TSMC is the world’s largest dedicated semiconductor foundry, providing the industry’s leading process technologies and the foundry sector’s largest portfolio of process-proven libraries, IP, design tools, and reference flows. TSMC’s leading industry position is based on a trinity of key differentiating strengths: technology leadership, manufacturing excellence, and customer partnership. Revenue for 2008 totaled NT$333.16 billion, net income was NT$99.93 billion, and earnings per share was NT$3.83.

2.1 An Introduction to TSMC
TSMC is the world’s largest pure-play semiconductor foundry. Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the business model of focusing solely on manufacturing customers’ semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers.

With a diverse global customer base, TSMC-manufactured microchips are used in a broad variety of applications that cover various segments of the computer, communications and consumer electronics markets.

Total capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, was 9.38 million 8-inch equivalent wafers in 2008. In Taiwan, TSMC operates two advanced 12-inch wafer fabs, four 8-inch wafer fabs, and one 6-inch wafer fab. TSMC also manages two 8-inch fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC (China) Company Limited. In addition, TSMC obtains 8-inch wafer capacity from other companies in which the Company has an equity interest.
TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, South Korea, and India. The Company employed more than 22,000 people worldwide as of the end of 2008.

TSMC continues to lead the foundry segment of the semiconductor industry in advanced process technologies. Already the first foundry to provide 65nm production capacity, again, in 2008, TSMC was the first foundry to provide 40nm production. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, mixed signal/RF, high voltage, CMOS image sensor, color filter, MEMS, and silicon germanium technologies. In September 2008, TSMC announced future plans to deliver its 28nm process as a full node technology in 2010, offering the option of both high-k metal gate (HKMG) and silicon oxynitride (SiON) material to support a variety of customer applications.

The Company is listed on the Taiwan Stock Exchange (TWSE) under ticker number 2330, and its American Depositary Shares trade on the New York Stock Exchange (NYSE) under the symbol “TSM”.

2.2 Market/Business Summary

2.2.1 TSMC Achievements

In 2008, TSMC maintained its leading position in the pure-play foundry segment of the global semiconductor industry, with an estimated market segment share of 51%. TSMC achieved this result amid fierce competition from both established players and relatively new entrants to the business.

Leadership in advanced process technologies is a key factor in TSMC’s business success. In 2008, 64% of TSMC’s wafer revenue came from manufacturing processes with geometries of 0.13μm and below. A critical milestone was reached in September 2008, when TSMC shipped its five hundred thousandth 65nm 12-inch wafer. Moreover, TSMC also achieved volume production of the 45/40nm process as well as development of the leading-edge 32/28nm process, both foundry firsts. As of the fourth quarter of 2008, 27% of TSMC’s wafer revenue came from 65nm processes and below.

In addition to advanced technologies, TSMC also offers innovative services in line with its unwavering focus on customer partnership. Among the many innovative services unveiled in 2008 was wafer level chip scale package (WLCSP) which offers smaller form factor, addressing the trend of mobile devices becoming smaller and thinner while providing richer features. TSMC also rolled out its Open Innovation Platform™ initiative in 2008 to promote and facilitate timely innovation among the semiconductor design community, its ecosystem partners and TSMC’s IP, design methodology, design implementation, DFM capabilities, process technology and backend services.

TSMC continued to advance the semiconductor roadmap in 2008. Examples of technologies the Company developed or rolled out include:

- 32/28nm technology with functional static random access memory (SRAM)
- 45/40nm technology
- 55nm general performance technology, a 90% linear shrink from 65nm
- 85nm general performance technology
- 85nm low power technology
- 0.12μm general performance technology
- 0.13μm high voltage process for small panel single chip drivers
- 0.152μm logic process for low power and radio frequency (RF) applications
- 0.18μm low power embedded flash memory
- 0.18μm bipolar complementary device (BCD)

At the same time, the following technology is also in our development roadmap:

