



Focus 1

Ethical Management

A Trustworthy Company

With foundations built on the core value of Integrity, TSMC is a company that has always governed itself with the highest standards. The ethical culture of TSMC employees is continuously strengthened through comprehensive education and training. At the same time, TSMC works hand in hand with its customers and supply chain to serve the mutual benefit of the industry, and serves as a trustworthy partner to its stakeholders.

47,504 People

47,504 employees completed annual courses on Business Ethics and Regulatory Compliance

100%

All tier 1 suppliers signed the TSMC Guidance on Supplier Business Conduct and conducted internal training at the completion rate of 100%

98.8%

98.8% of suppliers agreed that TSMC promotion events for business ethics helped improve their understanding of business ethics





Ethics and Regulatory Compliance

Strategies & 2030 Goals

2019 Achievements

2020 Targets

Reinforce Both Internally and Externally

The management team of TSMC takes ethics and regulatory compliance seriously. It is reflected not only internally in the formulation of compliance policies and procedures, providing training and promotion activities, and periodic assessments and declarations, but also externally through the participation of third parties. Furthermore, the culture of ethics and regulatory compliance is cultivated through effective reporting channels and whistleblower protection.

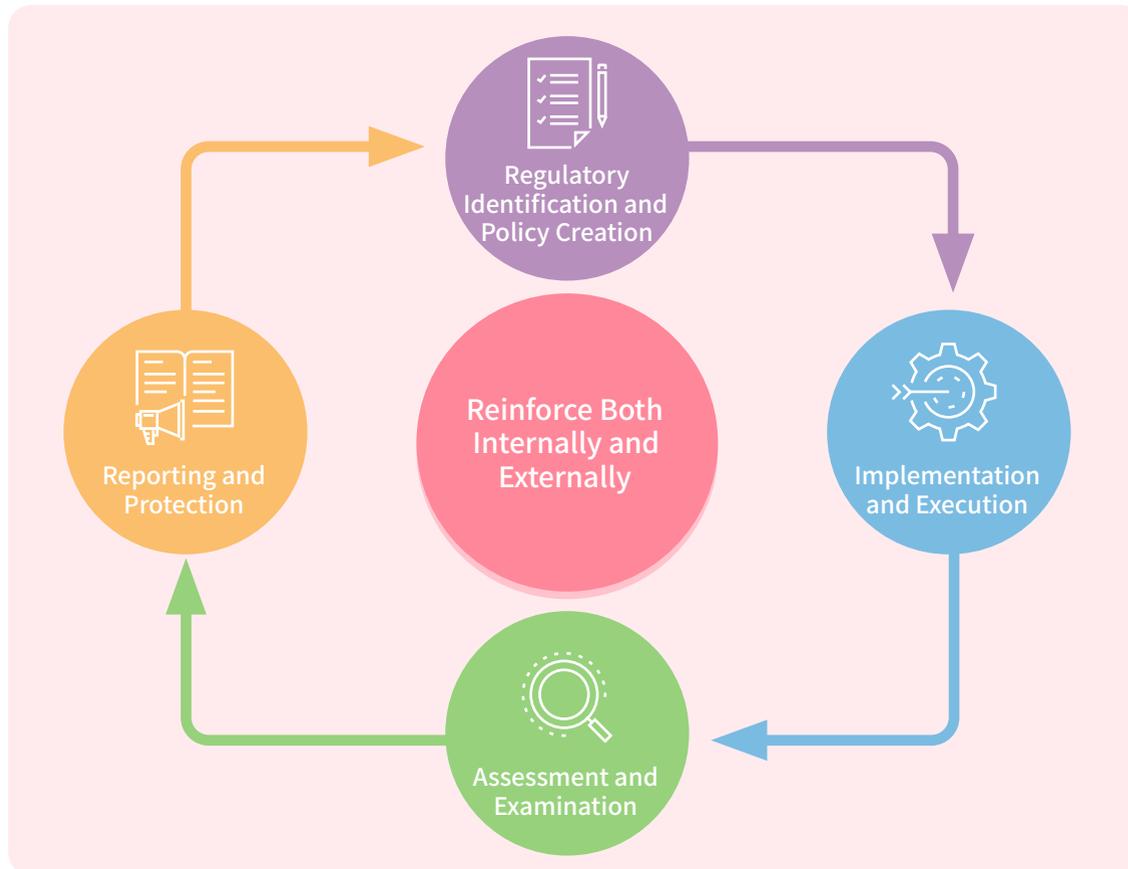
- | | | |
|---|--|---|
| <ul style="list-style-type: none"> ● Completion rate of annual ethics and regulatory compliance training to employees: 100%
 ● No material regulatory violation (where fines exceed NT\$1 million) | <ul style="list-style-type: none"> ● 99.6% completion rate for annual employee training on ethics and regulatory compliance. A follow-up survey of employees that completed training found that 85.9% were aware of reporting channels, and 95.1% believed TSMC takes a serious approach in implementing the TSMC Ethics Code as well as investigating and reprimanding violations^{Note}
Target: 98% completion rate of ethics and regulatory compliance training
 ● No material regulatory violation
Target: No material regulatory violation | <ul style="list-style-type: none"> ● 100 % completion rate for annual training on ethics and regulatory compliance for managers and remain above 98% for all employees
 ● No material regulatory violation |
|---|--|---|

