing foundry services to customers that serve high-growth, technologically advanced applications for the communications, consumer and computer sectors. We currently own, or have an interest in, six fabrication facilities — Fabs 2, 3, 3E, 5, 6 and 7, all of which are located in Singapore. We have service operations in nine locations in seven countries throughout North America, Europe and Asia. Our principal customers are located in the United States of America, or U.S., Taiwan, Europe and Japan. We derive revenues primarily from fabricating semiconductor wafers and, to a lesser extent, from providing associated subcontracted assembly and test services and pre-fabricating services.

As a dedicated foundry, our financial performance largely depends on a number of internal factors including timeliness in introducing technology and manufacturing solutions, ability to enter into arrangements with diverse customers for high volume production, product mix and maintaining high utilization rates of our capacity, as well as external factors such as product pricing, general economic and semiconductor market conditions and industry cycles.

To enhance our position in technology and manufacturing solutions in the marketplace, we collaborate with other companies in the industry to develop the required solutions including process and manufacturing technologies, as well as electronic design automation and intellectual property enablement. This collaborative model allows for sharing of cost and risks while accelerating our progress. A critical competency required in the foundry business is the ability to manufacture wafers efficiently for a diverse group of customers with a large number of products and devices. We strive to achieve this objective in our operations and serve multiple customers in the communications, consumer and computer sectors of the market. However, we do not set limits for our exposure in any specific sector mentioned above.

Customers expect top-tier foundries to continuously invest in leading-edge capabilities to serve their needs in a timely manner. The equipment used in a foundry's manufacturing facilities is complex and sophisticated and requires a high level of investment. We make ongoing capital expenditure decisions based on an analysis of industry and market conditions, and opportunities and expected demand from existing and prospective customers. Due to the high level of investments made in equipment, a significant amount of our cost is fixed in nature in the form of depreciation. Therefore, maintaining a high rate of utilization of our manufacturing capacity is critical to generating healthy financial performance.

We are continuously committed to maximizing shareholder value. We (or our shareholders, Temasek Holdings (Private) Limited, or Temasek, or Singapore Technologies Semiconductors Pte Ltd, or ST Semiconductors) may consider strategic transactions from time to time if and when the opportunity arises. While the chances of such transactions occurring are uncertain, they may take many forms, including a purchase and/or sale of outstanding ordinary shares, sale of assets, acquisition, merger or joint venture.

INDUSTRY OVERVIEW

Certain industry-specific factors can have a significant impact on our results of operations as well as our liquidity. These include cyclicality of the semiconductor industry, the substantial capital expenditures needed to remain competitive, challenges related to pricing, product mix and technology migration and capacity utilization rates. These are discussed in more detail below.

Cyclicality of the Semiconductor Industry

The semiconductor industry is highly cyclical. For example, according to the Semiconductor Industry Association, or the SIA, the worldwide semiconductor industry, in terms of revenue, had a growth rate of approximately 28% for 2004, before it decreased to approximately 7% in 2005. The growth rate then increased to approximately 9% in 2006 before it decreased again to 3% and 2% in 2007 and 2008, respectively. Fabs can take several years to plan, construct and begin operations. Therefore, during periods of favorable market conditions, semiconductor manufacturers, which include dedicated foundry service providers, often begin building new fabs in response to anticipated demand growth for semiconductors. As these new fabs commence operations, a significant amount of manufacturing capacity is made available to the semiconductor market resulting from the steep initial ramp up of these fabs. In the absence of growth in demand, or if growth occurs slower than anticipated, this would result in excess supply which would in turn result in semiconductor manufacturing overcapacity, which can lead to sharp drops in utilization of semiconductor fabs and put pressure on wafer selling prices.

Substantial Capital Expenditures

Semiconductor manufacturing is very capital intensive in nature, requiring large investments in sophisticated facilities and equipment. From 2004 to 2008, we invested an average of $641.1 million in capital expenditures per year. These capital expenditures were primarily for leading-edge and advanced technologies in those years. These are all part of our strategy to position ourselves to serve a broad range of market needs.

Pricing, Product Mix and Technology Migration

The pricing of a wafer is determined by the technological complexity of the device on the wafer. Production of devices with higher-level functionality and greater system-level integration requires more manufacturing steps and typically commands higher selling prices. However, increasing the technological complexity of devices that we manufacture does not necessarily lead to increased profitability because the higher selling prices for such devices may be offset by depreciation and other costs associated with an increase in the capital expenditures needed to manufacture such devices. As the price of wafers varies significantly with technology and device complexity, the mix of wafers produced affects revenue and profitability. The prices of wafers for a given level of technology and device complexity will generally decline over the product life cycle and foundries must continue to migrate to increasingly sophisticated technologies or introduce value added solutions to sustain the same level of profitability. Over the period from 2004 to 2008, our average selling price, or ASP, per wafer (eight-inch equivalent) increased by 2.4% from $1,012 in 2004 to $1,036 in 2005 and increased by a further 7.3% to $1,112 in 2006. It subsequently decreased by 16.3% to $930 in 2007, and decreased by a further 5.0% to $884 in 2008. The decrease in our ASP in 2008 compared to 2007 was due primarily to lower selling prices across technology nodes, partially offset by a favorable product mix arising from higher shipments of 65 nanometer, or nm, products. There is no assurance that our ASP will not continue to decrease or that it will increase in the future.

Capacity Utilization Rates (based on total shipments and total capacity, both of which include our share of Silicon Manufacturing Pte Ltd, or SMP)

Our average capacity utilization, based on eight-inch equivalent wafers, from 2004 to 2008 is as follows:

	Year Ended December 31,				
	2004 (2)	**2005 (3)**	**2006**	**2007**	**2008 (4)**
Average capacity utilization (1)	80%	70%	77%	79%	79%

Notes:

(1) Based on total shipments and total capacity, both of which include our share of SMP.

(2) Fab 1 ceased operations at the end of March 2004 and some of its operations moved to Fab 2.

(3) Fab 7 started commercial shipment in June 2005.

(4) Fab 3E was acquired on March 31, 2008.

We expect our average capacity utilization in 2009 to decline significantly as compared to 2008 if current market conditions continue or deteriorate further.

2008 OVERVIEW

Our net revenue increased 22.5% from $1,355.5 million in 2007 to $1,661.1 million in 2008. Fab 3E, which was acquired on March 31, 2008, contributed $123.2 million, representing 40.3% of the increase in net revenue. Revenue from our 0.13 micron, or um, and below process geometry technologies represented 56% of our net revenue, of which revenue from our 90nm and below process geometry technologies, including 65nm, contributed 21% of our net revenue for 2008.

Gross profit decreased by 17.7% between 2007 and 2008 due primarily to lower selling prices and to a lesser extent, higher cost per wafer which includes the impact of significantly lower utilization of manufacturing assets in the fourth quarter of 2008, partially offset by higher shipments. In the fourth quarter of 2008, we revised the estimated useful lives of our twelve-inch process equipment and machinery from five years to eight years, and the related mechanical and electrical installations from ten years to fifteen years. The expected salvage values of the related process equipment and machinery were reduced to zero to reflect the longer usage of this equipment. The change in estimated useful lives and salvage values is a change in accounting estimate that was applied prospectively from October 1, 2008. The impact of this change was an increase to our gross profit of $18.1 million in 2008. Net income was $101.7 million in 2007 compared to a net loss of $92.6 million in 2008. The net income of $101.7 million in 2007 included an income tax benefit of $91.4 million while the net loss of $92.6 million in 2008 included an income tax benefit of $4.5 million. The 2008 income tax benefit is described in further detail below.

In 2007, both our basic and diluted net earnings per ordinary share were $0.04 while our basic and diluted net earnings per American Depositary Share, or ADS, were $0.36 and $0.35, respectively. In 2008, both our basic and diluted net loss per ordinary share were $0.04 while both our basic and diluted net loss per ADS were $0.40.

We invested $576.0 million in capital expenditures in 2008 primarily for our 65nm and below technologies. We also incurred $177.9 million in Research and Development, or R&D expenses primarily for the 45nm and 32nm technologies.

Total capacity increased by approximately 25% to 2.4 million eight-inch equivalent wafers from 2.0 million eight-inch equivalent wafers in 2007, due primarily to the acquisition of Fab 3E and the ramp of Fab 7. In 2007, our average capacity utilization was 79% due to shipment growth in 0.13um and above technologies. The shipment growth continued into the first half of 2008 but was partially offset by the deterioration in the global economy in the second half of 2008, in particular the fourth quarter of 2008 with a capacity utilization of 59%, resulting in an average capacity utilization of 79% in 2008.

Included in the net income tax benefit of $4.5 million in 2008 is a net income tax benefit of $48.7 million arising primarily from the recognition of additional deferred tax assets as a result of the revocation of Fab 7's pioneer status in the second quarter of 2008, partially offset by a related income tax expense of $44.2 million arising primarily from the establishment of valuation allowance on these deferred tax assets which were assessed as more likely than not to be unrealizable. This is explained in more detail below.

Fab 7 was previously granted pioneer status for a 15-year period beginning October 1, 2005. During its pioneer period, it had accumulated substantial wear and tear allowances on plant and machinery which it was unable to fully utilize against income from activities covered under the pioneer status. In addition, Fab 7 had pre-pioneer tax losses, which under the pioneer status, were not allowed for carry forward. As such, we applied to revoke the pioneer status of Fab 7 in 2008. Upon receiving the approval of our application which was on a retroactive basis in the second quarter of 2008, we recorded additional amounts of deferred tax assets due primarily to the higher wear and tear allowances and tax losses that have become available to be carried forward. In view of the current crisis in the financial markets and deteriorating global economy which have adversely affected our current year performance and our ability to generate sufficient taxable income for the realization of the net deferred tax assets in the foreseeable future, we have established valuation allowance on the deferred tax assets which were assessed as more likely than not to be unrealizable.

On March 31, 2008, we completed the acquisition of 100% of the shares in Hitachi Semiconductor Singapore Pte Ltd from Hitachi, Ltd. and Hitachi Asia Ltd., for a total consideration of $241.1 million which consisted of cash and related direct costs of the acquisition. After a final adjustment to the closing working capital made in June 2008 as provided for in the purchase agreement, the purchase consideration was revised to $243.6 million. Upon the completion of the acquisition, Hitachi Semiconductor Singapore Pte Ltd was renamed Chartered Semiconductor Manufacturing (Tampines) Pte. Ltd, or Chartered Tampines. Chartered Tampines owns and operates an eight-inch wafer fabrication facility located in Singapore, which we have named Fab 3E. This additional facility augments the capacity of the four eight-inch fabs the Company currently operates. This transaction also includes a manufacturing agreement with Renesas Technology Corp., or Renesas, an existing customer of Fab 3E, to provide future wafer fabrication services. The results of Fab 3E's operations have been included in our consolidated statement of operations from April 1, 2008 onwards.

2009 OUTLOOK AND PLANS

The discussion under “2009 Outlook and Plans” contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in these forward-looking statements. Factors that might cause future results to differ significantly from those projected in these forward-looking statements include, but are not limited to, those discussed below and elsewhere in this document, particularly in the cautionary risk factors described in “Item 3. Key Information — D. Risk Factors” in our Annual Report on Form 20-F filed with the SEC.

2009 Outlook

According to the SIA, worldwide semiconductor industry revenues are expected to decline by approximately 5.6% in 2009 compared to 2008. With concerns about the negative impact from the deterioration in the global economy conditions and the worsening demand situation for our products, it is difficult for us to forecast with confidence how the year will turn out.

Workforce Re-sizing

On January 30, 2009, we announced that as a result of further decline in our utilization rate into the first quarter of 2009 and lack of visibility in end markets, we will be reducing our worldwide workforce by approximately 500 people, or approximately 7% of our total employment. We expect a one-time charge of approximately $7 million associated with this workforce reduction which will be recorded in our consolidated statement of operation for the first quarter of 2009. Our announcement in January 2009 included a workforce reduction of approximately 100 employees of SMP. A one-time charge of approximately $1 million associated with this workforce reduction will be recorded in SMP’s statement of operation for the first quarter of 2009. We will record our share of this one-time charge in our equity in the income (loss) of SMP in the first quarter of 2009 accordingly. Annual savings in payroll and benefits, including SMP, are expected to be approximately $16 million.

Breakeven Utilization Target

We have set a target of lowering our breakeven utilization rate to around 75% at the earnings before interest and tax level by the fourth quarter of 2009.

2009 Planned Capacity

We expect to achieve total wafer capacity of approximately 2.6 million wafers (eight-inch equivalent) for 2009, compared to approximately 2.4 million wafers (eight-inch equivalent) for 2008. We plan to increase our capacity for 65nm and below process geometry technologies in 2009 by over 23% as compared to 2008. This increase in 65nm capacity is partly a result of optimizing the mix between 0.13um and 65nm capacity in our Fab 7. The 65nm capacity is expected to represent approximately 16% of our total expected wafer capacity in 2009.

2009 Planned Capital Expenditures

Our total cash outflow for capital expenditures in 2009 is expected to be approximately $375 million, compared to $576 million in 2008. Out of this, approximately $240 million is for equipment that has already been delivered and those committed in 2008 for delivery in 2009. Capital expenditures planned for 2009 are primarily for increasing the capacity for 65nm and below technologies and, to a lesser extent, for enhancing eight-inch wafer capabilities. With the above capital expenditures, Fab 7 is expected to have a capacity of 27,000 wafers (twelve-inch) per month by December 2009. We expect depreciation and amortization for the year 2009 to be approximately $515 million, compared to $565 million in 2008.