- 55nm low power technology

In addition, one major focus of TSMC’s technology development in 2008 was its specialty technology strategy, including 65/90nm embedded flash, 65/90nm CMOS image sensor and 0.13μm analog technologies. In 2008, TSMC offered the foundry segment’s first CMOS image sensor with innovative back side illumination technology, known as 0.11μm BSI. These specialty technologies are key differentiators from competitors and provide customer with greater value.
2.2.2 Market Overview
It is estimated that the semiconductor market in 2008 reached US$249 billion in revenue, a slight decrease of 3% compared to 2007. According to IC Insights, total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US$25 billion in 2008, up 2.9% year on year, while revenues from pure-play foundries such as TSMC reached US$21 billion. In 2008, the largest geographic market for pure-play foundry services was North America, which accounted for 62% of overall pure-play foundry revenue. The second largest geographic market was Asia Pacific (excluding Japan), which accounted for 24% of total pure-play foundry revenue in 2008. European-based customers accounted for 9%, and orders from companies based in Japan contributed 5%. The TSMC figures are based on the customer’s headquarters location and not actual end-product destination or use.

2.2.3 Industry Outlook, Opportunities and Threats
Industry Demand and Supply Outlook
The semiconductor market in 2008 experienced a slight decline of 3%. For 2009, based on the deteriorating global macro economic conditions of first quarter, the semiconductor market could decline in percentage terms by around 20%, depending on the severity of the recession. As the inventory level in the supply chain generally appeared to be higher than average at the end of 2008, the decline of the foundry segment could be deeper than the semiconductor industry by another mid-to-high single digit percent in 2009. Pure-play foundry capacity is estimated to increase by around 5% in 2009, compared with the 12% compound annual growth rate from 2006 to 2008. This indicates that foundry players may only invest very limited capacity in response to the recession in 2009.

Opportunities and Threats in the Foundry Segment of the Semiconductor Marketplace
Despite the fact that the semiconductor market as a whole is maturing, and considering the global challenges of 2009, TSMC believes that foundry services, the segment in which TSMC principally competes, will play an increasingly important role as the semiconductor industry becomes more reliant on outsourced manufacturing in the long run. With the assumption of production value being 2.2 times pure-play foundry revenue, it’s forecasted that by 2013, 21% of global semiconductor revenue could come from pure-play foundries, compared with 17% in 2008, according to IC Insights. As the leader in pure-play foundry services, TSMC is well positioned to capture the growth opportunities of this segment. On the other hand, threats facing the foundry segment include a continuing decline in wafer prices, due to the fact that the IC industry is prone to fast-declining end application prices, as well as potential industry overcapacity when the global economic climate experiences a downturn.

2.2.4 TSMC Position, Differentiation and Strategy
Position
As the leader in the pure-play foundry segment of the semiconductor industry, TSMC commanded a 51% share of this segment in 2008, with total consolidated revenue of US$10.6 billion. In terms of geographic distribution of wafer revenue, 74% came from North America, 13% from the Asia Pacific region excluding Japan, 10% from Europe, and 3% from Japan. In terms of end-product application, 33% of total wafer revenue came from the computing sector, 42% from communications, 19% from consumer products, and 6% from other categories, such as industrial products. The TSMC figures are based on the customer’s headquarters location and not actual end-product destination or use.

Differentiation
TSMC’s leading industry position is based on a trinity of key differentiating strengths: technology leadership, manufacturing excellence, and customer partnership. As a technology leader, TSMC has consistently been the first pure-play foundry to develop the next generation of leading-edge technologies. As a manufacturing leader, TSMC is renowned for its yield management, and offers best-in-class support services to expedite time-to-market and time-to-volume. And, in customer partnership, TSMC works closely with its customers on end-to-end collaboration to optimize design and manufacturing efficiencies. Going forward, TSMC will continue building on this trinity of strengths to provide the best overall value to its customers.