● Exceeded ● Achieved ● Missed Target

Note: Interviewed employees from TSMC's facilities in Taiwan, TSMC North America, TSMC Europe, TSMC Canada, TSMC Japan, TSMC Nanjing, TSMC China, TSMC Korea, and TSMC Technology, Inc.

Integrity is the most important core value in TSMC's ethics and regulatory compliance system. The system is built using a sequence of regulatory identification, compliance policy and procedure formulation, implementation and execution, self-assessment and examination, as well as open reporting channels and whistleblower protection. The Company's management team acts in accordance with our Ethics Code, and fosters a robust ethics and regulatory compliance through the tone from the top.

The Compliance Cycle



Reinforce Both Internally and Externally

Integrity is TSMC's most significant core value. The Company exercises self-discipline by complying with the highest ethical standards and substantially implements integrity, equality, and transparency in daily operations. TSMC holds zero tolerance for corrupt practices and strictly prohibits any behavior of bribery, fraud, blackmail, misuse, misappropriation of the Company's assets, or impairment of the Company's interest for personal gain. TSMC's Code of Ethics and Business Conduct (the Ethics Code) is the guideline for implementing the aforementioned core values. Every employee is required to shoulder the weighty responsibilities of both maintaining high ethical standards and the Company's reputation.

In view of the importance of compliance with the Ethics Code, the Company's management team periodically reports to the Board and the Audit Committee on ethics and regulatory compliance. TSMC formed an Ethics Committee, which oversees implementation of the Ethics Code as well as the investigation and disciplinary action of reported incidents. Meanwhile, TSMC enhances suppliers' understanding and compliance with the Company's Ethics Code through the "Supplier Code of Conduct" and the "TSMC's Anti-Corruption Commitment", bringing the core value of integrity into supply chains and demonstrating it in business behavior.

Regulatory Identification and Policy Formulation

By periodically tracking regulatory changes, TSMC identifies potential risks and impacts arising from regulatory changes. According to the results of regulatory identification, TSMC assesses whether internal regulations align with the changes to ensure that relevant policies and regulations are applicable and appropriate. In 2019, TSMC updated our privacy policy and cookies policy on our website and privacy notices to TSMC employees in alignment with the latest practices under the EU General Data Protection Regulation and related risk assessments.

Implementation and Execution

Implementing laws and relevant internal regulations is an important part of TSMC's ethics and regulatory compliance. All organizations, subsidiaries and employees are required to ensure their business operations are compliant with laws, Company policies, and regulations. Through an annual Control Self-Assessment (CSA), all employees examine their own compliance performance and are open for audit by the Internal Audit organization.