2009 Planned Research and Development Expenditures

We expect R&D expenditures in 2009 to remain essentially flat compared to $178 million in 2008. The investment is intended to fund primarily the development and qualification of 32nm process technology, including costs associated with capital investment in leading-edge semiconductor tools.

2009 Liquidity Position

See “Liquidity and Capital Resources — Current and expected liquidity” for a discussion of our 2009 liquidity position.

Jobs Credit Scheme

On January 22, 2009, to encourage employers to preserve jobs and help Singaporeans stay employed, the Singapore government introduced the Jobs Credit Scheme, or Scheme, in the 2009 Budget. Employers will receive cash grants up to 12% on the first S$2,500 of the monthly wages of each employee on the Central Provident Fund, or CPF, payroll at the beginning of each period. This Scheme is for 2009 and employers will receive payments on a quarterly basis in March, June, September and December. We expect an annual savings in payroll from this Scheme of approximately $10 million in 2009.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements and related disclosures in the accompanying notes in accordance with U.S. generally accepted accounting principles, or GAAP, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenses during the reporting period. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

Depreciation and Amortization of Long-lived Assets, including Technology License Agreements and Other Intangible Assets

Our results of operations are generally affected by the capital-intensive nature of our business. As a result, a large proportion of our cost of revenue is fixed in nature. The major components of the fixed costs included in our cost of revenue relate to depreciation on property, plant and equipment and amortization of technology license arrangements. We also record amortization for other intangible assets such as the manufacturing and process intellectual property and the foundry agreement arising from the acquisition of Fab 3E.

In the third quarter of 2006, we revised the estimated salvage values of some of our eight-inch process equipment and machinery to reflect higher expected salvage values. These process equipment and machinery primarily supported our advanced technologies where we observed higher salvage values in the equipment resale market. We believe a significant driver of this was that we initially placed this equipment into use earlier in the process geometry technology life cycle than we had done for other eight-inch equipment. The impact of this change was an improvement to net income by $11.3 million and $10.8 million in 2006 and 2007, respectively, and a decrease in net loss of $1.9 million in 2008, resulting in an improvement of both our basic and diluted net earnings per ADS by $0.04 in both 2006 and 2007, and a reduction of both our basic and diluted net loss per ADS by $0.01 in 2008. Basic and diluted net earnings (loss) per ordinary share in 2006, 2007 and 2008 were not affected by this change.

During 2008, we observed a change in the expected technology lifecycle of the twelve-inch process technology and, as a result, decided to perform a detailed reassessment of the estimated useful lives of our twelve-inch process equipment and machinery and the related mechanical and electrical installations. The assessment was finalized in the fourth quarter of 2008 and as a result, we revised the estimated useful lives of our twelve-inch process equipment and machinery from five years to eight years, and the related mechanical and electrical installations from ten years to fifteen years. The change was made to better reflect the expected pattern of economic benefits from the use of the equipment and machinery over time based on an analysis of the expected technology lifecycle, historical usage experience and industry practices. Historically, when we commenced depreciation of equipment in Fab 7, our only twelve-inch wafer fabrication facility, we estimated salvage values that were higher than our historical estimates for equipment when our other fabs began service. This was due primarily to the equipment in Fab 7 being put into use at the early stages of the 90nm and below process technology life cycles. With the extension of the estimated useful lives of our twelve-inch process equipment and machinery from five years to eight years, we have reduced to zero the expected salvage values of the related process equipment and machinery to reflect the longer useful lives of these equipment. The change in estimated useful lives is a change in accounting estimate that was applied prospectively from October 1, 2008. The impact of this change was a decrease in net loss of $18.1 million in 2008. Both our basic and diluted net loss per ADS in 2008 decreased by $0.07 and both our basic and diluted net loss per ordinary share in 2008 decreased by $0.01.

In the same quarter, we also revised the estimated useful lives of certain technology-related intangible assets from three to five years. The change was made to better reflect the expected pattern of economic benefits from the use of the intangible assets over time based on an analysis of the expected future usage of the underlying technology and historical usage experience. The change in estimated useful lives and salvage values is a change in accounting estimate that was applied prospectively from October 1, 2008. The impact of this change was a decrease in net loss of $1.5 million in 2008, resulting in a reduction of both our basic and diluted net loss per ADS by $0.01 in 2008. Basic and diluted net loss per ordinary share in 2008 were not affected by this change.

With the above changes, we depreciate wafer fab buildings over the shorter of twenty years or the remaining period of the lease of the land on which the buildings are erected, mechanical and electrical installations in the fabs over six to fifteen years, and machinery and equipment over five to eight years using the straight-line method to their estimated salvage values. We amortize technology licenses using the straight-line method over the shorter of the expected life of the related technology or the license period, which on weighted average is approximately six years. Other intangible assets are amortized over three to six years based on the pattern in which the economic benefits are consumed and if such a pattern cannot be reliably determined, on a straight-line basis. These lives represent our estimate of the periods over which we expect to derive economic benefits from the assets. In estimating the useful lives and salvage values of our property, plant and equipment, technology licenses and other intangible assets and in determining whether subsequent revisions to the useful lives and salvage values are necessary, some of the significant factors we consider include the intended use and likelihood of technological obsolescence arising from changes in production techniques, technology and market demand. We routinely review the remaining estimated useful lives and salvage values of our long-lived assets to determine if such lives and values should be adjusted.

Actual useful lives and salvage values of our long-lived assets may vary from estimates. If we had used different estimates of useful lives or salvage values of our long-lived assets, our results might have been materially different.

Recoverability of Long-lived Assets, including Technology License Agreements and Other Intangible Assets

We routinely review long-lived assets that are held and used, including technology licenses and other intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We are required to make judgments and assumptions in identifying those events or changes in circumstances that may trigger impairment.

Some of the factors we consider include:

- A significant decrease in the market price of a long-lived asset group;
- A significant adverse change in the extent or manner in which a long-lived asset group is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset group, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset group;
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset group; and
- A current expectation that, more likely than not, a long-lived asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

We perform impairment tests for groups of long-lived assets at the lowest level of identifiable independent cash flows. In determining the appropriate asset groupings, we must make subjective judgments about the independent cash flows that can be related to each asset group considering our foundry model and the degree of interchangeability of the various components of our manufacturing capacity. We consider the degree to which each asset group’s cash flows depend on the cash flows of one or more other asset groups and the availability of information on estimates of future cash flows of such asset groups. In some cases, it is not practical to identify the cash flows associated with a particular asset or group of assets due to the integrated nature of our production process and the multi-technology capability of our equipment. We have identified our individual fabs to be the lowest level of identifiable independent cash flows for purposes of performing impairment tests.

The determination of recoverability for long-lived assets held for use is based on an estimate of undiscounted cash flows expected to result from the use of the asset group and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, ASP, utilization rates and other factors which require a considerable amount of judgment. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value of the asset group, an impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its fair value based on the best information available, including discounted cash flow analysis. However, due to the cyclical nature of our industry and changes in our business strategy, market requirements or the needs of our customers, we may not always be in a position to accurately anticipate declines in the utility of our long-lived assets until they occur. We also routinely review our long-lived assets that are held for sale for impairment in comparison to their fair values less costs to sell. In calculating an impairment charge for assets held for sale, significant judgment is required in estimating fair values and costs to sell. No impairment charges were recorded on our long-lived assets in 2006, 2007 and 2008.

If we had made different judgments and assumptions in making our estimates of future cash flows of our assets held for use or fair values and costs to sell for our assets held for sale, we might have reached different conclusions regarding impairments, and our results might therefore have been materially different.

Valuation of Inventory

Our inventories are stated at the lower of cost or market and consist of work-in-progress, raw materials and consumable supplies and spares.

Cost. Cost is determined using standard cost and an allocation of the cost variances arising in the period of production, which approximates actual costs determined on the weighted average basis. We determine the standard cost of each wafer based on estimates of the materials, labor, and other costs incurred in each process step associated with the manufacture of our products. We allocate labor and overhead costs to each step in the wafer production process based on normal fab capacity, with costs arising from abnormal under-utilization of capacity expensed when incurred. The unit cost of a wafer generally decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor equipment, are allocated over a larger number of units produced.

Market. We routinely review our inventories for their saleability and for indications of obsolescence to determine if inventory carrying values are higher than market value (net realizable value). Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal. Some of the significant factors we consider in estimating the net realizable value of our inventories include the likelihood of changes in market and customer demand and expected changes in market prices for our inventories.

We determine the range of normal capacity based on average historical actual production activities over a representative period of time taking into consideration the capacity, the production mix, expected utilization of our facilities including planned maintenance and shut-downs. Judgment is required to determine when a production level is abnormally low. In periods of abnormally low production or idle plant, unallocated overheads of under-utilized or idle capacity of the production capacity are recognized as period costs in the periods in which they are incurred.

Judgments, estimates and assumptions regarding the determination of normal capacity of our production facilities, future selling prices, level of demand and indications of obsolescence must be made and used in connection with evaluating whether write-downs of our inventories are needed and in what amount. While our estimates require us to make significant judgments and assumptions about the expected net realizable values of our inventories, we believe our estimates are reasonable as historically, sales of inventories for which the actual net realizable values were higher than estimated have not significantly impacted our gross profit.

As of December 31, 2006, 2007 and 2008, we reduced carrying values of inventory by $15.8 million, $27.2 million and $14.5 million, respectively, to write down certain inventories, primarily for our work-in-progress, to market. These write-downs were recognized in cost of revenue. Subsequent to such write-downs, we sell or dispose of these inventories. In each of 2006, 2007 and 2008, we sold some of our inventories that we had written down to their estimated net realizable value in the previous year, at prices which were higher than our previous estimate of the net realizable value. Such sales improved our gross profit by approximately $1.8 million, $0.8 million and $0.6 million for 2006, 2007 and 2008, respectively. In 2008, we recorded a net charge to earnings of $31.8 million relating to unallocated overheads due to significantly lower utilization of manufacturing assets in the fourth quarter of 2008. There was no such charge recorded in 2006 and 2007.

If we had made different estimates on allocation of costs to different process steps, normal capacity, future demand for existing inventory or inventory selling prices, we might have reached different conclusions regarding inventory values and therefore our results might have been materially different.

Revenue Recognition

We derive revenue primarily from fabricating semiconductor wafers and, to a lesser extent, from providing associated subcontracted assembly and test services as well as pre-fabricating services such as masks generation and engineering services. We enter into arrangements with customers which typically include some or all of the above deliverables.

When our arrangements include multiple deliverables, we first determine whether each deliverable meets the separation criteria in Financial Accounting Standards Board, or FASB, Emerging Issues Task Force, or EITF, Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". In general, a deliverable (or a group of deliverables) meets the separation criteria if the deliverable has standalone value to the customer and if there is objective and reliable evidence of the fair value of the remaining deliverables in the arrangement. Each deliverable that meets the separation criteria is considered a "separate unit of accounting." The total arrangement consideration is then allocated to each separate unit of accounting based on their relative fair values. Substantially all of our arrangements for the sale of semiconductor wafers and related services consist of a single unit of accounting. The application of EITF 00-21 requires judgment as to whether the deliverables can be divided into more than one unit of accounting and whether the separate units of accounting have value to the customer on a standalone basis. Changes to how we determine these elements could affect the timing of revenue recognition.

Revenue for each unit of accounting is recognized when the contractual obligations have been performed and title and risk of loss has passed to the customer, there is evidence of a final arrangement as to the specific terms of the agreed upon sales, selling prices to the customers are fixed or determinable and collection of the revenue is reasonably assured. Generally, this results in revenue recognition upon shipment of wafers.

To a lesser extent, we also derive other revenue relating to rental income and management fees which is recognized when the contractual obligations have been performed, there is evidence of a final arrangement, fees are fixed or determinable and collection of the revenue is reasonably assured.

Sales Credits and Returns Allowances

Our revenue per wafer is generally dependent upon the wafer yield. The process technology for the manufacture of semiconductor wafers is highly complex and the presence of contaminants, difficulties in the production process, disruption in the supply of utilities or defects in key materials and tools can all cause reductions in device yields and increase the risk of sales credits or returns. We make estimates of wafer yield and potential sales credits and returns and provide for such credits and returns based upon historical experience and our estimate of the level of future claims. Additionally, we accrue for specific items at the time their existence is known and the amounts are estimable.

Sales credits and returns as a percentage of gross revenue may fluctuate from year to year and do not necessarily follow the gross revenue trend due to specific claims in any particular period related to certain new processes and variations in wafer yield. We typically experience lower sales credits and returns as manufacturing processes mature and higher sales credits and returns on new processes. We have charged $6.3 million, $4.5 million and $6.0 million to results of operations for sales credits and returns for 2006, 2007 and 2008, respectively. Our actual sales credits and returns have not historically been significantly different from our estimates, and our method of estimating sales credits and returns and the significant assumptions used have been consistently determined over the past three years.

Significant management judgments and estimates must be made and used in connection with determining wafer yield, and hence, revenue per wafer, and in establishing the sales credits and returns allowances in each accounting period. If we had made different estimates of wafer yield or future sales credits and returns, our results might have been materially different.

Collectibility of Accounts Receivable

We manage the credit risk of our accounts receivable through our customer credit evaluation process, credit policies, and credit control and collection procedures. In evaluating the collectibility of individual receivable balances, we consider the age of the balance, the customer's historical payment history, their current credit-worthiness and current economic trends. We review our accounts receivable on a periodic basis and make specific allowances when there is doubt as to the collectibility of individual receivable balances. An allowance for doubtful accounts had been established in the amount of $1.1 million as of December 31, 2006. There was no such allowance as of December 31, 2007 and 2008. Our actual uncollectible accounts have not historically been significantly different from our estimates. However, if we had made different estimates of collectibility of individual receivable balances, our results might have been materially different.