Strategy
TSMC is confident its differentiating strengths will enable it to leverage the attractive growth opportunities in the foundry segment going forward. TSMC works constantly to ensure that these strengths are maintained and improved. For example, TSMC is intensively working on the leading-edge 28nm and 22nm processes to maintain its technology leadership position, and is poised to be the first pure-play foundry player to roll out production in these technologies. Numerous efforts are also underway to ensure manufacturing excellence, such as continuing enhancement of Design-For-Manufacturing (DFM) support services to increase yield and efficiency. TSMC also introduced its Open
Innovation Platform™ initiative, a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that efficiently empowers innovation throughout the supply chain to enhance timely innovation. Finally, TSMC conducts throughout the year customer reviews and surveys to better understand customer needs and wants, and accordingly may adjust its offerings in response, thereby strengthening its partnership with customers.

TSMC’s plans to continue strengthening its core capabilities and value propositions, including its ability to deliver customer product to market earlier and with better functionality; to develop advanced and mainstream technologies with sufficient capacity support and flexible manufacturing; to continue to focus on customer service; and to continue optimizing its service portfolio in order to balance profitability and growth.

2.3 Business Activities
2.3.1 Business Scope
TSMC’s business scope is semiconductor foundry and associated services. The Company excels in all aspects of its business, including semiconductor process technology research and development, wafer manufacturing, logistics management, capacity utilization, customer service, and associated services such as design services, mask manufacturing, wafer probing, and in-house bumping and testing. TSMC strives to provide the best overall value to customers; the success of TSMC’s business is manifested in the success of its customers.

2.3.2 Customer Applications
Over the past 21 years, more than 500 customers worldwide have relied on TSMC to manufacture chips that are used across the entire spectrum of electronic applications, including computers and peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, consumer electronics such as DVDs, digital TVs, game consoles, digital still cameras (DSCs), and many other applications.

The rapid evolution of end products drives our customers to utilize TSMC’s innovative technologies and services, while at the same time spurring TSMC’s own development of technology. As always, success depends on leading rather than following industry trends.

2.4 Financial Highlights
2008 was a year of rapid change. TSMC’s business remained vibrant in the first three quarters of the year, but saw demand slowing by the middle of the third quarter. Fourth quarter revenue substantially declined and showed no sign of recovery by the year-end.

With the sharp decline in the demand for semiconductors in the last quarter of 2008, revenue of the worldwide semiconductor market for the full year is estimated to have declined by about 3 percent from its 2007 level. Pure-play foundry segment is estimated to have outperformed the semiconductor industry and registered an annual growth rate of approximately 2 percent. TSMC outperformed its peers, delivered 7.9 percent revenue growth in US dollars, and gained market share to reach 51 percent among pure-play foundries during 2008. The outperformance is particularly pronounced in the advanced process technologies where TSMC successfully ramped its 65-nanometer process technology from 10 percent of wafer revenue at the beginning of the year to 27 percent by year-end.

Total TSMC consolidated revenue for 2008 was NT$333.16 billion, a 3.3 percent increase compared with NT$322.63 billion in 2007. Mainly due to the implementation of a new accounting rule that requires expensing of employee profit sharing in the Company’s financial statements starting in 2008, net income decreased 8.5 percent to NT$99.93 billion, compared with 2007 net income of NT$109.18 billion. Similarly, diluted earnings per share decreased 5.7 percent to NT$3.83, compared with NT$4.06 a year earlier. Had the accounting rules remained the same and employee profit sharing had not been expensed, net income in 2008 would have been NT$112.42 billion and EPS NT$4.31. In US dollars, TSMC’s 2008 revenue was US$10.61 billion and net income was US$3.18 billion.

TSMC paid dividends of NT$3.0 in cash and 0.5 percent in stock per common share in 2008.

Based on the increase on the previous expansion, the purchase of production equipment and research and development expenditures, TSMC is entitled to tax incentives, such as tax exemption and investment tax credits. For more information, review TSMC’s “Income Tax” disclosed in the “Financial Information” of Annual Report (II), page 19-20.
2.5 Corporate Developments
Early in 2008, TSMC reorganized and established the Advanced Technology Business Organization and the Mainstream Technology Business Organization by merging manufacturing operations with technology and service marketing. These two new organizations respectively take responsibility for formulation, development, and execution of advanced technology and mainstream technology business objectives, with dedicated human resources and increased flexibility.