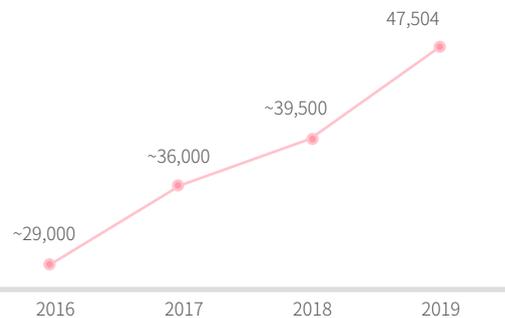
Training and Promotion

To raise employee awareness of ethics and regulatory compliance, TSMC provided various training courses for all employees with relevant

job responsibilities based on laws and relevant internal regulations. The training courses included face-to-face courses and promotions as well as mandatory and elective online courses. Through posters around our facilities, guidelines and FAQs of regulation compliance on the Company's intranet, internal email distributions, and promotional articles, TSMC ensures that all employees have timely access to new information of regulations and have a deeply-ingrained awareness of various issues.

Employee Completion Summary of the Annual Ethics & Regulatory Compliance Course

- The training covered anti-corruption, conflict of interest, reporting channels, and whistleblower protection
- Face-to-face^{Note} and digital training



Note: TSMC (China) technicians, employees assigned abroad, and employees with specific responsibilities are provided with face-to-face training

In 2019, TSMC provided regulatory compliance training courses such as ethics and anticorruption, prevention and reporting of conflict of interest, export control, proprietary information protection, intellectual property rights protection, privacy and personal information protection, conflict-free minerals, and antitrust laws to a total of 47,504 employees. TSMC also offered 38 face-to-face compliance training courses on subjects regarding export control and anti-trust laws for related departments. To ensure that production line managers are fully aware of TSMC regulations on conflict of interest, TSMC trained 22 trainers to give lectures to target trainees, production line managers in Taiwan factories, on this topic using a case studies approach; a total of 1,134 production line managers completed this training. In 2020, TSMC plans to offer advanced online courses on four subjects – export control, insider training, corruption, and anti-trust – to further enhance TSMC employees' awareness in regulatory compliance.

Supplier Management

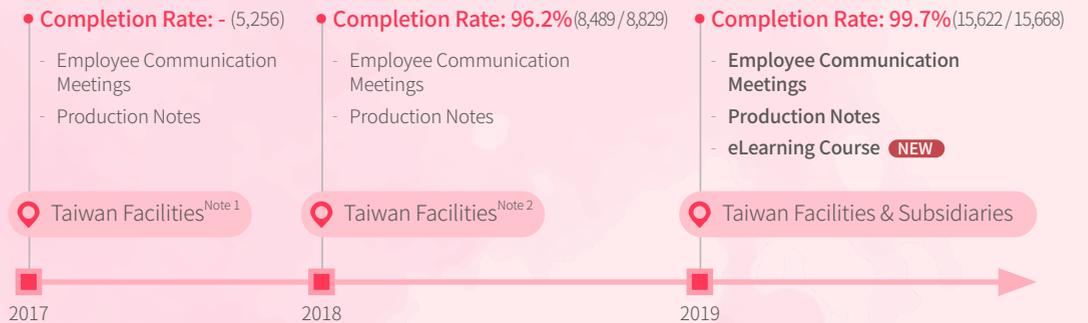
TSMC believes suppliers play key roles in the Company's realization of ethics and regulatory compliance. Through constant and concrete actions, TSMC demonstrates to its suppliers the determination to strictly adhere to the high ethical standards adopted in its Ethics Code, and ensures that suppliers follow accordingly.

Case Study

Introduce Multiple Training Platforms for Technicians to Enhance TSMC's Core Value of Integrity

In 2019, TSMC officially introduced the eLearning annual mandatory program to our technicians to increase the coverage of employee ethics training. TSMC customized the content of the courses in accordance with their daily work and responsibilities, emphasizing relevant ethics issues and regulations. For example, technicians whose jobs involve handling personal information of other employees need to be aware of information protection related laws to ensure that the course is effective. Additionally, considering technicians work in shifts, the training is provided on flexible schedules and through multiple platforms such as face-to-face communication meetings, production notes, and e-learning. In 2019, the training completion rate for technicians was 99.7%, with a total of 15,622 technicians completing the training.

