

**Procedures for Financial Derivatives Transactions
of
Taiwan Semiconductor Manufacturing Company Limited**

Section I – Objective

Article 1

The “Procedures for Financial Derivatives Transactions” (the “Procedures”) serve to effectively control the risks arising from conducting TSMC’s (the “Company”) financial derivative transactions.

Any other matters not set forth in the Procedures shall be governed in accordance with the applicable laws, rules, and regulations.

Section II – Principles And Guidelines

Article 2 Instruments

“Financial derivatives” referred herein are broadly defined as instruments that derive their value from the performance of interest rates, foreign exchange rates, prices of financial instruments, indexes, credit ratings, or other variables. Such instruments include swaps, options, futures, forwards, various combinations thereof, embedded derivatives contracts, or structured products. “Forwards” referred herein exclude insurance, performance, after-sale service, long-term lease and long-term purchase (sales) agreements. The Company shall be prohibited from conducting or entering into transactions involving instruments that are not specified herein.

Article 3 Strategy

Financial derivatives are strictly used for hedging purposes to limit the Company’s net exposure after internal netting of income against expense, and asset against liability, incurred from business activities or highly probable forecasted transactions. Transactions involving financial derivatives need to be ascertained to be conducted for hedging purposes.

Article 4 Authorization / Delegation

The financial personnel in charge of trading and confirming derivative transactions shall be designated by the Chief Financial Officer (“CFO”).

The functions of trading, confirmation and settlement shall be performed by different personnel within the Finance Division.

The transaction counterparty needs to be informed of the identity of the personnel who is appointed or removed to be responsible for trading and confirmation before the effective date of the relevant appointment or discharge.

Article 5 Transaction Contract Dollar Amount And Loss Control

Hedging

The dollar amount of total contracts outstanding shall not exceed the net position/exposure for the next six months. Loss limit is 20% of the contract amount for any individual contract or for all contracts on an aggregated basis.

Trading

TSMC shall not engage in any transactions for trading purposes.

Article 6 Performance Evaluation

Hedging

Performance is evaluated against pre-determined strategies.

Section III – Operating Procedures

Article 7 Level of Delegation/Authorization

Transaction Execution

The authorized dealers, based on the net position incurring from business activities or highly probable forecasted transactions of the Company, shall evaluate the proposed transactions with and obtain agreement from the Finance Director and Finance Manager before executing such agreed transactions. The levels of delegation and authority to execute each transaction are limited as follows:

	<u>Delegated Amount of Each Transaction</u>
CFO	US\$75 MM+
Finance Director	Up to US\$75 MM
Finance Manager	Up to US\$50 MM
Authorized Dealer	Up to US\$25 MM

Transaction Ratification

A written ratification shall be obtained according to the following combinations of authorization, for every executed transaction.

	<u>Delegated Amount of Each Transaction</u>
CFO & Finance Director	US\$50 MM+
Finance Director & Finance Manager	Up to US\$50 MM

The banks and other counterparties need to be informed in writing of the identity of the delegated personnel in order to manage and control the Company's derivative transactions and positions. The written confirmation with banks and other counterparties, regardless of the size of transaction amount, must all be ratified by the Finance Manager of the Company.

Article 7-1 Material Transactions of Financial Derivatives

Material financial derivative transactions shall be approved by the Audit Committee in accordance with relevant regulations and submitted to the Board of Directors (the "Board") for approval.

Article 8 Work Flow

Please see attached Exhibit.

Section IV – Regulatory Reporting

Article 9

The Company shall, on a monthly basis, report and publicly disclose the financial derivative transactions conducted by it and its subsidiaries (that are not domestic public companies) up to the end of the previous month in accordance with relevant regulations.

In addition to the above, all other reporting/disclosure items are subject to the relevant regulations. For any reporting and public disclosure as required above to be made for the Company's subsidiary which is not a domestic public company, the Company is responsible for making such required disclosure on behalf of its relevant subsidiary.