Income Taxes

A large portion of our operations in Singapore is afforded tax holidays or other tax incentives provided to attract and retain business. These tax holidays or incentives are subject to certain conditions with which we expect to comply, such as achieving fixed amounts of capital expenditure and headcount by certain dates. Our taxes could increase if we do not meet the holiday or incentive requirements, or tax rates applicable to us in Singapore are otherwise increased.

We regularly assess the likelihood of adverse outcomes on our tax positions resulting from tax authority examinations in determining the adequacy of our provision for income taxes. We adjust our tax provision in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome from examinations of these matters is different than the amounts previously recorded, such differences will be recorded in the period in which such determination is made and may be materially different from amounts recorded to date.

In accounting for uncertainty in income taxes, only the tax benefits for tax positions that meet the more-likely-than-not recognition threshold, based on technical merits, may be measured and recognized. In recognizing such tax benefits, significant management judgment must be made and used in connection with the recognition threshold and measurement attributes. Any material change in the estimates and related assumptions used to determine the recognition threshold and measurement attributes could result in a material impact on our income tax expense.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases, unutilized wear and tear allowances, tax losses and investment allowances. Under Singapore tax law, the unutilized wear and tear allowances, tax losses and investment allowances can be carried forward indefinitely, subject to compliance with certain conditions, where applicable. A valuation allowance is recognized if it is more likely than not that a portion or all of the deferred tax assets will not be realizable, based on the scheduled reversal of existing deferred tax liabilities, tax planning strategies, taxable income in carryback years, our expectations of taxable income in future years. A valuation allowance has been established for the net deferred tax assets in the amount of $173.7 million and $269.2 million as of December 31, 2007 and 2008, respectively. The increase in valuation allowance is mainly due to valuation allowance being provided on the additional deferred tax assets for deductible temporary differences arising from investment allowance and revocation of Fab 7's pioneer status.

Our judgment regarding future taxable income may change due to future market conditions, changes in tax laws and other factors. If these estimates and related assumptions change in the future, we may be required to increase or decrease our valuation allowance against deferred tax assets previously recognized, resulting in higher or lower income tax expense or benefit.

Share-Based Compensation

With effect from January 1, 2006, we measure and record compensation expenses for all share-based payment awards based on estimated fair values in accordance with Statement of Financial Accounting Standards, or SFAS, No. 123 (revised 2004), "Share-Based Payment", or SFAS No. 123(R). We provide share-based awards to our employees, executive officers and directors through various equity compensation plans including our share option plans, the Chartered Restricted Share Unit Plan 2007, or the RSU Plan, and the Chartered Performance Share Unit Plan 2007, or the PSU Plan.

The fair value of awards under our share option plan, which terminated on January 29, 2009 in accordance with its terms, is measured at the date of grant using a Black-Scholes option pricing model. The fair value of awards under the RSU Plan is based on the average of the high and low quotes of our ordinary shares at the date of grant. The number of performance share units, or PSUs, that will ultimately vest is subject to the achievement of either the performance condition or the market condition, as applicable. The fair value of awards for the performance-based portion of the PSU Plan is based on the average of the high and low quotes of our ordinary shares on the date of grant while the fair value of awards for the market-based portion of the PSU Plan is measured at the date of grant using the Monte-Carlo valuation model. Compensation expense for the PSU Plan is determined based on the grant-date fair value, management's projections of achievement of performance conditions over the performance period, and the resulting estimate of shares that will ultimately be issued. For all share-based awards granted after the adoption of SFAS No. 123(R), compensation expense is recorded using the straight-line attribution method ratably over the requisite service period. If we had made different judgments and assumptions regarding the achievement of performance conditions over the performance period and the number of PSUs that will be ultimately issued, our results might have been materially different.

In determining fair value using the Black-Scholes option pricing model, we are required to make certain estimates of the key assumptions that include expected term, expected volatility of our ordinary shares, dividend yield and risk free interest rates. Estimating these key assumptions involves judgment regarding subjective future expectations of market prices and trends. The assumptions for expected term and expected volatility have the most significant effect on calculating the fair value of our share options. For options awarded during the years ended December 31, 2006 and 2007, the expected term is determined using the simplified approach as prescribed by SEC Staff Accounting Bulletin No. 107, or SAB 107. In December 2007, the SEC issued SAB 110 which was effective January 1, 2008. SAB 110 expresses the views of the Staff of the SEC regarding extending the use of the simplified method, as discussed in SAB 107, in developing an estimate of the expected term of "plain vanilla" share options in accordance with SFAS No. 123(R). For options awarded during the year ended December 31, 2008, the expected term is based on the contractual term of the option and expected employee exercise and post-vesting employment forfeitures behavior. Expected volatilities are based on historical volatility rates of our ordinary shares. If we were to use a different method or assumptions to estimate expected term or expected volatility, or if another method for calculating inputs were to be prescribed by authoritative guidance, the fair value for our share options could change significantly.

In determining fair value using the Monte-Carlo valuation model, we are required to make certain estimates of the key assumptions that include expected volatility of our ordinary shares, dividend yield and risk free interest rate. Estimating these key assumptions involves judgment regarding subjective future expectations of market prices and trends. The assumptions for expected volatility have the most significant effect on calculating the fair value of our PSUs. The expected volatility is computed based on historical volatility rates of our ordinary shares. If we were to use a different method or assumptions to estimate the expected volatility, or if another method for calculating inputs were to be prescribed by authoritative guidance, the fair value for our PSUs could change significantly.
SFAS No. 123(R) also requires forfeitures to be estimated at the date of grant. Our estimate of forfeitures is based on our historical activity, which we believe is indicative of expected forfeitures. In subsequent periods if the actual rate of forfeitures differs from our estimate, the forfeiture rates are revised, as necessary. Changes in the estimated forfeiture rate can have a significant impact on share-based compensation expense. The effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

Grants for Research and Development and Training

We have received grants from various agencies of the Government of Singapore. The amounts available under these grants relate to a portion of depreciation expenses arising from our R&D related capital expenditures and for certain material, training and staffing costs associated with some of our process technology development and staff training programs.

These grants are disbursed in connection with the research, development and training carried out in Singapore based on the terms of the respective grants, the amount of qualifying expenditures incurred and the achievement of the conditions attached to the grants.

We recognize grants when there is reasonable assurance that the conditions attached to the grants will be complied with and that the grant will be received. The grants are recorded as a reduction of the expenses which they are intended to reimburse.

We regularly assess the likelihood of achieving the conditions attached to these grants, and we believe we have taken adequate steps to obtain reasonable assurance that these conditions will be achieved. If we had made a different assessment on the likelihood, our results might have been materially different.

Business Combinations

We accounted for our business combination using the purchase method. Under the purchase method of accounting, assets and liabilities acquired are measured at their estimated fair values at the date of acquisition, and the purchase price is allocated to the assets and liabilities based upon these fair values. The excess of the purchase price, if any, over the net amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. The excess of the fair value of identifiable net assets acquired over the purchase price, if any, is allocated as a pro-rata reduction of the amounts that otherwise would have been assigned to all acquired assets except financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets and current assets.

In 2008, we completed a business combination which related to the purchase of an additional facility to augment the capacity of the four eight-inch fabs we currently operate. The consideration we paid to acquire this facility was entirely allocated to the fair value of the assets acquired and liabilities assumed at the time of acquisition, including identifiable intangible assets. Consequently, there was no goodwill recognized from this business combination.

Determining the fair values of the assets and liabilities acquired involves the use of judgment, since some of the assets and liabilities acquired do not have fair values that are readily determinable. Different techniques may be used to determine fair values, including market prices (where available), appraisals, internal studies, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows, among others. If we had made different judgments and assumptions, we might have reached different conclusions regarding the valuation of the assets and liabilities acquired, and our allocation of the purchase price might therefore have been materially different.

Fair value measurements

In the first quarter of 2008, we adopted SFAS No. 157, "Fair Value Measurements". SFAS No. 157 provides guidance for measuring the fair value of assets and liabilities, indicating that fair value should be determined based on the assumptions that marketplace participants would use in pricing the asset or liability. SFAS No. 157 focuses on the inputs used to measure fair value and for recurring fair value measurements using significant unobservable inputs and the effect of the measurement on earnings (or changes in net assets) for the reporting period. Inputs are categorized by a fair value hierarchy, Level 1 through Level 3, the highest priority being given to Level 1 and the lowest priority to Level 3.

We measure marketable securities, derivative assets and liabilities, and certain other investments at fair value on either a recurring or non-recurring basis. We classify the fair market values of our financial instruments based on the fair value hierarchy established in SFAS No. 157.

- Marketable securities are recorded at fair value, which is generally based on quoted prices in active markets for identical assets (Level 1);

- The fair values of forward foreign exchange contracts are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and maturity dates to generate pricing curves, which are used to value the positions. The market inputs are generally actively quoted and can be validated through external sources, including brokers. For forward foreign exchange contract asset and liability positions with maturity dates which fall between the dates of quoted prices, interpolation of rate or maturity scenarios are used in determining fair values (Level 3);

- The fair values of embedded derivatives are determined in a similar manner as forward foreign exchange contracts, except that we make certain assumptions about the implied maturity dates of such embedded derivatives as maturity dates are generally not included in the host contracts (Level 3);

- The fair value of our investment in a private enhanced cash fund, or Fund (refer to "Other Investments"), and its underlying debt and securities is assessed by utilizing market prices as provided by independent pricing services or, when such prices are not available, by using a valuation approach based on the current investment ratings, valuation parameters and estimates of the underlying debt and securities, redemptions of the Fund and the subsequent distributions of cash. Based on this assessment, we determined that the fair value of the Fund and its underlying debt and securities as of December 31, 2008 approximated the fair values provided by the investment manager of the Fund. As such the amounts recorded in our consolidated financial statements are based on the fair values provided by the investment manager of the Fund. The assessment of the fair value of the Fund uses significant unobservable inputs (Level 3); and

- The fair values of certain equity investments based primarily upon our own estimates of the value of the underlying assets (Level 3).

We make significant judgments and assumptions in estimating the fair value of our financial instruments and determining the fair value hierarchy of the source of inputs used. If we were to use a different method or assumptions to estimate fair value, or if another source of inputs was used, the fair value for our financial instruments or the fair value hierarchy could change significantly.

Other Investments

We have an investment in the Fund, which has been accounted for as a cost-method investment. The Fund is managed by an external financial institution and consists primarily of corporate debt, mortgage-backed securities and asset-backed securities.

We assessed the fair value of the Fund and its underlying debt and securities by utilizing market prices as provided by independent pricing services or, when such prices were not available, we used a valuation approach based on the current investment ratings, valuation parameters and estimates of the underlying debt and securities, and redemptions of the Fund and the subsequent distribution of cash. Based on this assessment, we determined that the fair value of the Fund and its underlying debt and securities as of December 31, 2007 and 2008 approximated the fair values provided by the investment manager of the Fund.

The value of the Fund is subject to market volatility for the period we hold the investment. We recognize an impairment loss when the decline in the fair value of our investments below their cost is judged to be other-than-temporary. In determining whether a decline in fair value is other-than-temporary, we consider various factors including market price (when available), investment ratings, the financial condition and near-term prospects of the investee, the length of time and the extent to which the fair value has been less than cost, and our intent and ability to hold the investment or for a period of time sufficient to allow for any anticipated recovery in fair value.

Due to the nature of the securities that the Fund invests in, the Fund's underlying securities have been exposed to adverse market conditions that have affected the value of the collateral and the liquidity of the Fund. As a result, in December 2007, the investment manager of the Fund halted demand redemptions and announced its intention to liquidate the Fund. The investment in the Fund, which was classified as a cash equivalent since the time of placement in 2003, was reclassified to other investments as of December 31, 2007. The carrying amount of the Fund, which is equal to the fair value of our pro-rata share of investment in the Fund was $89.3 million and $19.6 million as of December 31, 2007 and 2008, respectively. We received cash proceeds of $8.8 million and $64.2 million in further distributions from the Fund in 2007 and 2008, respectively. We recorded other-than-temporary impairment losses of $1.1 million and $4.6 million for 2007 and 2008, respectively.

We make significant judgments and assumptions in estimating the fair value of our investment and in the determination of whether a decline of the fair value is other-than-temporary. If we had made different judgments and assumptions, we might have reached different conclusions regarding the valuation and impairment of our investment and our results might therefore have been materially different.

Asset Retirement Obligations

We record asset retirement obligations in accordance with the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations" which requires recognition of a liability for an asset retirement obligation in the period in which it is incurred at its estimated fair value. These asset retirement obligations represent the estimated present value of the amounts expected to be incurred for dismantlement, removal, site reclamation and similar activities associated with our facilities built on land held under long-term operating leases.

We estimate the cost for the asset retirement obligations and then determine the asset retirement obligations by calculating the present value of estimated cash flows related to the liability. The asset retirement obligations are recorded as a liability at the estimated present value as of the asset's inception discounted using a credit-adjusted risk-free rate. We do not provide for a market risk premium associated with asset retirement obligations because a reliable estimate cannot be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying assets and depreciated over the estimated useful life of the assets. After initial recognition, the liability is increased for the passage of time, with the increase being reflected as accretion expense in the line item "Other operating expenses, net" in the consolidated statements of operations. Subsequent adjustments in the estimated amounts, timing and probability of the estimated future costs other than changes resulting from the passage of time are recognized as an increase or decrease in the carrying amount of the liability and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

Significant assumptions are involved in estimating the liability, including current estimates of costs, annual inflation of these costs, estimated useful lives of the underlying assets, the risk-adjusted interest rate, and for conditional asset retirement obligations, the likelihood that performance will be required. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligations. If we had made different judgment and assumptions, we might have reached different conclusions regarding the costs and liabilities, and our asset retirement obligation recorded might therefore have been materially different.