Technician Ethics Training Completion Summary



Note 1: TSMC Fab 12A, Fab 12B, Fab 14A, Fab 14B, Fab 15A, Fab 15B, and Advanced Backend Fabs
Note 2: TSMC Headquarter, all Taiwan Fabs, and Advanced Backend Fabs



For more details, please refer to TSMC's CSR website: ["Introducing Multiple Training Platforms for Technicians to Enhance TSMC's Core Value of Integrity"](#)

Assessment and Examination

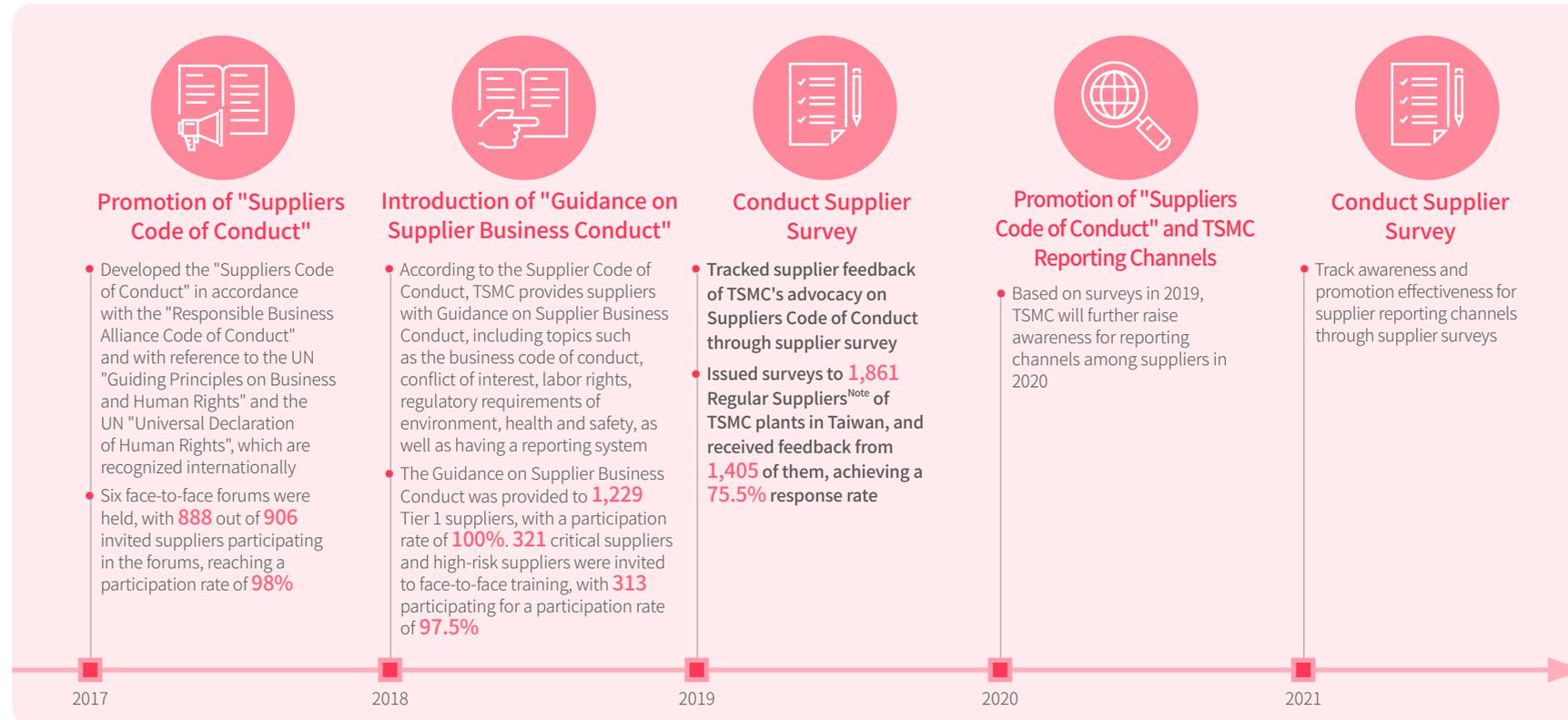
To implement the Ethics Code and to avoid potential conflicts, TSMC requires every newly-hired employee to complete a conflict of interest declaration upon arrival. Employees with specific job grades or positions need to complete the declarations annually. In 2019, 17,668 TSMC employees completed the Annual Conflict of Interest Declaration to which all declarants agreed to comply with the "TSMC Code of Ethics and Business Conduct."