Should there be any inaccuracies or incompleteness in the Company's required public disclosures, the Company needs to restate its public disclosure on all items in their entirety.

Section V – Internal Control

Article 10 Risk Management

Credit Risk Control

Credit risk is controlled by restricting the counterparties that TSMC may deal with to those who either have banking relationships with TSMC or are internationally renowned and are able to provide sufficient information.

Market/Price Risk Control

Market/Price risk arising from the fluctuations of interest rates and foreign exchange rates or from other factors shall be closely monitored and controlled.

Liquidity Risk Control

Liquidity risk shall be controlled by restricting counterparties to those who have adequate facility, sufficient information, and sizable trading capacity and capability to enter into transactions in any markets around the world.

Cash Flow

The Company shall maintain adequate level of quick assets and credit facilities to meet the cash settlement requirement.

Operating Risk Control

Delegation systems and operating procedures set forth herein are employed to control operating risks.

Legal Risk Control

Any legal documents in respect of financial derivative transactions shall first be reviewed by in-house and/or outside legal counsel before being executed to control legal risk.

Article 11 Internal Control

Separation of Duty

The respective functions of trading, confirmation and settlement shall be performed by different personnel.

Transaction Control

Once the trading personnel execute any transactions, the confirmation personnel shall confirm the transaction terms with the counterparties and obtain relevant supervisory ratifications.

Monitoring

The evaluation, monitoring, and control of aforementioned risks arising from derivative transactions shall be performed by the Chairman's designee appointed by written designation and from a section within the Company that is different from the one responsible for the trading, confirmation and settlement thereof. This responsible personnel shall also report to the Chairman or the Board.

Article 12 Evaluation and Correction of Abnormal Situation

The Finance Division shall prepare a bi-weekly report in connection with the transactions entered into for hedging purposes for the review of the Chairman or his/her designee appointed by written designation.

The Board holds the Chairman or his designee appointed by written designation accountable for the evaluation, monitoring, and control of risks arising from financial derivative transactions. The Board is itself responsible for evaluating the Finance Division's hedging performance and results periodically to oversee how well they fit in the Company's overall business and operating strategies and to review if the associated risks thereof have exceeded the Company's risk tolerance.

Designated by the Board, the Chairman or his/her designee appointed by written designation shall also be responsible for periodically reviewing the level of adequacy of the current risk control process and its degree of consistency with the principles and procedures set forth herein and report to the Board in its next meeting. Once unusual performances and results have been identified, the Chairman (or his designee appointed by written designation) needs to report same to the Board (or to the Chairman as relevant) immediately and undertake any actions deemed necessary to rectify same.

Section VI – Internal Audit

Article 13

Internal audit personnel is required to evaluate the sufficiency of the internal control system in connection with financial derivative transactions on a periodic basis, to conduct auditing of the compliance by related departments of the Procedures, and to produce monthly reports. A written report of any violation must be submitted to notify the Audit Committee of same.

Section VII – Others

Article 14

In accordance with the relevant regulations, a record book shall be established and maintained to record all of the Company's financial derivative transactions which, except as otherwise specified by laws, must be retained for at least five years.

Article 15

The Company's managers and persons-in-charge shall follow the Procedures in order to prevent the Company from incurring any losses. All violations of related regulations or the Procedures shall be subject to discipline in accordance with relevant human resources articles or rules of the Company.

Article 16

For the Company's subsidiaries contemplating the conduct of financial derivative transactions, the Company shall supervise such subsidiary to establish relevant procedures for such transactions. Such procedures shall be approved by the Audit Committee and/or the Board of Directors and/or Shareholders' Meeting of the subsidiary and become effective thereafter. Relevant information of any financial derivative transactions executed by such subsidiary shall be submitted periodically to the Company for inspection.

Article 17

These Procedures shall be approved by the Audit Committee, the Board of Directors, and the Shareholders' Meeting. Any amendment hereof is subject to the same procedures.