

Corporate Governance

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that one basis for successful corporate governance is a sound and effective Board of Directors.

In line with this principle, the TSMC Board delegates various responsibilities and authority to two Board Committees, Audit Committee and Compensation Committee. Each Committee has a written charter approved by the Board. Each Committee's chairperson regularly reports to the Board on the activities and actions of the relevant committee.

TSMC Corporate Governance at a Glance

- Five of our eight Board members are independent directors
- One of the members of the Board Directors is female
- Audit Committee and Compensation Committee are made up of independent directors
- Committee Charters are publicly disclosed on TSMC's website
- Audit Committee self-assessment process is in place
- Average Board Meeting attendance rate is 97% and the attendance rate for the Audit Committee and Compensation Committee's Meetings are 95%

4.1 Governance Structure

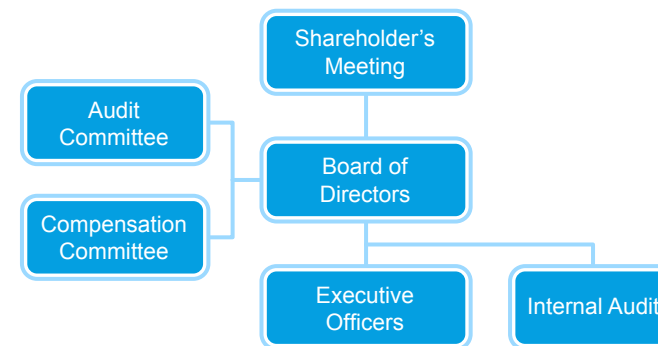


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4.2 Board of Directors

4.2.1 Board Structure

As the highest governance body, TSMC's Board of Directors consists of nine^{Note} distinguished members with a great breadth of experience as world-class business leaders or scholars. We rely on them for their diverse knowledge, personal perspectives, and solid business judgment. Five of the nine members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Acer Inc. Chairman, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; Professor of Princeton University, Gregory C. Chow; and advisor to the Taiwan Executive Yuan and the Taipei City Government, Ms. Kok-Choo Chen. The number of Independent Directors is more than 50% of the total number of Directors.

We do have one major shareholder on our Board, i.e. the National Development Fund, Executive Yuan, R.O.C., which is also one of our largest shareholders. It has served as our director since our founding. As a corporate entity, the National Development Fund, Executive Yuan, R.O.C. is required to appoint a representative to act on its behalf.

The Chairman and Vice Chairman of the Board of Directors are not executive officers of the Company. The Board approved the appointment of two members of our senior management team to jointly serve as the President and Co-Chief Executive Officer of TSMC. These two Co-CEOs report to and perform such duties as designated by the Chairman of the Board.

Note: TSMC's Board of Directors originally consisted of nine directors. Since Dr. Rick Tsai resigned as a director of TSMC effective January 27, 2014, currently the number of Directors is eight. For further information on the composition and nature of our Board such as the number of each director's other significant positions and commitments and the nature thereof, please see our most recent Form 20-F filed with the U.S. SEC at http://www.tsmc.com/english/investorRelations/sec_filings.htm 

4.2.2 Board Responsibilities

Under the leadership of Chairman Morris Chang, TSMC's Board of Directors takes a serious and forthright approach to its duties and is a dedicated, competent and independent Board.

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 disclosure of material information, and maintaining of the highest integrity within the Company.

TSMC's Board of Directors strives to perform these responsibilities through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, and coordination with the Internal Audit department.

The second duty of the Board of Directors is to provide guidance to the management team of the Company. Quarterly, TSMC's management reports to the Board on a variety of subjects. The management also reviews the Company's business strategies with the Board, and updates TSMC's Board on the progress of those strategies, obtaining Board guidance as appropriate.

The third duty of the Board of Directors is to evaluate the management's performance and to dismiss officers of the Company when necessary. TSMC's management has maintained a healthy and functional communication with the Board of Directors, has been devoted in executing guidance

of the Board, and is dedicated in running the business operations, all to achieve the best interests for TSMC shareholders.

We opened a new chapter in corporate social responsibility and formally added Corporate Responsibility Report to the agenda of the Board of Directors in 2012. The responsibility of implementing economic, environmental and social tasks is delegated to our team of experienced management. Every year the Board of Directors receive regular reports on the results of our CSR initiatives and future plans. We believe that this is an important step towards firmly establishing TSMC as a sustainable, evergreen company well into the future.