Internal Audit performs an audit according to the annual audit plan approved by the Board of Directors and reports the results and follow-up improvement plans to the Board and management. Internal Audit will also administer the CSA and assess its fulfillment by each fab/division to ensure effectiveness and for internal self-assessment.

In addition, every two years, TSMC performs anonymous surveys to suppliers and employees in turn to periodically evaluate the effectiveness of the promotion of ethics and regulatory compliance. To closely track employee feedback for ethics and regulatory compliance, TSMC introduced a brief Annual Employee Survey in 2019 to increase the frequency of survey and adjust

promotion content based on the feedback. According to aforementioned surveys, 84.9% of suppliers and 85.9% of employees were aware of reporting channels, suggesting that there is still room for improvement. As a result, raising awareness further for reporting channels will be our focus in 2020.

Supplier Management at TSMC



Note: Regular Suppliers are defined as suppliers with transactions over NT\$ 1 million in the last 18 months since the survey was issued. This is to help exclude suppliers without business dealings with TSMC

2019 Actions

- Annual Conflict of Interest Declaration
- Annual Control Self-assessment
- Supplier Survey
- Annual Employee Survey **NEW**

Survey Results

- 98.8% of suppliers believed that TSMC's promotion events for ethics and regulatory compliance help suppliers understand requirements of TSMC's Ethics Code
- 98.3% of suppliers gave a positive evaluation of TSMC staff's ethics conduct and no suppliers gave a negative evaluation
- 95.1% of TSMC employees agreed that TSMC takes a serious approach to the implementation of the Ethics Code and the investigations and disciplinary actions of violations



Reporting and Protection

TSMC establishes and discloses its [Complaint Policy and Procedure for Certain Accounting & Legal Matters](#) and pledges to comply with the relevant regulations in the policy. Open and multiple reporting channels are available for internal and external voices. All reported incidents collected from reporting channels inside or outside of TSMC are properly recorded and traced. TSMC also prevents any form of retaliation by providing proper protection for any individual who in good faith reports a suspected violation or participates in an investigation. The Ethics Committee examines major reported incidents that are investigated. In 2019, the Committee held six such meetings in total. TSMC investigates each individual case

according to its characteristics through specific divisions, and treats every received case seriously, carefully, and effectively to ensure accuracy of the investigation. Investigated cases confirmed to be true will be disciplined respectively, including dismissal, termination of the business relationship, and legal prosecution as appropriate. The TSMC Ethics Committee will evaluate each case to determine whether it is an exceptional case or whether it results from systemic issues of insufficient awareness in ethics. This will allow TSMC to continue evaluating whether it is necessary to improve its management and internal control procedures. Activities such as emails to employees that disclose the violations and disciplinary

actions in each quarter are conducted to promote employees' awareness and avoid recurrence of similar incidents.

In 2019, we didn't receive any report related to finance or accounting matters, or any material regulatory violation (where a fine exceeds NT\$1 million).

In 2019, the incidents reported through the Audit Committee Whistleblower System, Ombudsman System, and Irregular Business Conduct Reporting System totaled 205. Among them, 132 cases were related to employee relations, 47 cases were categorized as others (e.g. asking personal questions or private matters), and 26 cases were related to ethics. Only 2 incidents were "verified

upon investigation" and determined for disciplinary action by the Ethics Committee. One incident involved an employee who violated Company regulations by asking a supplier to book a hotel and prepay for the employee, and that employee received an admonition. The other incident involved an employee who committed a serious violation of Company ethics conduct by taking advantage of his/her position to demand a personal loan from the supplier, and the employee was dismissed. In 2019, TSMC leveraged the two violations to strengthen ethics promotion for all employees in supplier-related activities.

Historical Incidents

Unit: cases



Note: For reported cases related to sexual harassment, please refer to "Inclusive Workplace" in this Report

Reporting Channels and Procedures