In August 2008, Royal Philips Electronics NV completed a four-phased plan and exited from its TSMC shareholding. As part of the plan, and subsequently for the purpose of partially offsetting the dilution from employee profit sharing, the Company repurchased, in two separate programs, a total of 495,549 thousand common shares in the open market of the Taiwan Stock Exchange, accounting for approximately 1.92% of its total outstanding shares, at an average price of NT$61.4 per share. The repurchased shares were cancelled subsequently.

2.6 Awards Received in the Reporting Period
- “Excellence in Corporate Social Responsibility First Prize”, Commonwealth Magazine
- Won top honors from AsiaMoney Magazine, The Asset Magazine, Corporate Governance Asia, FinanceAsia, and Institutional Investors in the areas of Corporate Governance, Management, and Investor Relations
- IR Magazine announced TSMC as the winner of “Grand Prix for Best Overall Investor Relations” for a sixth year in a row
- Commonwealth Magazine awarded TSMC “Most Admired Company in Taiwan” for a twelfth consecutive year
2.7 International Sustainability Indexes

TSMC has not only achieved outstanding business performance, but has also done so in the spirit of giving back to society. TSMC continuously seeks sustainable development, and strives to improve employee welfare as well as workplace safety. TSMC also actively participates in community activities, supply chain management, and environmental protection.

In 2008, TSMC was selected as a member of the Dow Jones Sustainability Indexes (DJSI) for an eighth consecutive year. The Dow Jones Sustainability Indexes were launched in 1999 and TSMC joined in 2001. TSMC was the first Taiwan company to join the DJSI, and the only Taiwan company selected for membership for eight consecutive years. The DJSI evaluates companies along economic, environmental, and social dimensions, and this year TSMC achieved the highest scores in the semiconductor industry for “risk and crisis management”, “product quality and recall management”, “environmental policy/management system” and “climate strategy”. TSMC’s outstanding overall performance in all three dimensions has once again affirmed the company’s achievements and commitment to sustainable development.

The Dow Jones Sustainability Indexes (DJSI), are based on the cooperation of Dow Jones Indexes, STOXX Ltd. and SAM Group of Zurich, Switzerland. TSMC is a member of the Dow Jones Sustainability World Index, which selects the top 10% of 2,500 major global companies based on economic, environmental, and social criteria to provide a benchmark for socially responsible investors.
Corporate ESH. The core team identifies stakeholders and integrate stakeholders’ concerns into routine tasks and annual plans, and maintains flexibility to incorporate ad-hoc issues into annual plans. The core team also seeks support from additional departments as necessary.

TSMC stakeholders include stockholders and investors, employees, suppliers, customers, government, community, and non-profit organizations. TSMC has certain responsibilities to its stakeholders and needs to communicate with them through various measures and channels so as to understand their needs and expectation for TSMC, and also takes these needs and expectations into account for corporate social responsibility policy and projects. TSMC and its stakeholder communication measures and channels are described in the table below; more detailed information can be found in related chapters of this report.

2.10 Investor Engagement
TSMC’s business strategies and financial policies aim to uphold and enhance the value of our long-term shareholders. We not only align ourselves with international standards that demonstrate our position and reputation as a premier investment and sustainability champion, but are ranked within the semiconductor industry as a sustainability leader, and are honored to be a component of the Dow Jones Sustainability Index (DJSI) every year since 2001. Since becoming a publicly listed company in 1994, we have consistently delivered value to shareholders through cash dividends, maintaining a strong balance sheet, and keeping one of the highest credit ratings among technology companies.