4.2.3 Election of Directors

As the highest governance body of our company, our directors hold a tenure of three years. Our Board members are nominated through a highly selective process that considers not only their respective professional technical competence but also their respective reputation for ethical behavior and leadership. The independence of each independent director candidate is also considered and assessed under relevant law such as the Taiwan "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies". The final slate of candidates are put to the shareholders for voting at the relevant annual shareholders' meeting. Under Taiwan law, in which TSMC was incorporated, any shareholders holding one percent or more of our total outstanding common shares may nominate their own candidate to stand for election as a Board member. This democratic mechanism allows our shareholders to become involved in the selection and nomination process of Board candidates.

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4.2.4 Directors' Compensation

TSMC's Articles of Incorporation restricts the amount of compensation payable to its directors that the Company may make from its distributable earnings (defined as net income after required regulatory provisions). Over the years, TSMC directors' compensation declined from 1% of TSMC's distributable earnings to 0.3%, before being capped to no more than 0.3% of its distributable compensation. In addition, directors who also serve as executive officers of the Company are not entitled to receive any director compensation.

4.2.5 Avoiding Conflicts of Interests

The avoidance of conflicts of interests is governed by several corporate processes. First, any director or executive officer who, for him/herself or on behalf of another, wishes to engage in any business activity that overlaps with TSMC's business must obtain the prior approval of our shareholder meeting or Board of Directors respectively in accordance with relevant laws. Second, each board member and executive officer must complete an annual declaration on related party transactions such as whether they or their family members have any interest in any TSMC transactions. Third, we are subject to strenuous reporting requirements on reporting any related party transactions under both Taiwan and U.S. security rules.

4.3 Audit Committee

TSMC's Board of Directors established the Audit Committee in 2002. The Audit Committee assists the Board in fulfilling its oversight of the quality and integrity of the accounting, auditing, reporting, and financial control practices of the Company. The Audit Committee is responsible to review the Company's: financial reports; auditing and accounting

policies and procedures; internal control systems; material asset or derivatives transactions; material lending funds, endorsements or guarantees; offering or issuance of any equity-type securities; legal compliance; related-party transactions and potential conflicts of interests involving executive officers and directors; Ombudsman reports; fraud investigation reports; corporate risk management; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers.

Under R.O.C. law, the membership of the Audit Committee shall consist of all independent Directors. TSMC's Audit Committee satisfies this statutory requirement. The Committee also engaged a financial expert consultant in accordance with the rules of the U.S. Securities and Exchange Commission. The Audit Committee annually conducts self-evaluation to assess the Committee's performance and identify areas for further attention.

4.4 Compensation Committee

TSMC's Board of Directors established the Compensation Committee in 2003. 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 directors of the Board and executives.

The members of the Compensation Committee are appointed by the Board as required by R.O.C. law. According to TSMC's Compensation Committee Charter, the Committee shall consist of no fewer than three independent directors of the Board. Currently, the Compensation Committee is comprised

of all five independent directors; the Chairman of the Board, Dr. Morris Chang, is invited by the Committee to attend all meetings and is excused from the Committee's discussion of his own compensation.

4.5 Corporate Social Responsibility Committee

Our experienced management team as guided by our independent board members help guide TSMC in implementing its corporate social responsibilities. The implementation of our corporate social responsibilities also rests on our CSR Committee. The CSR Committee has been appointed by the Chairman of the Board with primary responsibility for economic, environmental and social topics. This Committee reports to the Chairman of our Board directly. CSR Committee is jointly led by two individuals: our Chief Financial Officer and the President of the Volunteer Association. We believe that having this Committee be co-led by someone who is not an executive officer of TSMC will bring a more fresh and socially balanced perspective into the workings of our CSR Committee.

4.6 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 concerns from time to time and have made public comments on certain matters affecting industry, the economy and our employees livelihood. In the past, TSMC made legally proper political donations to local political parties between 2000 and 2004 to support the development of

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democracy in Taiwan. Due to a Taiwan legislation a few years ago, TSMC is now prevented from making political contributions because it is over 50 percent owned by foreign investors. TSMC has fully complied with this law.

4.7 Code of Ethics and Business Conduct

4.7.1 Ethics Values

Integrity is the most important core value of TSMC's culture. TSMC is committed to acting ethically in all aspects of our business; constantly and vigilantly promoting integrity, honesty, fairness, accuracy, and transparency in all that we say and do.