During 2008, we revised our estimates for asset retirement obligations associated with our facilities built on land held under long-term operating leases. The revision was made to reflect changes in the estimated amounts. The change will result in higher accretion expense and lower depreciation over the remaining lives of the underlying assets. The impact of this change was a decrease in net loss of $0.1 million in 2008. Basic and diluted net loss per ADS, and basic and diluted net loss per ordinary share in 2008 were not affected by this change.

ADOPTION OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

FIN No. 48, Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109", or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. Our accounting policy is to treat interest and penalties as a component of income taxes. The adoption of FIN 48 did not have an impact on the accumulated deficit as we had previously recorded the full amount of the unrecognized tax benefits as income tax payable.

SFAS No. 157, Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" which provides guidance for measuring the fair value of assets and liabilities, and requires expanded disclosures about fair value measurements. SFAS No. 157 indicates that fair value should be determined based on the assumptions that marketplace participants would use in pricing the asset or liability, and provides additional guidelines to consider in determining the market-based measurement.

In February 2008, the FASB issued FASB Staff Position, or FSP, SFAS No. 157-1, "Application of FASB SFAS No. 157 to SFAS No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions," and FSP SFAS No. 157-2, "Effective Date of SFAS No. 157." FSP SFAS No. 157-1 excludes from the scope of SFAS No. 157 certain leasing transactions accounted for under SFAS No. 13, "Accounting for Leases". FSP SFAS No. 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In the first quarter of 2008, we adopted SFAS No. 157, except for non-financial assets and non-financial liabilities as described in FSP SFAS No. 157-2.

SFAS No. 157 clarifies that the definition of fair value retains the exchange price notion and focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, therefore a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, the effect of sale or use restrictions on an asset and non-performance risk including an entity's own credit risk relative to a liability. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS No. 157 emphasizes that valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

The additional disclosure requirements of SFAS No. 157 focus on the inputs used to measure fair value and for recurring fair value measurements using significant unobservable inputs and the effect of the measurement on earnings (or changes in net assets) for the reporting period. Inputs are categorized by a fair value hierarchy, Level 1 through Level 3, the highest priority being given to Level 1 and the lowest priority to Level 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." FSP SFAS No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP became effective upon issuance, including prior periods for which financial statements have not been issued. We adopted FSP SFAS No. 157-3 in the third quarter of 2008. The adoption of FSP SFAS No. 157-3 did not have a material impact on our consolidated financial statements.

RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of operations data as a percentage of net revenue for the periods indicated:

Consolidated Statements of Operations data:	Year ended December 31, 2006	2007	2008
Net revenue	100.0%	100.0%	100.0%
Cost of revenue	75.7	80.8	87.1
Gross profit	24.3	19.2	12.9
Other revenue	1.5	1.7	0.8
Operating expenses:			
Research and development	10.8	11.8	10.7
Sales and marketing	3.9	4.3	4.2
General and administrative	3.0	2.9	2.6
Other operating expenses, net	1.0	1.0	0.6
Total operating expenses, net	18.7	20.0	18.1
Equity in income of associated companies, net	2.5	2.5	1.6
Other income (loss), net	(0.2)	(0.2)	0.2
Interest income	3.2	2.0	0.9
Interest expense and amortization of debt discount	(6.2)	(4.4)	(4.1)
Income (loss) before income tax	6.4	0.8	(5.8)
Income tax expense (benefit)	1.7	(6.7)	(0.3)
Net income (loss)	4.7%	7.5%	(5.5)%
Less: Accretion to redemption value of convertible redeemable preference shares	0.7	0.7	0.6
Net income (loss) available to ordinary shareholders	4.0%	6.8%	(6.1)%

The following table sets forth a breakdown of net revenue by market sector for the periods indicated:

	Year ended December 31,		
	2006	2007	2008
Communications	30%	41%	50%
Computer	31	28	14
Consumer	37	28	32
Other [(1)]	2	3	4
Total	100%	100%	100%

The following table sets forth a breakdown of net revenue by geographical region for the periods indicated:

	Year ended December 31,		
	2006	2007	2008
Americas [(2)]	77%	72%	64%
Europe	9	8	9
Asia-Pacific	12	19	20
Japan	2	1	7
Total	100%	100%	100%

The following table sets forth a breakdown of net revenue by technology (um) for the periods indicated:

	Year ended December 31,		
	2006	2007	2008
0.065 and below	—%	9%	17%
Up to 0.09	29	12	4
Up to 0.13	28	34	35
Up to 0.18	8	9	14
Up to 0.25	9	12	13
Up to 0.35	16	14	10
Above 0.35	10	10	7
Total	100%	100%	100%

Notes:

(1) Includes revenue from generation of customers' mask sets.

(2) Comprises the U.S. and Canada.

Years ended December 31, 2007 and December 31, 2008

Net revenue

We derive revenue primarily from fabricating semiconductor wafers and, to a lesser extent, from providing associated subcontracted assembly and test services as well as pre-fabrication services such as masks generation and engineering services. We enter into arrangements with our customers which typically include some or all of the above deliverables. As a dedicated foundry, our financial performance, including our revenue, largely depends on a number of factors including timeliness in introducing technology and manufacturing solutions, ability to enter into arrangements with diverse customers for high volume production of our wafers, utilization rate of our capacity, and external factors such as pricing and general semiconductor market conditions and industry cycles.

Net revenue increased by 22.5% from $1,355.5 million in 2007 to $1,661.1 million in 2008, due primarily to an increase in wafer shipments, partially offset by lower selling prices. Fab 3E, which was acquired on March 31, 2008, contributed $123.2 million, representing 40.3% of the increase in net revenue. Total wafer shipments increased by 28.6% from 1,419,735 wafers (eight-inch equivalent) in 2007 to 1,825,239 wafers (eight-inch equivalent) in 2008. ASP decreased by 5.0% from $930 per wafer (eight-inch equivalent) to $884 per wafer (eight-inch equivalent) over the same period, due primarily to lower selling prices across technology nodes, partially offset by a favorable product mix arising from higher shipments of 65nm products.

Revenue from our 0.13um and below technologies represented 55% of our net revenue in 2007 as compared to 56% of our net revenue in 2008. In terms of absolute dollars, such revenue increased by 25% between 2007 and 2008, due primarily to higher 65nm and 0.13um shipments, partially offset by lower 90nm shipments and to a lesser extent, lower selling prices across these technology nodes. Revenue from our technologies above 0.13um up to 0.18um increased from 9% of our net revenue in 2007 to 14% of our net revenue in 2008, due primarily to the contribution from Fab 3E.

The communications sector was the highest contributor to our revenue in 2007, representing 41% of our net revenue. It continued to be the highest contributor to our net revenue in 2008, representing 50% of our net revenue. The increase in percentage contribution to total net revenue was due primarily to an increase in demand for mobile phone handset-related devices and to a lesser extent, an increase in demand for bluetooth-related devices. Revenue from the consumer sector increased from 28% of our net revenue in 2007 to 32% of our net revenue in 2008, due primarily to an increase in demand for television-related devices and to a lesser extent, an increase in demand for DVD-related devices. Revenue from the computer sector decreased from 28% of our net revenue in 2007 to 14% of our net revenue in 2008, due primarily to a decrease in demand for workstations, personal computers and motherboard devices and to a lesser extent, a decrease in demand for personal computers peripherals, printer and monitors.

The Americas region was the highest contributor to our revenue in 2007, representing 72% of our net revenue. It continued to be the highest contributor to our revenue in 2008, representing 64% of our net revenue. Despite the decrease in percentage contribution to total net revenue, in terms of absolute dollars, this is a 9% increase from our net revenue in 2007, due primarily to the increase in demand for mobile phone handset-related devices and to a lesser extent, an increase in bluetooth-related devices, partially offset by a decrease in demand for workstations, personal computers and motherboard devices. Revenue contribution from the Asia-Pacific region increased from 19% of our net revenue in 2007 to 20% of our net revenue in 2008, due primarily to the increase in demand for television-related devices, partially offset by a decrease in demand for personal computers peripherals, printer and monitors. Revenue from the Japan region increased from 1% of our net revenue in 2007 to 7% of our net revenue in 2008. This increase in revenue contribution from the Japan region in 2008 was due primarily to the contribution from Fab 3E. Revenue from the Europe region remained similar in terms of percentage contribution to our net revenue at 8% and 9% in 2007 and 2008, respectively.

In 2007, Broadcom and AMD, listed in order of revenue contribution, each contributed more than 10% of our total net revenue. In 2008, Broadcom and Qualcomm Global Trading, Inc, listed in order of revenue contribution, each contributed more than 10% of our total net revenue.

Cost of revenue

Cost of revenue includes depreciation expense, attributed overheads, cost of labor and materials, subcontracted expenses for assembly and test services, mask generation costs and amortization of certain technology licenses. Generally, a large proportion of our cost of revenue is fixed in nature, which does not increase or decrease in proportion to any change in our shipments. The unit cost of a wafer decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor manufacturing equipment, are allocated over a larger number of wafers produced.

Cost of revenue increased by 32.1% from $1,095.8 million in 2007 to $1,447.3 million in 2008, due primarily to the increase in shipments by 28.6% over the same period, a richer mix in production levels and to a lesser extent, costs incurred by Fab 3E. In the fourth quarter of 2008, we revised the estimated useful lives of our twelve-inch process equipment and machinery from five years to eight years, and the related mechanical and electrical installations from ten years to fifteen years. The expected salvage values of the related process equipment and machinery were reduced to zero to reflect the longer useful lives of this equipment. The change in estimated useful lives and salvage values is a change in accounting estimate that was applied prospectively from October 1, 2008. The impact of this change was a reduction to our cost of revenue of $18.1 million in 2008.

Cost per wafer shipped increased by 2.6% from $758 in 2007 to $778 in 2008, due primarily to the impact of significantly lower utilization of manufacturing assets in the fourth quarter of 2008.

We record grants as a reduction of the expenses that the grants are intended to reimburse. The impact of such grants recorded as a reduction to our cost of revenue was $9.9 million and $4.6 million in 2007 and 2008, respectively.

In the third quarter of 2006, we changed the estimated salvage values in relation to certain eight-inch process equipment and machinery to reflect higher expected salvage values. These process equipment and machinery primarily support our advanced technologies. The change in the estimated salvage values was a change in accounting estimate that was applied prospectively from July 1, 2006. The impact of this change was a reduction to our cost of revenue of $10.8 million and $1.9 million in 2007 and 2008, respectively.

As described in “Item 3. Key Information — D. Risk Factors — Risks Related to Investment in a Corporation with International Operations — Exchange rate fluctuations may increase our costs and capital expenditures, which could affect our operating results and financial position” in our Annual Report on Form 20-F filed with the SEC, exchange rate fluctuations may increase our costs. However, in 2007 and 2008, there was no significant impact on our cost of revenue arising from fluctuations in exchange rates.

Gross profit

Our gross profit decreased from $259.7 million, or 19.2% of our net revenue, in 2007 to $213.8 million, or 12.9% of our net revenue, in 2008. This was due primarily to lower selling prices and to a lesser extent, higher cost per wafer which includes the impact of significantly lower utilization of manufacturing assets in the fourth quarter of 2008, partially offset by higher shipments. The change in estimated salvage values in relation to certain eight-inch process equipment and machinery which was applied prospectively from July 1, 2006 as mentioned above also increased our gross profit by $10.8 million and $1.9 million in 2007 and 2008, respectively. Likewise, the revision in estimated useful lives of our twelve-inch process equipment and machinery and the related mechanical and electrical installations which was applied prospectively from October 1, 2008 as mentioned above improved our gross profit by $18.1 million in 2008.

Our gross profit was impacted by grants of $9.9 million and $4.6 million in 2007 and 2008, respectively, which were recorded as a reduction to our cost of revenue.

Other revenue

Other revenue consists primarily of rental income and management fees. Other revenue decreased from $22.9 million in 2007 to $13.4 million in 2008, due primarily to lower rental income from a renewal of a rental agreement with SMP. The rental charged to SMP is arrived at based on the terms of the original joint venture agreement, which is a function of recovering the cost of the building and facility machinery and equipment over the period of the joint venture agreement. The lower rental starting from the second quarter of 2008 reflects our recovery of the majority of these costs over the initial 10 years of the joint venture agreement.

Research and development expenses

R&D expenses consist primarily of our share of expenses related to joint-development projects with IBM, Infineon, Samsung, ST Microelectronics and Toshiba, payroll-related costs for R&D personnel, depreciation of R&D equipment and expenses related to the development of design kits and intellectual property solutions for advanced technologies.

R&D expenses increased by 11.3% from $159.8 million in 2007 to $177.9 million in 2008. This was due primarily to higher development activities related to the advanced 45nm and 32nm technology nodes and to a lesser extent, higher payroll-related expenses. R&D expenses as a percentage of net revenue in 2007 and 2008 was 11.8% and 10.7%, respectively.

The impact of grants recorded as a reduction to our R&D expenses was $10.2 million and $13.5 million in 2007 and 2008, respectively.

Sales and marketing expenses

Sales and marketing expenses consist primarily of payroll-related costs for sales and marketing personnel, electronic design automation or EDA-related expenses and costs related to pre-contract customer design validation activities. EDA-related expenses and costs related to pre-contract customer design validation activities relate to efforts to attract new customers and expand our penetration of existing customers.

Sales and marketing expenses increased by 19.7% from $58.0 million in 2007 to $69.5 million in 2008, due primarily to higher financial support for pre-contract customer design validation activities and to a lesser extent, higher expenses related to EDA offerings and higher payroll expenses. Sales and marketing expenses as a percentage of net revenue in 2007 and 2008 was 4.3% and 4.2%, respectively.

In the fourth quarter of 2008, we revised the estimated useful lives of certain technology-related intangible assets from three to five years. The change was made to better reflect the expected pattern of economic benefits from the use of the assets over time based on an analysis of historical usage experience and the expected future usage of the underlying technology. The change in estimated useful lives is a change in accounting estimate that was applied prospectively from October 1, 2008. The impact of this change was a reduction to our sales and marketing expenses of $1.5 million in 2008.

General and administrative expenses

General and administrative, or G&A, expenses consist primarily of payroll-related costs for administrative personnel, external fees such as consultancy, legal, administrative, professional and regulatory fees, and depreciation of equipment used in G&A activities. G&A expenses increased by 8.6% from $39.6 million in 2007 to $43.1 million in 2008, due primarily to higher cost from external consultancy services and to a lesser extent, higher payroll and payroll-related expenses. G&A expenses as a percentage of revenue in 2007 and 2008 were 2.9% and 2.6%, respectively.

Other operating expenses, net

Other operating expenses, net, decreased by 22.2% from $13.0 million in 2007 to $10.1 million in 2008. The decrease in other operating expenses, net, was due primarily to lower expenses related to rental property, partially offset by a fixed asset write-off of $1.3 million and higher foreign exchange losses in 2008. Other operating expenses, net, in 2008 also included a credit of $0.1 million arising from a revision in estimates for asset retirement obligations associated with our facilities built on land held under long-term operating leases.

Equity in income of associated companies, net

Equity in income of SMP decreased from $34.2 million in 2007 to $26.2 million in 2008, due primarily to lower revenues resulting from lower shipments. As with the results of our majority-owned fabs, the equity in income of SMP can have a material effect on our results of operations. In 2007, the equity in income of SMP was $34.2 million compared to our total income before income tax of $10.3 million. In 2008, the equity in income of SMP was $26.2 million compared to our total loss before income tax of $97.0 million.

We have provided the following information on our total business base revenue, which includes our share of SMP revenue, for 2007 and 2008. Chartered's share of SMP revenue, and net revenue including Chartered's share of SMP, presented in the following table are non-U.S. GAAP financial measures. We have included this information because SMP can have a material effect on our consolidated statements of operations and we believe that it is useful to provide information on our share of SMP revenue in proportion to our total business base revenue. However, SMP is a joint venture company that is not consolidated under U.S. GAAP. We account for our 49.0% investment in SMP using the equity method. Under our strategic alliance agreement with LSI Singapore, the majority shareholder, the parties do not share SMP's net results in the same ratio as the equity holdings. Instead, each party is entitled to the gross profits from sales to the customers that it directs to SMP, after deducting its share of the overhead costs of SMP. Accordingly, we account for our share of SMP's net results based on the gross profits from sales to the customers that we direct to SMP, after deducting our share of the overhead costs. The following table provides a reconciliation showing comparable data based on net revenue determined in accordance with U.S. GAAP, which does not include our share of SMP:

	Year ended December 31,	
	2007	2008
	(In millions)	
Net revenue (U.S. GAAP)	$ 1,355.5	$ 1,661.1
Chartered's share of SMP revenue	$ 102.5	$ 81.7
Net revenue including Chartered's share of SMP	$ 1,458.0	$ 1,742.8

The following table provides information that indicates the effect of SMP's operations on some of our non-U.S. GAAP performance indicators:

	Year ended December 31,			
	2007		2008	
	Excluding Chartered's Share of SMP	Including Chartered's Share of SMP	Excluding Chartered's Share of SMP	Including Chartered's Share of SMP
Shipments (in thousands) [(1)]	1,419.7	1,548.9	1,825.2	1,927.9
ASP per wafer	$ 930	$ 918	$ 884	$ 879

Note:

(1) Eight-inch equivalent wafers.

We acquired a 26.7% equity interest in Gateway Silicon Inc., or GSI, in the first quarter of 2007. We account for the investment in GSI under the equity method. The equity in the loss of GSI was $0.4 million and $0.5 million in 2007 and 2008, respectively.

We acquired a 36.8% equity interest in Socle Technology Corp., or SOCLE, in the second quarter of 2008. We account for the investment in SOCLE under the equity method from June 2008. SOCLE is a Taiwan-based firm specializing in system-on-chip design services and embedded platforms that reduce integrated circuit development time. SOCLE's net operating results are shared between Chartered and SOCLE's other shareholders in the same ratio as the equity holdings. The equity in the income of SOCLE was $0.2 million in 2008.

Other income (loss), net

Other income (loss), net, was a net loss of $2.4 million in 2007 and a net income of $2.9 million in 2008. The net loss in 2007 included an other-than-temporary impairment loss of $2.0 million on securities classified as available-for-sale and on other investments. There were no other significant items included in the net loss in 2007. The net income in 2008 included the recognition of income of $11.5 million arising from our acceptance of a licensing fee in connection with a technology licensing agreement by one of our technology partners which was concluded during the first quarter of 2008. The amount recorded is the present value of $12 million, which we will receive as an offset against future payments due under a related technology agreement, and is not contingent upon any future performance requirements. The net income in 2008 also included other-than-temporary impairment losses of $4.6 million on the Fund, $1.6 million on equity investments, and $1.2 million on securities classified as available-for-sale.

Interest income

Interest income decreased by 43.1% from $27.0 million in 2007 to $15.4 million in 2008, due primarily to lower interest rates and to a lesser extent, lower average cash balances compared to 2007.

Interest expense and amortization of debt discount

Interest expense and amortization of debt discount increased by 12.7% from $60.3 million in 2007 to $68.0 million in 2008, due primarily to higher average outstanding debt balances and lower interest capitalization associated with capital expenditures related to our 65nm and below technologies, partially offset by lower interest rates on outstanding floating rate debt.

Income tax expense (benefit)

We currently pay tax on (1) interest income, (2) rental income, (3) sales of wafers using technologies that do not benefit from preferential tax treatment and (4) other income not specifically exempted from income tax. In 2007, we recorded income tax benefit of $91.4 million on an income before income taxes of $10.3 million. In 2008, we recorded a net income tax benefit of $4.5 million on a loss before income taxes of $97.0 million.

Fab 7 was previously granted pioneer status for a 15-year period beginning October 1, 2005. During its pioneer period, it had accumulated substantial wear and tear allowances on plant and machinery which it was unable to fully utilize against income from activities covered under the pioneer status. In addition, Fab 7 had pre-pioneer tax losses, which under the pioneer status, were not allowed for carry forward. As such, we applied to revoke the pioneer status of Fab 7 in 2008. Upon receiving the approval of our application which was on a retroactive basis in the second quarter of 2008, we recorded net income tax benefit of $48.7 million arising mainly from additional deferred tax assets on the higher wear and tear allowances and tax losses that have become available to be carried forward for use in future years. In view of the current crisis in the financial markets and deteriorating global economy which have adversely affected our current year performance and our ability to generate sufficient taxable income for the realization of the net deferred tax assets in the foreseeable future, we have established valuation allowance on the deferred tax assets which were assessed as more likely than not to be unrealizable, which resulted in a related income tax expense of $44.2 million recorded in 2008.

Minority interest in Chartered Silicon Partners Pte Ltd, or CSP

Due to cumulative losses, the obligations of the minority shareholders of CSP were reduced to zero in the first quarter of 2003. Therefore none of CSP’s losses from that point forward have been allocated to the minority shareholders in our consolidated statements of operations. CSP subsequently reported profits from the fourth quarter of 2007 through the second quarter of 2008 and the profits applicable to the minority shareholders of CSP are taken to the consolidated statements of operations until the minority shareholders’ share of losses previously recorded in the consolidated statements of operations is fully recovered. The effect of this accounting on our results of operations was a reduction of $5.4 million to our net income in 2007 and an addition of $0.8 million to our net loss in 2008, for net losses not allocated to the minority shareholders of CSP according to their proportionate ownership.

Accretion to redemption value of convertible redeemable preference shares

In the third quarter of 2005, 30,000 convertible redeemable preference shares were issued. We accrete the carrying amounts of the convertible redeemable preference shares to their redemption values at maturity and record such accretion using the effective interest method over the remaining period until the maturity date on August 17, 2010. Such accretion adjusts net income (loss) available to ordinary shareholders. Accretion charges were $9.7 million and $10.0 million in 2007 and 2008, respectively. There was no conversion of convertible redeemable preference shares into ordinary shares in 2007 and 2008.

Years ended December 31, 2006 and December 31, 2007

Net revenue

Net revenue decreased by 4.2% from $1,414.5 million in 2006 to $1,355.5 million in 2007, due primarily to lower ASP, partially offset by an increase in wafer shipments. Total wafer shipments increased by 13.7% from 1,248,554 wafers (eight-inch equivalent) in 2006 to 1,419,735 wafers (eight-inch equivalent) in 2007. ASP decreased by 16.3% from $1,112 per wafer (eight-inch equivalent) to $930 per wafer (eight-inch equivalent) over the same period, due primarily to a less favorable product mix arising from lower shipments of 90nm products and lower selling prices across technology nodes, partially offset by higher shipments of 65nm products.

Revenue from our 0.13um and below process geometry technologies decreased by 7.5% between 2006 and 2007. Such revenue represented 57% of our net revenue in 2006 as compared to 55% of our net revenue in 2007. In addition, 29% of our net revenue in 2006 was attributable to revenue from our 90nm technologies as compared to 12% of our net revenue in 2007. The decrease was due primarily to lower 90nm shipments and lower selling prices. Revenue from our 65nm and below technologies represented 9% of our net revenue in 2007. There were no such shipments in 2006.

For 2006, the consumer sector, which represented 37% of our net revenue, was our highest revenue contributor, followed by the computer sector and the communications sector which represented 31% and 30% of our net revenue, respectively. For 2007, the communications sector was our highest revenue contributor and represented 41% of our net revenue, while the computer and consumer sectors each represented 28% of our net revenue. For 2007, the increase in revenue from the communications sector was due primarily to significantly higher demand for mobile phone handsets and to a lesser extent, an increase in demand for wireless broadband access/wireless local area network devices, partially offset by a decrease in demand for local area network switches, routers, hubs and cards. For the same period, the decrease in revenue from the computer sector was due primarily to a decrease in demand for workstations, personal computers and motherboard devices, partially offset by an increase in demand for optical storage devices. The decrease in revenue from the consumer sector was due primarily to lower demand for video game devices.

The Americas region was the highest contributor to our revenue in 2006, representing 77% of our net revenue. It continued to be the highest contributor to our revenue in 2007, representing 72% of our net revenue. In terms of absolute dollars, this is a 10.4% decrease from our net revenue in 2006, and it is due primarily to the decrease in demand for video game devices, partially offset by an increase in demand for mobile phone handsets. Revenue contribution from the Asia-Pacific region increased from 12% of our net revenue in 2006 to 19% of our net revenue in 2007, due primarily to the increase in demand for television-related devices, and to a lesser extent, an increase in demand for optical storage devices and personal computer peripherals, printers and monitors. Revenue contribution from the Europe region remained at approximately similar levels for 2006 and 2007. In terms of absolute dollars, this is a 14.8% decrease from the net revenue in 2006, and this was due primarily to the decrease in demand for mobile phone handsets and MP3/MD/CD audio devices. Revenue from the Japan region remained similar in terms of percentage contribution to our net revenue for 2006 and 2007.

In 2006, Broadcom, IBM and AMD, listed in order of revenue contribution, each contributed more than 10% of our total net revenue. In 2007, Broadcom and AMD, listed in order of revenue contribution, each contributed more than 10% of our total net revenue.

Cost of revenue

Cost of revenue increased by 2.4% from $1,070.5 million in 2006 to $1,095.8 million in 2007 although our shipments increased by about 13.7% over the same period, due to a large proportion of our cost of revenue being fixed in nature. Depreciation continued to be a significant portion of our cost of revenue, comprising 40.8% and 38.6% of our cost of revenue in 2006 and 2007, respectively.

The unit cost of a wafer decreases as fixed overhead charges, such as depreciation expense on the facility and semiconductor manufacturing equipment, are allocated over a larger number of wafers produced. Cost per wafer shipped decreased by 9.9% from $841 (eight-inch equivalent) in 2006 to $758 (eight-inch equivalent) in 2007, due primarily to higher production levels to achieve higher shipments during the same period.

We record grants as a reduction of the expenses that the grants are intended to reimburse. The impact of such grants recorded as a reduction to our cost of revenue was $2.9 million and $9.9 million in 2006 and 2007, respectively.

In the third quarter of 2006, we changed the estimated salvage values in relation to certain eight-inch process equipment and machinery to reflect higher expected salvage values. These process equipment and machinery primarily support our advanced technologies. The change in the estimated salvage values was a change in accounting estimate that was applied prospectively from July 1, 2006. The impact of this change was a reduction to our cost of revenue of $11.3 million and $10.8 million in 2006 and 2007, respectively.

As described in “Item 3. Key Information — D. Risk Factors — Risks Related to Investment in a Corporation with International Operations — Exchange rate fluctuations may increase our costs and capital expenditures, which could affect our operating results and financial position” in our Annual Report on Form 20-F filed with the SEC, exchange rate fluctuations may increase our costs. However, in 2006 and 2007, there was no significant impact on our cost of revenue arising from fluctuations in exchange rates.

Gross profit

Our gross profit decreased from $344.0 million, or 24.3% of our net revenue, in 2006 to $259.7 million, or 19.2% of our net revenue, in 2007. This was due primarily to a less favorable product mix arising from lower shipments of 90nm products and lower selling prices, partially offset by higher shipments of 65nm products.

Our gross profit was also impacted by $2.9 million and $9.9 million of grants in 2006 and 2007, respectively, which were recorded as a reduction to our cost of revenue.

The change in the estimated salvage values in relation to certain eight-inch process equipment and machinery which was applied prospectively from July 1, 2006 as mentioned above also improved our gross profit by $11.3 million and $10.8 million in 2006 and 2007, respectively.

Other revenue

Other revenue was $21.0 million in 2006 compared to $22.9 million in 2007, and related to rental income and management fees.

Research and development expenses

R&D expenses increased by 4.6% from $152.8 million in 2006 to $159.8 million in 2007. This was due primarily to higher development activities related to the advanced 65nm and 45nm technology nodes and higher payroll-related expenses, partially offset by higher reimbursement of expenses related to grants.

The impact of grants recorded as a reduction to our R&D expenses was $1.7 million and $10.2 million in 2006 and 2007, respectively.

Sales and marketing expenses

Sales and marketing expenses increased by 5.5% from $55.0 million in 2006 to $58.0 million in 2007, due primarily to higher expenses related to EDA offerings and higher financial support for pre-contract customer design validation activities. Sales and marketing expenses as a percentage of net revenue in 2006 and 2007 was 3.9% and 4.3%, respectively.

General and administrative expenses

G&A expenses decreased by 6.8% from $42.6 million in 2006 to $39.6 million in 2007, due primarily to lower payroll-related expenses in 2007, and to a lesser extent, relocation expenses related to one of our overseas office facilities in 2006. There was no such relocation expense in 2007. G&A expenses as a percentage of revenue in 2006 and 2007 remained essentially flat at 3.0% and 2.9%, respectively.

Other operating expenses, net

Other operating expenses, net, consist primarily of foreign exchange gains and losses, and decreased by 5.3% from $13.8 million in 2006 to $13.0 million in 2007. Included in other operating expenses, net, in 2006 was a $2.6 million gain from the disposal of fixed assets from Fab 1. Excluding this gain, the decrease in other operating expenses, net, is due primarily to lower foreign exchange losses in 2007.

Equity in income of associated companies, net

Equity in income of SMP was $36.0 million in 2006 compared to $34.2 million in 2007, due primarily to lower revenues resulting from lower selling prices, partially offset by lower cost per wafer resulting from lower depreciation and higher production volumes over which fixed costs are allocated. As with the results of our majority-owned fabs, the equity in income of SMP can have a material effect on our results of operations. In 2006, the equity in income of SMP was $36.0 million compared to our total income before income tax of $90.9 million. The equity in income of SMP was $34.2 million compared to our total income before income tax of $10.3 million in 2007.

We have provided the following information on our total business base revenue, which includes our share of SMP revenue, for 2006 and 2007. Chartered's share of SMP revenue, and net revenue including Chartered's share of SMP, presented in the following table are non-U.S. GAAP financial measures. We have included this information because SMP can have a material effect on our consolidated statements of operations and we believe that it is useful to provide information on our share of SMP revenue in proportion to our total business base revenue. However, SMP is a minority-owned joint venture company that is not consolidated under U.S. GAAP. We account for our 49.0% investment in SMP using the equity method. Under our strategic alliance agreement with LSI Singapore, the parties do not share SMP's net results in the same ratio as the equity holding. Instead, each party is entitled to the gross profits from sales to the customers that it directs to SMP, after deducting its share of the overhead costs of SMP. Accordingly, we account for our share of SMP's net results based on the gross profits from sales to the customers that we direct to SMP, after deducting our share of the overhead costs. The following table provides a reconciliation showing comparable data based on net revenue determined in accordance with U.S. GAAP, which does not include our share of SMP:

	Year ended December 31,	
	2006	2007
	(In millions)	
Net revenue (U.S. GAAP)	$ 1,414.5	$ 1,355.5
Chartered's share of SMP revenue	$ 112.1	$ 102.5
Net revenue including Chartered's share of SMP	$ 1,526.6	$ 1,458.0

The following table provides information that indicates the effect of SMP's operations on some of our non-U.S. GAAP performance indicators:

	Year ended December 31,			
	2006		2007	
	Excluding Chartered's Share of SMP	Including Chartered's Share of SMP	Excluding Chartered's Share of SMP	Including Chartered's Share of SMP
Shipments (in thousands) [(1)]	1,248.6	1,365.0	1,419.7	1,548.9
ASP per wafer	$ 1,112	$ 1,099	$ 930	$ 918

Note:

(1) Eight-inch equivalent wafers.

We acquired a 26.7% equity interest in GSI in the first quarter of 2007. We account for the investment in GSI under the equity method. The equity in the loss of GSI was $0.4 million in 2007.

Other loss, net

Other loss, net, was $2.7 million and $2.4 million in 2006 and 2007, respectively. Other loss, net, in 2006 related primarily to an other-than-temporary impairment loss of $2.7 million on securities classified as available-for-sale. Other loss, net, in 2007 included an other-than-temporary impairment loss of $2.0 million on securities classified as available-for-sale and on other investments. There were no other significant items in other loss, net, in 2007.

Interest income

Interest income decreased by 39.4% from $44.6 million in 2006 to $27.0 million in 2007, due primarily to lower average cash balances compared to 2006.

Interest expense and amortization of debt discount

Interest expense and amortization of debt discount decreased by 31.4% from $88.0 million in 2006 to $60.3 million in 2007, due primarily to higher interest capitalization associated with higher capital expenditures related to our 65nm and below technologies in 2007.

Income tax expense (benefit)

In 2006, we recorded income tax expense of $23.9 million on an income before income taxes of $90.9 million. In 2007, we recorded an income tax benefit of $91.4 million on an income before income taxes of $10.3 million.

Included in the income tax benefit of $91.4 million in 2007 was an income tax benefit of $119.5 million resulting from the revocation of the pioneer status previously granted to Fab 3. Fab 3 was previously granted pioneer status for a 10-year period beginning July 1, 1999. During its pioneer period, Fab 3 had accumulated substantial wear and tear allowances on plant and machinery which it was unable to fully utilize against income from activities covered under the pioneer status. In addition, Fab 3 had tax losses incurred in fiscal years 1997 and 1998, which under the pioneer status, were not allowed for carry forward. As such, we applied to revoke the pioneer status of Fab 3 in 2007. The application was approved on a retroactive basis in September 2007 and we recorded an income tax benefit of $119.5 million. This tax benefit is available to offset taxes paid or incurred in current and prior years. Relating to this, we expect to receive a refund of taxes of approximately $98.7 million previously paid on non-qualifying income from previous years. The balance of the income tax benefit, after offsetting taxes paid or incurred in prior years, was used to offset current year income tax expense.

Excluding this income tax benefit of $119.5 million, the income tax expense was $28.1 million in 2007.

Minority interest in CSP

Due to cumulative losses, the obligations of the minority shareholders of CSP were reduced to zero in the first quarter of 2003. Therefore none of CSP's losses from that point forward have been allocated to the minority shareholders in our consolidated statements of operations. The effect of this accounting on our results of operations was a reduction of $12.8 million and $5.4 million to our net income in 2006 and 2007, respectively, for net losses not allocated to the minority shareholders of CSP according to their proportionate ownership.

Accretion to redemption value of convertible redeemable preference shares

In the third quarter of 2005, 30,000 convertible redeemable preference shares were issued. We accrete the carrying amounts of the convertible redeemable preference shares to their redemption values at maturity and record such accretion using the effective interest method over the remaining period until the maturity date on August 17, 2010. Such accretion adjusts net income (loss) available to ordinary shareholders. Accretion charges were $9.5 million and $9.7 million in 2006 and 2007, respectively. In 2006, 1,650 convertible redeemable preference shares were converted into ordinary shares and the impact on the accretion charges arising from such conversion was not material. There was no such conversion in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Current and expected liquidity

As of December 31, 2008, our principal sources of liquidity included $524.5 million in cash and cash equivalents and $1,007.9 million of unutilized banking facilities consisting of loans and bank credit lines. Included in the $1,007.9 million of unutilized banking facilities is $61.7 million of uncommitted banking and credit facilities, $150.0 million related to a revolving loan facility with Sumitomo Mitsui Banking Corporation, or SMBC, which was renewed on July 1, 2008 and will be available until June 30, 2009, and $50.0 million related to a revolving loan facility with Bank of America, or BOA, which is available for 3 years from April 2007. The remaining unutilized banking facilities are available for drawdown only for purposes of financing the purchases of equipment from certain vendors in accordance with designated schedules set forth under the applicable facility agreements.

The following shows long-term debt outstanding as of December 31, 2007 and 2008:

	December 31,	
	2007	**2008**
	(In thousands)	
Long-term debt consists of:		
$653.1 million EXIM Guaranteed Loan	$ 543,501	$ 459,771
$610 million EXIM Guaranteed Loan	-	90,463
Société Générale Term Loan	-	119,234
JBIC/SMBC Term Loan (Tranche B)	-	71,841
5.645% JBIC/SMBC Term Loan (Tranche A)	-	71,841
5.75% senior notes due 2010	372,700	373,546
6.00% amortizing bonds due 2010	29,659	20,351
6.25% senior notes due 2013	297,752	298,125
6.375% senior notes due 2015	247,092	247,397
Others	9,633	7,775
Long-term debt outstanding	$ 1,500,337	$ 1,760,344

Refer to Note 16 of the consolidated financial statements for more details on our long-term debt outstanding.

In January 2008, we fully repaid $50.0 million from the revolving loan facility with BOA, $70.0 million from our outstanding uncommitted banking and credit facility with BOA and $150.0 million from the revolving loan facility with SMBC, which were all fully drawn down in December 2007. In June 2008, we drew down $50.0 million from our outstanding uncommitted banking and credit facility with BOA, which was fully repaid in July 2008.

In January 2008, we repaid $32.4 million of the drawdown from the first tranche of the $653.1 million loan from JPMorgan Chase Bank, guaranteed by Export-Import Bank of United States, or EXIM, or $653.1 million EXIM Guaranteed Loan, which was obtained in 2004 for the purpose of financing the purchase of equipment from U.S. vendors. The loan bears interest at LIBOR plus 0.125% per annum. In July 2008, we also repaid $32.4 million and $28.4 million of the drawdown from the first and second tranches this facility, respectively. In August 2008, we further drew down $10.6 million from the second tranche of the same facility. Subsequent to the drawdown, the availability of the remaining amount of $34.2 million under this facility expired.

In September 2008, we commenced the drawdown of $90.5 million from the first tranche of the $610 million term loan facility from JPMorgan Chase Bank, guaranteed by EXIM, or $610 million EXIM Guaranteed Loan. The loan was obtained in May 2007 for the purpose of financing the purchase of equipment from U.S. vendors for our Fab 7 facility. This loan facility bears interest at LIBOR plus 0.0695% per annum. Subsequent to this drawdown, the remaining amount available for drawdown under this facility is $519.3 million.

In March 2008, we drew down $113.1 million from the $300 million term loan facility from Japan Bank of International Cooperation, or JBIC, and SMBC, or JBIC/SMBC Term Loan facility, which was obtained in October 2007 for the purpose of financing the purchase of equipment from Japanese vendors for our Fab 7 facility. 50% of the loan principal bears interest at a fixed rate of 5.645% per annum, while the remaining 50% bears interest at LIBOR plus 0.15% per annum. In December 2008, we drew down an additional $30.6 million from our $300 million JBIC/SMBC Term Loan facility. Subsequent to this second drawdown, the remaining amount available for drawdown under this facility is $156.3 million.

In March 2008, we fully drew down $119.2 million from tranche A of the $190 million term loan facility from Société Générale, or Société Générale Term Loan with Atradius Dutch State Business NV, or Atradius, as export credit insurer. The loan was obtained in January 2008 for the purpose of financing the purchase of equipment from a European vendor for our Fab 7 facility as well as to finance the premium payable by our company in respect of the insurance provided by Atradius. This facility bears interest at LIBOR plus 0.20% per annum. Subsequent to this drawdown, the remaining amount available for drawdown under tranche B of this facility is $70.6 million.

In the second quarter of 2006, 1,650 out of the originally issued 30,000 preference shares were converted into ordinary shares. Assuming no further conversion or any redemption of the preference shares until the maturity date on August 17, 2010, we will redeem, out of funds legally available for such payment, each remaining preference share at a redemption price equal to $10,000 per preference share. Refer to Note 18 of the consolidated financial statements for more details on the preference shares.

On March 31, 2008, we completed the acquisition of 100% of the shares in Chartered Tampines. The total cash consideration for the acquisition was $237.1 million, after a final working capital adjustment, which consisted of cash and direct costs of the acquisition, net of cash acquired of $6.5 million. The acquisition was funded with existing available cash balances.