In order to serve investors and the investment community, TSMC has established a highly effective communication system to disseminate information.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Responsibilities</th>
<th>Communication Measures and Channels</th>
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<tbody>
<tr>
<td>Customer</td>
<td>• Provide safe, high-quality products and services</td>
<td>• Customer satisfaction survey</td>
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<td></td>
<td>• Raise satisfaction</td>
<td>• Technical forum</td>
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<td></td>
<td>• Cooperate to fulfill product environmental and</td>
<td>• Cooperate with customers’ product environmental and social responsibility surveys and improve where necessary</td>
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<td>Employee</td>
<td>• Respect human rights</td>
<td>• Incentives</td>
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<td></td>
<td>• Fair evaluation and reward</td>
<td>• Total communication framework</td>
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<td></td>
<td>• Employee Development</td>
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<td>• Employee Wellness</td>
<td>• Silicon Garden Magazine</td>
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<td>Stockholder &amp;</td>
<td>• Provide accurate information</td>
<td>• Communication meetings</td>
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<td>Investor</td>
<td>• Provide reasonable return on investment</td>
<td>• Annual Shareholder Meeting</td>
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<td>• Quarterly Institutional Investors’ Conference</td>
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<td>Suppliers</td>
<td>• Fair trading</td>
<td>• Supplier information platform</td>
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<td>• Communication of TSMC CSR policy and approaches</td>
<td>• Supply chain management forum</td>
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<td></td>
<td>• Assist in CSR practices</td>
<td>• Supplier and contractor management including annual audit</td>
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<tr>
<td>Community</td>
<td>• Respect local culture and customs</td>
<td>• Association of Science Park Industries</td>
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<td></td>
<td>• Prevention of incidents and accidents</td>
<td>• TSMC Education &amp; Culture Foundation</td>
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<td></td>
<td>• Assist in disaster rescue</td>
<td>• Internal charity associations</td>
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<td>• Participate in public welfare activities</td>
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<tr>
<td>Government</td>
<td>• Comply with regulations</td>
<td>• Association of Science Park Industries</td>
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<td></td>
<td>• Pay taxes</td>
<td>• Taiwan Semiconductor Industry Association, World Semiconductor Council</td>
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<td>• Provide legislative consultation</td>
<td>• Chinese National Federation of Industries</td>
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<td>• Support promotion of new regulations</td>
<td>• Public legislative hearings</td>
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<td>Non-profit Organization</td>
<td>• Participate in social welfare activities</td>
<td>• Taiwan Business Council for Sustainable Development</td>
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<td>• Taiwan Corporate Sustainability Forum</td>
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<td>• Carbon Disclosure Project</td>
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<td>• Dow Jones Sustainability Index</td>
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Each quarter, our management holds an investor conference, followed by a conference call, to report and discuss company performance with investors worldwide. On a daily basis, our Investor Relations team holds investor and analyst meetings worldwide. In 2008, more than 550 meetings were held either at the headquarters of TSMC or at financial conferences and institutional investors’ offices. All these efforts are focused on serving investors with accurate, timely, and transparent information and financial data regarding TSMC business, operations, and performance. In addition, E-mail updates covering all business activities and key events are regularly sent out to thousands of members of the investment community. Information regarding TSMC’s business fundamentals and significant filings with regulatory authorities are posted on TSMC’s corporate website in a timely manner.

As a result, investors surveyed annually by IR Magazine and other media have recognized the transparency of TSMC’s disclosure policies, corporate governance commitment, and equitable treatment to shareholders. In 2008, awards and recognitions received by TSMC include:

**AsiaMoney Magazine**
- Overall Best Company in Taiwan for Corporate Governance
- Best for Disclosure and Transparency in Taiwan
- Best for Responsibilities of Management and the Board of Directors in Taiwan
- Best for Shareholders’ Rights and Equitable Treatment in Taiwan
- Best Executive in Taiwan—Dr. Morris Chang
- Best Investor Relations Officer in Taiwan

**The Asset Magazine**
- The Asset Triple A Corporate Governance Awards 2008
- Corporate Governance Asia
- Corporate Governance Asia Annual Recognition Award 2008

**FinanceAsia Magazine**
- Best Managed Companies
- Best at Corporate Governance
- Best at Investor Relations
- Best for Most Committed To Strong Dividend Policy
- Best CFO

**Institutional Investor**
- Asia’s Most Shareholder Friendly Company in the Technology/Semiconductors Sector

**IR Magazine**
- Grand Prix for Best Overall Investor Relations by a Taiwanese Large Cap Company

### 2.11 Governance Structure

TSMC’s governance structure is as follows:

2.11.1 *Governance Structure*

TSMC’s governance structure is as follows:

- **Shareholders’ Meeting**
- **Board of Directors**
  - **Audit Committee**
  - **Compensation Committee**
- **Executive Officers**
- **Internal Audit**

2.11.2 *Board of Directors*

TSMC’s Board of Directors consists of eight distinguished members with a great breadth of experience as world-class business leaders or scholars. Four of the eight members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Professor Lester Thurow from the Massachusetts Institute of Technology; former Acer Group Chairman, Mr. Stan Shih; and former Hewlett-Packard Chairman and CEO, Ms. Carleton (Carly) Fiorina (Note). Under the leadership of Chairman Morris Chang, TSMC’s Board of Directors takes a serious and forthright approach to its duties and is a serious, competent and independent Board.

Note: All eight directors had been elected at the 2009 Annual Shareholders’ Meeting. The newly elected directors are: Mr. Morris Chang, Mr. F.C. Tseng, Sir Peter Bonfield (independent director), Mr. Stan Shih (independent director), Ms. Carly Fiorina (independent director), Mr. Thomas J. Engibous (independent director), Mr. Tain-Jy Chen (representative of National Development Fund, Executive Yuan), and Mr. Rick Tsai.

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In the spirit of Chairman Chang’s approach to corporate governance, a board of directors’ primary duty is to supervise. The Board should supervise the Company’s compliance with relevant laws and regulations, financial transparency; timely disclose of material information, and maintaining of highest integrity within the company. TSMC’s Board of Directors strives to perform through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, coordination with the Internal Audit department, and through the ombudsman reporting system.

The second duty of the board of directors is to provide guidance to the management team of the Company. TSMC’s management quarterly reports to the TSMC Board on a variety of subjects, which also include the management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. The management also reviews the Company’s business strategies with the Board. Furthermore, the management often reviews with and updates TSMC’s Board on the progress of the strategies, obtaining Board guidance as appropriate.

The third duty of the board of directors is to dismiss officers of the company when necessary and to evaluate the management’s performance. TSMC’s management has maintained a healthy and functional communication with TSMC Board of Directors, has been devoted in executing guidance of TSMC Board of Directors, and is dedicated in running the business operations, all to achieve the best interest for TSMC shareholders.

The Board meets at least once every quarter. The Chairman convened four regular meetings and one special meeting in 2008.

2.11.3 Audit Committee
The Audit Committee assists the Board in carrying out its financial oversight responsibilities and other duties as set forth in the R.O.C. Company Act, the Securities and Exchange Act, and other applicable laws and regulations. Matters required to be reviewed by the Audit Committee include the Company’s financial reports; auditing and accounting policies and procedures; internal control systems; material asset or derivatives transactions; offering or issuance of any equity-type securities; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers. Furthermore, the Risk Management Division also reports to the Audit Committee on enterprise risk management activities on a regular basis.

TSMC’s Audit Committee is empowered by its Charter to conduct any study or investigation it deems appropriate to fulfill its responsibilities. It has direct access to TSMC’s internal auditors, the Company’s independent auditors, and all employees of the Company. The Committee is authorized to retain and oversee special legal, accounting, or other consultants as it deems appropriate to fulfill its mandate, and meets at least four times a year.

The Audit Committee is comprised of all four independent directors and has engaged a financial expert consultant. Sir Peter Bonfield is Chairman of the Audit Committee, and convened four regular meetings and three special meetings in 2008.