At the heart of our corporate governance culture is TSMC's Code of Ethics and Business Conduct (the "Code") that applies to TSMC and its subsidiaries, and this Code requires that each employee bears a heavy personal responsibility to preserve and to protect TSMC's ethical values and reputation and to comply with various applicable laws and regulations. In so doing, each of us:

- must not advance our personal interests at the expense of, or in conflict with the Company;
- must refrain from corruption, unfair competition, fraud, waste and abuse;
- must not undertake any practices detrimental to TSMC, the environment and to society;
- must procure all of our raw materials from socially responsible sources;
- must abide by both the spirit and letter of all applicable laws, rules and regulations; and

- must avoid any efforts improperly to influence the decisions of anyone, including government officials, agencies, and courts, as well as our customers, suppliers, and vendors.

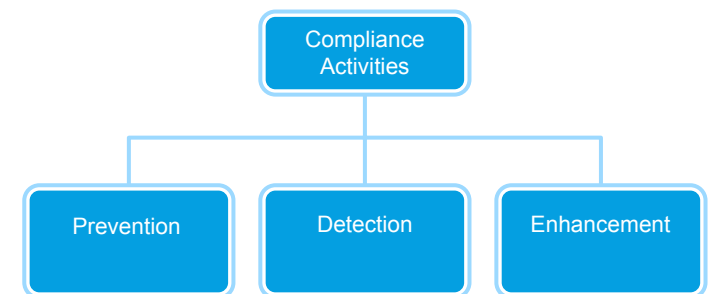
In order to continue to build an environment of innovation, technology leadership, and sustainable profitable growth, the Code requires that we must promote business relationships founded upon an unwavering respect for the intellectual property rights, proprietary information and trade secrets of TSMC, our customers, and others; and the proper use of the Company's assets, not for personal use, but for achieving TSMC's vision for many years to come.

All employees, officers and Board members must wholeheartedly embrace and practice the Code. TSMC's management must set the best example of integrity and ethical conduct. TSMC's officers, especially our CEO, CFO, and General Counsel, with oversight from our Board, are responsible for the full, fair, accurate, timely, and understandable financial accounting and financial disclosure in reports and documents filed by the Company with securities authorities and in all TSMC public communications and disclosures.

4.7.2 Code Administration and Disciplinary Action

All employees, officers and managers must comply with the Code and the other company policies, procedures, and regulations based on the Code. TSMC expects our customers, suppliers, vendors, advisors and others with which we come into contact to understand and respect the Company's ethics standards and culture.

As part of our ethics compliance program, all employees must disclose any matters that have, or may have, the appearance of undermining the Code (such as any actual or potential conflict of interest). Key employees and senior officers must periodically declare their compliance status with the Code. To encourage an open culture of ethics compliance, we also have implemented several related policies that allow employees or any whistleblowers with relevant evidence to report any financial, legal, or ethical irregularities through the "Complaint Policy and Procedures for Certain Accounting and Legal Matters" or "Procedures for Ombudsman System". When an employee finds or suspects a breach of this Code, he/she should report it immediately to any of the following persons: their supervisor; the Function Head of Human Resources; the Company's Ombudsman; or to the Chairman of the Company's Audit Committee, depending on the nature of the suspected breach.



In order to promote a culture of awareness, we have made all of our various policies available through easy access on our intranet and require all employees to be trained on our core values and compliance regime. Our compliance program for all employees includes regular live seminars

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and online training on various topics on ethics, including the requirements to prevent bribery and to protect our intellectual property. Our intranet website posts various guidelines and informative articles on ethics and honorable business conduct. We also require our stakeholders such as our suppliers, vendors and other partners to accept and abide by the same high ethical standard to which we hold all of our officers and employees. For example, we require all of our suppliers, vendors and partners to declare in writing that they will not engage in any fraud or any unethical conduct when dealing with us or our officers and employees. We also promote our ethical culture to our business partners through regular live seminars to prevent any unethical conduct. We have established an online “hotline” that any relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC.

The internal auditors of TSMC regularly audit the compliance by the Company, our vendors, suppliers, and customers, of relevant rules and regulations.

TSMC Internal Audit assists the Board of Directors and Management in inspecting and reviewing whether TSMC’s internal control system is adequate and effective in its design and operation to ensure that:

- Financial, managerial, and operating information is accurate, reliable, and timely.
- Legislative or regulatory issues impacting the organization are recognized and addressed properly.
- Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.

To achieve the above objectives, Internal Audit submits an annual audit plan incorporating the regulatory compliance audit projects to the Board of Directors for approval. Subsequent to the audits, Internal Audit reports the audit findings along with issue follow-up to the Board and Management on a regular basis.