We have an investment in the Fund, which is managed by an external financial institution. The Fund consists primarily of corporate debt, mortgage-backed securities and asset-backed securities. Due to the nature of the securities that the Fund invests in, the Fund's underlying securities have been exposed to adverse market conditions that have affected the value of the collateral and the liquidity of the Fund. As a result, in December 2007, the investment manager of the Fund halted demand redemptions and announced its intention to liquidate the Fund. The fair value of the Fund is assessed by using market prices or, when such prices are not available, using a valuation approach based on the current investment ratings, valuation parameters and estimates of the underlying debt and securities, and redemptions of the Fund and the subsequent distribution of cash. Based on this assessment, we determined that the fair value of the Fund and its underlying debt and securities approximated the fair values provided by the investment manager of the Fund. As such, the amounts recorded in our consolidated financial statements are based on the fair values provided by the investment manager of the Fund. We received cash proceeds of $64.2 million in further redemptions from the Fund in 2008. The realized loss on the redemptions was $0.9 million in 2008. We recorded other-than-temporary impairment losses of $4.6 million related to this investment in 2008. As of December 31, 2008, the fair value of our pro-rata share of investment in the Fund was $19.6 million. As of December 31, 2008, we had received total redemptions of approximately 73.7% of our pro-rata share of the investment in the Fund as of December 31, 2007. The investment manager of the Fund stated that its goal is to have a further 14%-19% of our pro-rata share of the original investment in the Fund liquidated by September 2009. Subsequent to December 31, 2008, we received cash proceeds of $3.4 million in a further redemption from the Fund. The realized gain resulting from this redemption was immaterial. If the credit and liquidity issues in the markets relating to our investment and its underlying securities continue or worsen, we may recognize further losses in the value of our remaining investment in the Fund.

Working capital, which is calculated as the excess of current assets over current liabilities, was $677.8 million and $466.9 million as of December 31, 2007 and December 31, 2008, respectively. Our current installments of long-term debt were $74.2 million as of December 31, 2007 compared to $157.5 million as of December 31, 2008, due primarily to the inclusion of loan payables of $58.9 million related to the drawdown from the second tranche of the $653.1 million EXIM Guaranteed Loan and $23.8 million of the drawdown from the Société Générale Term Loan.

The global economy has deteriorated and there has been unprecedented financial market volatility. These conditions have resulted in a reduction in demand in the foundry industry, which in turn have resulted in declines in orders or in some instances, customers requesting for a deferment of deliveries on existing orders. While these conditions have created certain additional risks for our business, we are taking steps to preserve our cash and liquidity. We believe that our cash on hand, existing working capital, planned use of existing credit facilities, credit terms with our vendors, and projected cash flows from operations will be sufficient to meet our capital and R&D expenditures, debt service obligations, investment and current liquidity needs for at least the next twelve months.

We believe in maintaining maximum flexibility when it comes to financing our business. We regularly evaluate our current and future financing needs. Depending on market conditions, we may access the capital markets to strengthen our capital position, and provide us with additional liquidity to manage our maturing indebtedness, fund planned and future capital expenditures and for general corporate purposes.

We cannot predict the timing, strength or duration of any economic deterioration or subsequent economic recovery, worldwide, or in the foundry industry. If the current economic or market conditions persist or deteriorate further, our business, financial condition and results of operations could be materially and adversely affected. Therefore there can be no assurance that our business will generate and continue to generate sufficient cash flow to fund our liquidity needs in the future as cash flow generation may be affected by, among other factors, sales levels, capacity utilization, industry business conditions as well as global economic conditions.

In August 2008, Fitch Ratings and Standard and Poor's, or S&P, revised our corporate credit rating from BBB- to BB+ and in February 2009, S&P revised our corporate and unsecured bond ratings from BB+ to BB and assigned us a negative outlook. In December 2008, Moody's revised our corporate and senior unsecured bond ratings from Baa3 to Ba1. The revisions in our ratings reflect expectations regarding our financial and competitive conditions and we cannot assure you that we will not be subject to further credit rating downgrades, particularly in view of the crisis in the financial markets and the deteriorating global economy. Our debt agreements do not have triggers in respect of any credit rating downgrades that would accelerate the maturity of our debt. However, subject to the achievement of certain production milestones specified under in our debt agreements, we may be required to commence repayment of our debt earlier than then scheduled repayment dates set out in certain of our debt agreements if certain production milestones are achieved as specified under these debt agreements. These production milestones relate to the production capacity and shipment of a certain number of wafers over a given time period as specified in the debt agreements. Credit rating downgrades, depending on their severity, could affect our ability to access or renew existing financing or to obtain additional financing as we may require from time to time depending on the pace of our future growth and technology upgrades and migration. Credit rating downgrades could also affect our ability to access the capital markets in the future on favorable terms, or at all. As a result our ability to compete effectively in our business relative to competitors with higher credit ratings could be affected. Furthermore, as a result of the current crisis in the financial markets and deteriorating global economy, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Where additional financing could be obtained, there can be no assurance that such additional financing will be available on terms satisfactory to us or that such additional financing will not be dilutive to our shareholders or creditors.

Historic cash flows

The following table sets forth the summary of our cash flows for the periods presented:

	Year ended December 31,		
	2006	**2007**	**2008**
		(In thousands)	
Net cash provided by operating activities	$ 521,149	$ 478,873	$ 586,357
Net cash used in investing activities	$ 420,384	$ 845,550	$ 756,903
Net cash provided by (used in) financing activities	$ (204,987)	$ 386,528	$ (48,374)

Historic operating cash flows

Net cash provided by operating activities was $521.1 million, $478.9 million and $586.4 million in 2006, 2007 and 2008, respectively. The $42.3 million decrease in cash flow from operating activities in 2007 as compared to 2006 was due primarily to higher payments for operating expenses, lower interest received and lower dividends received from SMP, partially offset by higher collections of sales proceeds and lower interest payments. The $107.5 million improvement in cash provided by operating activities between 2007 and 2008 was due primarily to higher collections of sales proceeds and receipt of tax refunds of $99.3 million which arose from the revocation of the pioneer status of Fab 3 in the third quarter of 2007, partially offset by higher payments for operating expenses. Net cash provided by operating activities in 2008 also included $38.1 million from Fab 3E's operations.

Net cash provided by operating activities in 2006, 2007 and 2008 also included dividends received from SMP of $38.2 million, $33.6 million and $34.2 million, respectively.

Historic investing cash flows and capital expenditures

Net cash used in investing activities was $420.4 million, $845.6 million and $756.9 million in 2006, 2007 and 2008, respectively. Investing activities consisted primarily of capital expenditures (excluding the acquisition of assets from our business combination) totaling $554.8 million, $758.4 million and $576.0 million in 2006, 2007 and 2008, respectively. Capital expenditures in 2006 were primarily for our 90nm and below technologies while capital expenditures in 2007 and 2008 were primarily for our 65nm and below technologies. Investing activities in 2006 and 2008 also included a refund of deposits placed with a vendor of $111.7 million and $1.8 million, respectively. The refund of such deposits in 2007 was insignificant.

In October 2005, SMP reorganized its paid-up share capital and authorized a return of a portion to its shareholders in the form of cash, our entitlement being $20.4 million, in a capital reduction sanctioned by the High Court of Singapore. In 2005, we received $17.3 million arising from the return of capital approved in 2005. In October 2006, the board of directors of SMP approved a second capital reduction which was subsequently approved by the High Court of Singapore and filed with the Accounting and Corporate Regulatory Authority of Singapore in November 2006. Our entitlement arising from the second return of capital from SMP was $19.1 million. In 2006, we received an additional $16.9 million arising from both the first and the second return of capital from SMP. In 2007, we received $7.4 million arising from the second return of capital from SMP. As of December 31, 2007, we had received in full our entitlement arising from both the first and second return of capital from SMP.

In December 2007, the investment in the Fund, which was classified as a cash equivalent since the time of placement in 2003, was reclassified to other investments and recorded as an investing cash outflow in 2007. In the same month, we received cash proceeds of $8.8 million in further distributions from the Fund. We received cash proceeds of $64.2 million in further distributions from the Fund in 2008.

Investing activities in 2008 also included $237.1 million related to the purchase of 100% of the shares in Chartered Tampines, which consisted of cash and related direct costs of the acquisition, net of cash acquired of $6.5 million, funded with existing cash balances, and $8.0 million to acquire a 36.8% equity interest in an associated company, SOCLE.

We expect our capital expenditures for 2009 to be approximately $375 million. We expect to fund this through a combination of existing cash balance, cash flow from operations and use of credit facilities. Such expenditures will be primarily for increasing the capacity of our 65nm and below technologies. With the above capital expenditure, Fab 7 is expected to have equipment (installed or available for installation) that is equivalent to a capacity of 27,000 twelve-inch wafers per month by December 2009. In December 2008, Fab 7 was equipped with a capacity of 24,000 twelve-inch wafers per month. We expect Fab 7 to have a total capacity of 45,000 twelve-inch wafers per month covering 0.13um to 45nm technology nodes. The capacity plan will take several years to complete and depends on market conditions, customer demand, adoption of next generation technologies and our financial plans and capabilities. The total capital expenditure is expected to be approximately $4,200 million to $4,500 million for the planned capacity of 45,000 twelve-inch wafers per month. As of December 31, 2006, December 31, 2007 and December 31, 2008, we have spent an accumulated total of $1,641.6 million, $2,144.2 million and $2,465.8 million, respectively, on equipment for Fab 7. As of December 31, 2006, December 31, 2007 and December 31, 2008, we had commitments on contracts for capital expenditures of $525.2 million, $280.6 million and $298.9 million, respectively. We may claim investment allowances, or IA, on future qualifying capital expenditure, subject to a minimum level of investment in approved fixed capital expenditure within the qualifying period.

The nature of our industry is such that, in the short-term, we may reduce our capital expenditures by delaying planned capital expenditures in response to a difficult business environment. However, the semiconductor market is characterized by rapid technological change and the importance of economies of scale, which we expect to result in significant capital expenditure requirements. Factors that may affect our level of future capital expenditures include the degree and the timing of technological changes within our industry, changes in demand for the use of our equipment and machinery as a result of changes to our customer base and the level of growth within our industry as discussed in “Item 3. Key Information — D. Risk Factors” in our Annual Report on Form 20-F filed with the SEC and elsewhere in this document.

Historic financing cash flows

Net cash provided by financing activities was $386.5 million in 2007 while net cash used in financing activities was $205.0 million and $48.4 million in 2006 and 2008, respectively.

In 2006, we replaced debt with short remaining terms to maturity with debt that matures over a longer term. Such repayments of debt in 2006 included the facility agreement we have with SMBC and Oversea-Chinese Banking Corporation, or OCBC, for a $200 million term loan facility (with a $100 million greenshoe option), or SMBC/OCBC Term Loan, the 2.5% senior convertible notes due 2006 which matured and were fully redeemed in April 2006 and the CSP syndicated loan which matured and was fully repaid in September 2006. The SMBC/OCBC Term Loan was fully repaid in using the proceeds from the issuance of the 6.25% senior notes due 2013 in April 2006.

In 2007, we made principal repayments of $64.8 million for the $653.1 million EXIM Guaranteed Loan, and fully repaid the $50.0 million BOA Term Loan which was fully drawn down in 2005. We drew down on the BOA short-term credit and the revolving loan facilities and the SMBC revolving loan facility, totaling $270.0 million. All three facilities were fully repaid in January 2008. We also drew down $284.1 million from the second tranche of the $653.1 million EXIM Guaranteed Loan.

In 2008, we drew down $143.7 million from the JBIC/SMBC Term Loan facility and $119.2 million from the Société Générale Term Loan. In addition, we drew down a further $60.0 million from BOA short-term credit facility, $10.6 million from the second tranche of the $653.1 million EXIM Guaranteed Loan and $90.5 million from the first tranche of the $610 million EXIM Guaranteed Loan. We also made principal repayments totaling $180.0 million and $150.0 million for the BOA short-term credit and the revolving loan facilities, and the SMBC revolving loan facility, respectively, as well as loan repayment of $94.3 million of the drawdown from the $653.1 million EXIM Guaranteed Loan. Refer to Note 16 of the consolidated financial statements for more details on our outstanding loans.

Cash flows from financing activities also included receipts of refundable customer deposits of $45.2 million and $0.2 million in 2006 and 2007, respectively. There were no such receipts in 2008. We also made refunds of such customer deposits of $72.1 million, $28.6 million and $5.6 million in 2006, 2007 and 2008, respectively.

Our restricted cash relates to cash amounts reserved in a bank account and restricted for the purpose of semi-annual principal and interest repayments, and commitment fees related to the $653.1 million EXIM Guaranteed Loan. The increase in restricted cash in 2008 compared to 2007 was due primarily to the placement of restricted cash for the commencement of principal repayment of the second tranche of the $653.1 million EXIM Guaranteed Loan. Similarly, the increase in restricted cash in 2006 was due primarily to the placement of restricted cash for the commencement of principal repayment of the first tranche of the $653.1 million EXIM Guaranteed Loan in early 2007.

Grants for research and development and training

In 2006, 2007 and 2008, we received $1.9 million, $8.5 million and $14.4 million, respectively, in grants from various agencies of the Government of Singapore, which are included in operating cash flows. The amounts received under these grants relate to a portion of depreciation expenses arising from our R&D related capital expenditures and for certain material, training and staffing costs associated with some of our process technology development and staff training programs. These grants are disbursed in connection with the research, development and training carried out in Singapore based on the terms of the respective grants, the amount of qualifying expenditures incurred and the achievement of the conditions attached to the grants. We recorded grants as a reduction of the expenses which they are intended to reimburse. Such grants recorded in 2006, 2007 and 2008 were $4.6 million, $20.1 million and $19.0 million, respectively.