2.11.4 Compensation Committee
The Compensation Committee assists the Board in discharging its responsibilities related to TSMC’s compensation and benefits policies, plans and programs, and in the evaluation and compensation of TSMC’s executives. The Committee meets at least four times a year.

The Compensation Committee is comprised of five members. All four independent directors serve as voting members of the Committee and the Chairman of the Board, Dr. Morris Chang, is a non-voting member. Mr. Stan Shih is Chairman of the Compensation Committee, and convened four regular meetings in 2008.

2.11.5 Corporate Compliance
For many years, TSMC has had an Ethics Code that has guided employees, officers and non-employee directors. TSMC’s Ethics Code is designed to promote honest and ethical conduct, as well as support compliance with applicable laws and regulations. The principles embodied in this code express TSMC’s policies regarding environment, health and safety, discrimination, bribery and corruption, conflicts of interests, and protection of company assets and reputation.

TSMC’s management team closely monitors both domestic and foreign government policies and regulatory developments that could have a material impact on TSMC’s business and financial operations, and have established related risk management procedures. As of today, TSMC has never been subject to any significant monetary fines and/or non-monetary sanctions for noncompliance with any statutory laws and regulations.
2.11.6 Anti-Corruption
Under TSMC Ethics Code (the “Code”), all employees should comply with all applicable laws, rules, regulations, and in-house regulations in every aspect of the Company’s corporate activities at all times; all employees should strive to ensure that all corporate activities are in compliance with normal business practices and social ethics; all employees should maintain impartial, fair, and open relationships with all the stakeholders of the Company and will conduct business in a fair manner with them. TSMC’s business practices are based on objective norms and integrity, and we do not accept gifts or special favors. The Code requires that:

- TSMC employees must observe high business ethics standards when dealing with suppliers, vendors, subcontractors, customers, competitors, and other relevant parties, including the government. Employees or their family members and close relatives must not give or accept any gift, money, or entertainment to or from any TSMC suppliers, vendors, subcontractors, customers, competitors. Any form of bribery is strictly prohibited.

- When it is a required courtesy to accept gifts, gratitude or any form of hospitality, or where it is in accordance with accepted courtesy to maintain and promote normal business relationships by giving gifts to relevant parties, employees must abide by the principles set forth in the code.

- All employees should follow common business etiquette and refrain from frequent and excessive business hospitality when entertaining or being entertained. Employees should not give customers or vendors the impression that any form of hospitality, or gift giving is required to establish or maintain a relationship with TSMC.

- Gift giving and entertaining between managers and their subordinates should also follow the above principles, and should be based on the principle of simplicity.

To comply with this Code is the responsibility of every TSMC employee, officers, non-employee directors. To prevent any actual or apparent conflict of interest, the Code requires that all non-executive directors, officers, and employees working in sensitive departments make an annual conflict of interest declaration to the Company. The Company will take disciplinary action, including termination of employment, against employees who violate this Code. TSMC has also put in place various internal control systems to monitor and detect any actual or apparent irregularities within the Company’s daily corporate activities so as to protect TSMC from the risk of fraud or corruption.

TSMC also established whistleblowing channels for complaints relating to major management, financial, and auditing issues. Employees may report any violations or suspicions of violations to the Chairman of the Independent Audit Committee, which is under the Broad of Director, or the Ombudsman headed by a vice president.

The Code is the highest principle when employees conduct business activities. The content of the Code has been reviewed by the highest level Operating Committee of the Company. All employees who newly join TSMC are educated and reminded to comply with the Code.

2.11.7 Political Contributions
TSMC has consistently remained politically neutral, but encourages employees to fulfill their duties as citizens and actively participate in politics and vote for the candidates the employees believe to be the best public servants. TSMC executives have also expressed concern and made public comments on political matters affecting industry and the economy. In the past, TSMC made legitimate political donations to local political parties between 2000 and 2004 to support the development of democracy in Taiwan. Due to a recent revision in Taiwan legislation, TSMC is now prevented from making political contributions as it is over 50 percent owned by foreign investors. TSMC has fully complied with such newly enacted law.