We have a “zero tolerance” rule for any violation of any ethics rule. Simply put, any officer or employee, regardless of their seniority, will be severely punished (including immediate dismissal and judicial prosecution as appropriate) to the full extent of our policies and the law, for violations of our ethical standards. For example, in 2013, there are two ongoing legal actions filed by the Company against former employees for misappropriation of the Company’s intellectual property and violating other ethics rules. Additionally, the Company took severe disciplinary action against seven employees who committed major violations of our Proprietary Information Protection (“PIP”) rules, and terminated one employee for violating other ethics rules.

4.8 Regulatory Compliance

TSMC is committed to conducting business honestly and ethically. This commitment to integrity, our most basic and most important core value, has been the cornerstone of TSMC’s robust compliance efforts, which is comprised of legislation monitoring, compliance policies, training and an open reporting environment.

TSMC operates in many countries. Therefore, in order to achieve compliance with governing legislation, applicable laws, regulations and regulatory expectations, we closely monitor domestic and foreign government policies and regulatory developments that could have a material impact on TSMC’s business and financial operations. We are also a

proactive advocate for local legislative and regulatory reform and have achieved remarkable results in strengthening trade secret protection in Taiwan. TSMC is increasingly dedicated to identifying regulatory issues and will continue to be involved in advocating public policy changes that foster a positive and fair business environment.

In addition to TSMC’s Code of Ethics and Business Conduct, TSMC has also established policies, guidelines and procedures in other policy areas, including: Anti-bribery/ corruption, Anti-harassment/ discrimination, Antitrust (unfair competition), Environment, Export Control, Financial Reporting/Internal Controls, Insider Trading, Intellectual Property, Proprietary Information Protection (“PIP”), Privacy, Record Retention and Disposal, as well as procuring raw materials from socially responsible sources (“Conflict-free Minerals”). With respect to PIP, it is one of the six key corporate strategies of TSMC (as announced in June 2010). TSMC and its employees are expected to comply with all laws and regulations that govern our businesses.

Training is a major component of our compliance program, conducted throughout the year to refresh TSMC’s employees’ commitment to ethical conduct, and to get updated information on any changes to the law. Highlights of our compliance training program include the following:

- A wide range of on-line learning programs are designed to provide employees with an understanding of the law and key compliance issues. Topics available via on-line learning including Antitrust, Anti-harassment, Insider Trading, Export Control Management, PIP, to name just a few. The Antitrust course addresses common elements in antitrust and competition law that apply in the major jurisdictions in which we operate. It was updated in 2013 to add summaries of recent international antitrust investigations, enforcement

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trend and court rulings. In combination with promotional campaigns, we have successfully raised awareness of improper behavior associated with antitrust laws in 2013.

- Live seminars are also offered for a variety of topics related to: Anti-bribery/corruption; Anti-harassment and discrimination; PIP; Insider Trading; Export Control; Financial Reporting; Contract Management; Intellectual Property; Conflict-free Minerals; and Privacy Law. A series of Export Control courses was introduced in 2013 to give an overview to TSMC's export management system ("EMS") and to introduce TSMC's updated export control policy. The above courses are mandatory to managers and certain employees depending on the nature of the business activities they perform.
- As directed by our General Counsel, members of TSMC's legal team regularly attend outside training in Taiwan and abroad to receive legal updates and stay current with new laws and regulatory developments. External legal professionals and industry experts are constantly invited to lecture on new areas of knowledge and the latest developments on industry-specific compliance matters. Licensed lawyers, including the General Counsel, maintain compliance with continuing legal education requirements of their licensing jurisdictions.
- To enhance compliance and risk management for our subsidiaries and affiliates, we regularly hold compliance meetings with them to ensure that all of our subsidiaries and affiliates (as appropriate) are aligned with the compliance standards of TSMC headquarters.

In addition to the above programs, a variety of resources and compliance campaigns are made available to our employees. For example, compliance education and articles on different

topics are published regularly on TSMC's Legal Organization website. Furthermore, employees can familiarize themselves with TSMC's internal policies through easy access to our intranet channels.

To ensure that our conduct meets the highest legal and ethical standards, TSMC provides multiple resources for reporting business conduct concerns. We encourage employees to report suspected wrongdoing within the organization or any parties with whom we do business. The system is also open to external reporting. Auditing employees for PIP policy compliance is conducted regularly to ensure protection of TSMC's proprietary information, including information that suppliers, customers and others have entrusted to us. Disciplinary actions are taken against employees who have violated the policy. Below is a summary of the Number of Reported Incidents:

	FY 2012	FY 2013
Incidents submitted to the Ombudsman System ^{Note 1}	20	35
Incidents submitted to the Audit Committee Whistleblower System	0	0
Incidents reported to the "hotline"	8	19
Which were treated as plausible	3	1
Sexual Harassment Investigation Committee	6	7
Which were confirmed after investigations	0	5
PIP violations	108	84
Which resulted in warnings ^{Note 2}	104	84
Which resulted in dismissals	4	0

Note 1: There is no case for ethics, finance and accounting matters.