We expect that the amount of such grants we may be eligible to receive from the Government of Singapore will be lower in 2009, as compared with 2008. The grants expected to be received in 2009 relate primarily to a portion of depreciation expenses arising from our R&D related capital expenditures and for certain training and staffing costs associated with our 65nm and below technologies process development programs and staff training programs to be incurred in Singapore. See also “Item 4. Information on our Company — B. Business Overview — Research and Development” in our Annual Report on Form 20-F filed with the SEC for further details.

Off-balance sheet arrangements

In March 2006, we entered into the 2006 Option with Goldman Sachs International, or GS, to replace the call option transaction that we had previously entered into with GS in August 2004 with an expiration date of April 2, 2006. Under the 2006 Option, GS could purchase up to 214.8 million of our ordinary shares at S$1.60 per share should we early terminate the 2006 Option in the first year and S$2.15 per share thereafter. Under the terms of the 2006 Option, if the option was exercised, we had the right either to issue new shares to GS or to settle the transaction in cash. On March 9, 2007, we modified the terms of the 2006 Option by simultaneously terminating the Singapore dollar-denominated option and entering into a U.S. dollar-denominated option. The modification was based on the exchange rate of S$1.5268 per US$1.00 on March 9, 2007. Under the modified terms of the 2006 Option, GS is entitled to purchase up to 214.8 million of new ordinary shares at US$1.408 per share and we may terminate the transaction early, in whole or in part, if the closing price of our ordinary shares is equal to or higher than US$1.760 (equivalent to 125% of the US$1.408 strike price) on each of any 20 business days in any consecutive 30 business-day period. Should we exercise this right and opt for settlement in shares, GS will be required to buy the number of new ordinary shares relating to the terminated portion of the 2006 Option at US$1.408 per share. We continue to have the right to cash settle the 2006 Option. If the 2006 Option is not exercised or terminated earlier, it will expire on March 29, 2011. The closing prices of our ordinary shares since we entered into the 2006 Option to the end 2008 have not triggered the early termination provisions. As of December 31, 2008, GS had also not exercised its rights under the 2006 Option.

Apart from the 2006 Option, we were not a party to any off-balance sheet arrangements as of December 31, 2008, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K. We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which might be established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Loan covenant compliance

Some of our outstanding loans and unutilized banking facilities available to us contain various financial, shareholding and other restrictive covenants that are customary to loan documents.

Under the financial covenants, we are required to maintain certain financial conditions and/or ratios such as consolidated net worth, a total debt to net worth ratio and a historical debt service coverage ratio. We are required to ensure that our consolidated net worth will not at any time be less than $1,000 million and our total debt will not at any time exceed 180% of our total net worth.

Under the shareholding covenants of some of our loans, Temasek is required to own, directly or indirectly, a certain percentage of our outstanding shares, or is required to be our single largest shareholder. If Temasek does not meet the requirements of these shareholding covenants, the lenders would have the right to require us to repay or accelerate our obligation to repay the outstanding borrowings under these loan documents. A failure to meet any such mandatory prepayment obligations could result in an event of default, which could also cause cross-defaults under other loans and could seriously harm us. In addition, the outstanding loans and unutilized banking facilities available to us impose other restrictive covenants that are customary to loan documents, such as restrictions on incurring further indebtedness, creating security interests over our assets, payments of dividends, disposals of assets, and mergers and other corporate restructurings.

As of December 31, 2008, we believe we were in compliance with the various financial, shareholding and other restrictive covenants in our loan documents. Assuming the global economy does not continue to deteriorate and the demand for our products does not further worsen and to the best of our knowledge, we also believe we will be in compliance with these loan covenants for the next twelve months. If we fail to comply with any of the loan covenants, we could be in default under the loan documents and the lenders would have the right to require us to repay or accelerate our obligation to repay the outstanding borrowings under the loan documents. In some cases, a default could also cause cross-defaults under other loans and could seriously harm us.

See “Item 10. Additional Information — C. Material Contracts” in our Annual Report on Form 20-F filed with the SEC for more details on our loan agreements.

Contractual obligations

The following table sets forth the payments due related to specific contractual obligations as of December 31, 2008:

	Payments due by period (in thousands)				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Short-term and long-term debt including principal and interest [1]	$2,061,579	$ 236,376	$ 854,009	$ 601,635	$ 369,559
Capital lease obligations including principal and interest	121,497	11,233	22,466	21,939	65,859
Operating lease obligations	114,911	8,902	14,356	11,735	79,918
Purchase obligations under [2]:					
Capital expenditures	517,938	272,882	245,056	—	—
Technology agreements	359,316	111,066	199,250	49,000	—
Other	213,893	213,072	393	368	60
FIN 48 liability [3]	4,097	—	—	—	—
Other long-term liabilities	20,417	—	—	—	20,417
Total	$3,413,648	$ 853,531	$1,335,530	$ 684,677	$ 535,813

Notes:

(1) These amounts represent the expected principal and interest repayments at each of the periods indicated and do not include the unamortized debt discount relating to the senior notes. The 5.75% senior notes due 2010, the 6.25% senior notes due 2013 and the 6.375% senior notes due 2015 were issued at a price of 98.896%, 99.053% and 98.573%, respectively, of the principal amount. As of December 31, 2008, the carrying amounts of the 5.75% senior notes due 2010, the 6.25% senior notes due 2013 and the 6.375% senior notes due 2015 were $373.5 million, $298.1 million and $247.4 million, respectively, as the unamortized debt discount was reported as a direct reduction to the carrying amounts of the senior notes. The estimated interest repayments on floating-rate obligations were calculated using the prevailing floating interest rates related to these obligations as of December 31, 2008. Actual payments could differ from these estimates.

(2) We have included purchase obligations that have been recorded on our consolidated balance sheet as of December 31, 2008 in the above table. These obligations amounted to $219.1 million, $5.0 million and $174.6 million for capital expenditures, technology agreements and other purchase obligations primarily relating to operating expenses, respectively.

(3) As of December 31, 2008, our FIN 48 liability was $4.0 million. We were unable to reasonably estimate the timing of FIN 48 liability payments due to uncertainties in the timing of the effective settlement of tax positions.

Chartered and LSI Technology Singapore Pte. Ltd., or LSI Singapore, have signed an assured supply and demand agreement with SMP. The agreement was intended to ensure that all of the fixed costs of SMP are recovered by allocating all of its wafer capacity to our company and LSI Singapore in accordance with the respective parties' equity interest in SMP and each party would bear the fixed costs attributable to its allocated capacity. In September 2004, Chartered and LSI Singapore entered into an agreement pursuant to which both parties agreed to annually reimburse any losses suffered by SMP that are attributable to the respective parties. For the year ended December 31, 2008, SMP did not suffer any losses that were attributable to Chartered and accordingly no reimbursements were payable by Chartered to SMP. There were also no such reimbursements payable to SMP by Chartered in 2006 and 2007. To the extent that the number of wafers that are produced for sale to Chartered's customers is less than Chartered's allocated capacity in the future, there is no assurance that there will be no reimbursements payable to SMP by Chartered in respect of unrecovered fixed costs of SMP.

We have disclosed the expected timing of payment of obligations and the amounts to be paid based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts or events for some obligations.

Special tax status

We have been granted pioneer status under the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86), or EEIA, of Singapore for:

- the wafer fabrication of advanced semiconductor devices at Fab 3E for a ten-year period beginning April 1, 1999; and
- the wafer fabrication of Application Specific Integrated Circuits, or ASICs, and other advanced semiconductor devices at Fab 6 for a ten-year period beginning September 1, 2003.

Under the EEIA, we have also been granted:

- post-pioneer status for the manufacture of integrated circuits using submicron technology at Fab 2 for a five-year period beginning July 1, 2006;
- development and expansion status for the wafer fabrication of advanced semiconductor devices at Fab 3E for a five-year period beginning April 1, 2009; and
- development and expansion status for the wafer fabrication of ASICs and other advanced semiconductor devices at Fab 6 for a five-year period beginning September 1, 2013.

During the period in which our pioneer status is effective, subject to our compliance with certain conditions, income arising from our pioneer trade is exempt from Singapore income tax. During the period in which our post-pioneer status or development and expansion status is effective, subject to our compliance with certain conditions, income arising from the post-pioneer activities or development and expansion activities is taxed at a concessionary rate of 10%. Income arising from activities not covered under any of the abovementioned incentives (hereinafter referred to as non-qualifying income) is taxed at the prevailing Singapore corporate tax rate of 18% for the year ended December 31, 2008.

Under Singapore tax law, loss carryforwards and wear and tear allowances are deductible to the extent of income before loss carryforwards and wear and tear allowances. Unutilized tax losses and wear and tear allowances can be carried forward indefinitely to set off against income in future tax years, subject to our compliance with certain conditions.

We were previously granted pioneer status for the wafer fabrication of integrated circuits at Fab 7 for a fifteen-year period beginning October 1, 2005. During its pioneer period, Fab 7 had accumulated substantial wear and tear allowances on plant and machinery which it was unable to fully utilize against income from activities covered under the pioneer status. In addition, Fab 7 had pre-pioneer tax losses, which under the pioneer status, were not allowed for carry forward. As such, we applied to revoke the pioneer status of Fab 7 in 2008. Upon receiving the approval of our application which was on a retroactive basis in June 2008, we recorded additional deferred tax assets due primarily to the higher wear and tear allowances and tax losses that became available to be carried forward for use in future years. The future tax liabilities are based on our projection of future taxable income which is contingent upon future market conditions. A downward revision in our projection of future taxable income will require the establishment of additional valuation allowance against the existing deferred tax assets. In view of the current crisis in the financial markets and deteriorating global economy which have adversely affected our current year performance and our ability to generate sufficient taxable income for the realization of the net deferred tax assets in the foreseeable future, we have established additional valuation allowance for the year ended December 31, 2008 on the existing deferred tax assets which was assessed as more likely than not to be unrealizable. As of December 31, 2008, we expect to receive a tax refund of $5.1 million previously paid on non-qualifying income for 2007, and this amount was recorded in “Other non-current assets” as of December 31, 2008.

In June 2008, we were granted an investment allowance for Fab 3 and Fab 7. Under this tax incentive, an allowance will be granted based on an approved percentage of the qualifying fixed capital expenditure to be incurred over a five-year period with effect from January 1, 2008, subject to compliance with certain conditions such as a minimum level of investment of fixed capital expenditure during the qualifying period. This allowance was given in addition to the normal wear and tear allowances.

Foreign currency risk

See “Item 11. Quantitative and Qualitative Disclosures about Market Risk — Foreign currency risk” in our Annual Report on Form 20-F filed with the SEC.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In December 2007, the FASB ratified the consensus reached on EITF Issue No. 07-1, “Accounting for Collaborative Arrangements.” The EITF addresses accounting for collaborative-arrangement activities that are not conducted within a separate legal entity. Revenues and costs incurred with third parties in connection with the collaborative arrangement should be presented gross or net by the collaborators based on criteria in EITF 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent,” and other applicable accounting literature. Payments to or from collaborators should be presented in the income statement based on the nature of the arrangement, the nature of the company’s business and whether the payments are within the scope of other accounting literature. Other detailed information related to the collaborative arrangement is also required to be disclosed. The requirements under this EITF will be applied to collaborative arrangements in existence at the beginning of our fiscal year 2009. The adoption of EITF 07-1 is not expected to have a material impact on our consolidated financial statements.

In the same month, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statement—amendments of ARB No. 51.” SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement shall be applied prospectively and is effective as of the beginning of an entity’s first fiscal year beginning after December 15, 2008 except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The adoption of SFAS No. 160 is expected to increase Chartered’s consolidated results of operations in the first quarter of 2009, due primarily to the allocation of CSP’s losses to the minority shareholders of CSP according to their proportionate ownership. Prior to the adoption of SFAS No. 160, none of CSP’s losses have been allocated to the minority shareholders in our consolidated statements of operations from the first quarter of 2003 onwards as the obligations of the minority shareholders were reduced to zero in that quarter due to cumulative losses.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities.” SFAS No. 161 amends FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities” and is intended to enhance the current disclosure framework in Statement No. 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation to better convey the purpose of the derivative use in terms of the risks that the entity is intending to manage. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement extends disclosure requirements and is not expected to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3, “Determination of the Useful Life of Intangible Assets.” FSP SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets.” The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement No. 42 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), “Business Combinations” which will be effective for business combinations occurring in periods beginning after December 15, 2008. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP SFAS No. 142-3 is not expected to have a material impact on our consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, “Earnings Per Share.” This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively to conform with the provisions of this FSP. The adoption of FSP EITF 03-6-1 is not expected to have a material impact on our consolidated financial statements.

In the same month, the FASB approved the issuance of EITF 07-5, “Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock.” EITF 07-5 defines when adjustment features within contracts are considered to be equity-indexed. EITF 07-5 shall be effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. This issue is to be applied to outstanding instruments as of the beginning of the fiscal year in which the issue is initially applied through a cumulative effect of change in accounting in opening retained earnings. The adoption of EITF 07-5 is not expected to have a material impact on our consolidated financial statements.

In September 2008, the FASB ratified EITF Issue No. 08-5, “Issuer’s Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement”, or EITF 08-5. EITF 08-5 provides guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement should not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The adoption of EITF 08-5 is not expected to have an impact on our consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations", or EITF 08-6. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. This issue is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. The adoption of EITF 08-6 is not expected to have a material impact on our consolidated financial statements.