Note 2: More than one-third of the cases reported were for minor errors or noncompliance with our PIP Policy.

In 2013, the competent authorities fined a minor fine totaling NT\$27,433 for very few isolated incidents of administrative errors. TSMC has been implementing relevant remedial measures.

4.8.1 Major Accomplishments

In 2013, TSMC's excellence in regulatory compliance achieved several major accomplishments, including:

- In addition to rigorously fulfilling our obligations to regulatory compliance matters, TSMC has discharged its civic duties as a responsible corporate citizen by advising the local government on law and policy reform. TSMC regularly urged the Government to amend any outdated laws and regulations, which may be inconsistent with global practice to improve our investment environment and economic development. For example, after Taiwan's

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legislature accepted TSMC's advice of imposing criminal liability on trade secret misappropriation in 2012, TSMC continued to be a strong advocate for heightening trade secret protection in 2013. We have been working closely with the relevant authorities, and provided our recommendations to subsequent reinforcement of relevant laws and regulations.

- Throughout 2013, TSMC offered a wide range of education courses on various compliance topics, including 19 topics via on-line education and 36 topics via live seminars. These courses were developed and conducted by compliance and legal professionals. TSMC will regularly review and update our training programs and identify additional areas of training if necessary.
- In order to prevent any unauthorized export of controlled items, a formal system, namely EMS, has existed for a number of years and continuously updated and sustained to reinforce TSMC's internal compliance measures, which measures are taken to ensure compliance by TSMC and all of its subsidiaries with all applicable regulations covering the export of information, technologies, products, materials and equipment. TSMC's EMS allows TSMC to streamline its complicated SHTC (Strategic High-Tech Commodities) export process and creates efficiency for both TSMC and its customers. TSMC's EMS was certified in September 2012 by the Bureau of Foreign Trade, the Taiwan regulator, as a qualified ICP (Internal Control Program) exporter. The successful implementation of TSMC's EMS also earned recognition by Dutch export control authority as best in class during its audit of TSMC's European subsidiary in March 2013.
- To reflect and reinforce TSMC's values of integrity, globalization, caring for employees and shareholders, and being a good corporate citizen, TSMC took measures to comply with the Personal Information Protection Act of

Taiwan that became effective in 2012. We prepared a privacy policy that provides TSMC and its worldwide subsidiaries with global standards for handling personal data and respecting personal privacy in the workplace. Furthermore, to educate TSMC individuals about the restrictions and procedures applicable to handling personal data and respecting personal privacy in the workplace, TSMC rolled out several privacy awareness initiatives. For example, TSMC developed a variety of training programs, including seminars, in-person training programs, and e-learning courses, which describe the policies and guidelines for individuals to follow when handling personal data. Through its assertive privacy promotional campaigns, TSMC is dedicated to bring awareness of the issues surrounding data protection and privacy to its employees and to create a culture whereby an individual's personal data and privacy are protected and handled in line with global standards.

4.9 Risk Management

Our Board of Directors plays a key role in helping the Company identify and manage economic risks. Our Risk Management organization periodically briefs our Audit Committee on the ever-changing risk environment facing TSMC, the focus of our enterprise risk management, and risk assessment and mitigation efforts.

TSMC and its subsidiaries are committed to the proactive and cost-effective integration and management of strategic, operational, financial and hazardous risks together with potential consequences to operations and revenue. TSMC established its Enterprise Risk Management (ERM) program based on both its corporate vision and its long-term sustainability and responsibility to both industry and society. ERM seeks to provide appropriate risks management by TSMC on behalf of all stakeholders. Risk maps considering likelihood and impact severity are applied to identify and

prioritize corporate risks. Various risk treatment strategies are also adopted in response to identified corporate risks.

To reduce TSMC's supply chain risks, a cross-function taskforce comprised of members from fab operations, material management, risk management and quality system management worked with TSMC's primary suppliers to develop business continuity plans and enhance supply chain resilience capability by effectively managing the risks faced by our suppliers. As a result of those efforts, there were no interruptions to TSMC's supply lines in 2013.

As TSMC expanded capacity in 2013, the Company initiated and implemented seismic protection engineering design, risk treatment practices, and green factory projects for all new fabs beginning in the design phase.

The Risk Management organization chart is as follows:

