

# Corporate Governance

## 3.1 Overview

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the 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. The Audit Committee and Compensation Committee consist solely of independent directors.

### 2016 Corporate Governance Awards

Organization	Awards
Dow Jones Sustainability Indices (DJSI)	Membership in the Dow Jones Sustainability World Index for the 16th consecutive year RobecoSAM Sustainability Award – Gold Class
MSCI Global Sustainability Indexes	Selected as MSCI Global Sustainability Indexes component
FTSE4Good Index	Selected as FTSE4Good Emerging Index component
FinanceAsia	"FinanceAsia" 20th Anniversary Platinum Awards: Best Company – in Taiwan
IR Magazine	Global Top Corporate Governance – Five Winning Companies
AsiaMoney	Best Managed Company Large Cap in Taiwan
FORTUNE	Selected as one of The World's Most Admired Companies
Barron's	Selected as Top 100 World's Most Respected Companies
CommonWealth Magazine	Excellence in Corporate Social Responsibility Award – Large cap – 2nd Place Most Admired Company in Taiwan for the 21st consecutive year Most admired entrepreneur in Taiwan
Taiwan Institute of Sustainable Energy	Taiwan Corporate Sustainability Awards: 2016 Taiwan Corporate Sustainability Awards No.1 for Domestic Corporates Taiwan Top 50 Corporate Responsibility Report Awards – Electronics Industry – Gold Class
Taiwan Stock Exchange	Ranked in top 5% in Corporate Governance Evaluation of Listed Companies for the 2nd consecutive year

## 3.2 Board of Directors

### Board Structure

TSMC's Board of Directors consists of eight distinguished members with a great breadth of experience as world-class business leaders or professionals. We rely on them for their diverse knowledge, personal perspectives, and solid business judgment. Five of the eight members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Co-Founder, Chairman Emeritus of the Acer Group, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; former Chairman of National Performing Arts Center and former Advisor of Executive Yuan, R.O.C., Ms. Kok-Choo Chen; and former Chairman of Applied Materials, Inc., Mr. Michael R. Splinter. One of the members of the Board Directors is female. The number of Independent Directors is more than 50% of the total number of Directors.

In February 2017, TSMC's Board of Directors determined the number of directors to be ten and approve the election of two additional directors at TSMC's 2017 Annual Shareholders' Meeting; and authorized the Chairman to nominate Dr. Mark Liu and Dr. C.C. Wei as candidates for directors to stand for election at TSMC's 2017 Annual Shareholders' Meeting.

### 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 evaluate the management's performance and to appoint and 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.

The third duty of the Board of Directors is to resolve the important, concrete matters, such as capital appropriations, investment activities, dividends, etc.

The fourth 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.

### Selection and Election of Directors

TSMC envisions the membership of its esteemed Board of Directors to be composed of highly ethical professionals with the necessary knowledge, experience and understanding from diverse backgrounds. TSMC envisions its Board to be composed of as many independent directors as possible, and the independence of each independent director candidate is also considered and assessed under relevant laws. Based on the above selection criteria, TSMC composes its Board with world-class candidates who are/were international or local business leaders in the high-tech industry, prestigious academics or other professionals excelling in their chosen field of expertise.

Directors shall be elected pursuant to the candidates nomination system as specified in Article 192-1 of the R.O.C. "Company Law". The tenure of office for Directors shall be three years. 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". Under R.O.C. 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. The final slate of candidates are put to the shareholders for voting at the relevant annual shareholders' meeting.

There are no limits on the number of terms that a director may serve. We believe the Company benefits from the contributions of directors who have over their years of dedicated service acquired unique insights into the operations and financial developments of the Company. The Company reviews the appropriateness of each director's continued service to ensure there are new viewpoints available to the Board.

### Transition of Responsibilities

In November 2013, following nomination by Chairman Dr. Morris Chang and approval by the Board of Directors, Dr. Mark Liu and Dr. C.C. Wei assumed duties as Presidents and Co-Chief Executive Officers of TSMC, reporting directly to the Chairman. Demonstrating TSMC's steady and deliberate transition of responsibilities, the Board of Directors approved in April 2017 the nomination of Dr. Liu and Dr. Wei to serve as members of the Board, and they will stand for election to the Board at the TSMC Annual Shareholders' Meeting to be held in June 2017.

### Directors' Compensation

According to our Articles of Incorporation, not more than 0.3 percent of our annual profits (defined under local law) after recovering any losses incurred in prior years, if any, may be distributed as compensation to our directors. In addition, directors who also serve as executive officers of the Company are not entitled to receive any director compensation.

### Directors' Professional Qualifications and Independent Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Board members are listed in the table below.

Name	Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 1)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Morris Chang Chairman			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
F.C. Tseng Vice Chairman			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	1
Johnsee Lee Director	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4
Sir Peter Leahy Bonfield Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Stan Shih Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Thomas J. Englbous Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Kok-Choo Chen Independent Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Michael R. Splinter Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note:

Directors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, provided that this restriction does not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the GTSM";
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
9. Not been a person of any conditions defined in Article 30 of the Company Law; and
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.1 Audit Committee

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 following major matters:

- Financial reports;
- Auditing and accounting policies and procedures;
- Internal control systems and including related policies and procedures;
- Material asset or derivatives transactions;
- Material lending funds, endorsements or guarantees;
- Offering or issuance of any equity-type securities;
- Derivatives and cash investments;
- Legal compliance;
- Related-party transactions and potential conflicts of interests involving executive officers and directors;
- Ombudsman reports;
- Fraud prevention and investigation reports;
- IT security;
- Corporate risk management;
- Performance, independence, qualification of independent auditor;
- Hiring or dismissal of an attesting CPA, or the compensation given thereto;
- Appointment or discharge of financial, accounting, or internal auditing officers;
- Assessment of Committee Charter and fulfillment of Audit Committee duties; and
- Assessment of the Committee's performance, etc.

Under R.O.C. law, the membership of 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.

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. The Audit Committee Charter is available on TSMC's corporate website.

### 3.2.2 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 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.

TSMC's Compensation Committee is authorized by its Charter to retain an independent consultant to assist in the evaluation of CEO, or executive officer compensation. The Compensation Committee Charter is available on TSMC's corporate website.

### Compensation Committee Members' Professional Qualifications and Independent Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Compensation Committee members are listed in the table below.

Name Title	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 1)								Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Stan Shih Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Sir Peter Leahy Bonfield Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Thomas J. Engibous Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Kok-Choo Chen Independent Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Michael R. Splinter Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note:

Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
8. Not been a person of any conditions defined in Article 30 of the Company Law.

### 3.2.3 Director and Committees Members' Attendance

Each Director is expected to attend every Board meeting and the committees meeting on which he or she serves. In 2016, the average Board Meeting attendance rate was 90.63% and the attendance rate for the Audit Committee and Compensation Committee's Meetings were 92% and 90% respectively.

#### Board of Directors Meeting Status

Dr. Morris Chang, the Chairman of the Board of Directors, convened four regular meetings in 2016. The directors' attendance status is as follows.

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Morris Chang	4	-	100%	None
Vice Chairman	F.C. Tseng	4	-	100%	None
Director	National Development Fund, Executive Yuan Representative: Johnsee Lee	3	1	75%	None
Independent Director	Sir Peter Leahy Bonfield	4	-	100%	None
Independent Director	Stan Shih	4	-	100%	None
Independent Director	Thomas J. Engibous	3	1	75%	None
Independent Director	Kok-Choo Chen	4	-	100%	None
Independent Director	Michael R. Splinter	3	1	75%	None

Annotations:

A. (1) Securities and Exchange Act §14-3 resolutions:

Meeting Dates	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
2016 1st Regular Meeting February 1 & 2	approving the establishment of a wholly owned subsidiary in Nanjing of China with capital injection not exceeding US\$1 billion, subject to approval from the Investment Commission of Taiwan's Ministry of Economic Affairs, to set up a 12-inch fab and a design service center with a total capital investment not to exceed US\$3 billion	None
2016 2nd Regular Meeting May 9 & 10	approving amendments to TSMC's internal control related policies and procedures	
2016 4th Regular Meeting November 7 & 8	approving the proposed 2017 service fees and out-of-pocket expenses for Deloitte & Touche, TSMC's independent auditor	
2017 1st Regular Meeting February 13 & 14	approving amendments to TSMC's "Procedures for Acquisition or Disposal of Assets"	

(2) There were no other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2016.

B. Recusals of Directors due to conflicts of interests in 2016: Directors recused themselves from the discussion and voting of their compensation resolution.

C. Measures taken to strengthen the functionality of the Board:

- Five of the eight Directors are Independent Directors. The number of Independent Directors is more than 50% of the total number of Directors; the Chairman and Vice Chairman of the Board of Directors are not executive officers of the Company.
- TSMC Board delegates various responsibilities and authority to two Board Committees, Audit Committee and Compensation Committee. Both the two Committees consist solely of the five Independent Directors. Each Committees chairperson regularly reports to the Board on the activities and actions of the relevant committee.

#### Audit Committee Meeting Status

Sir Peter Bonfield, Chairman of the Audit Committee, convened four regular meetings and one special meeting in 2016. The Committee members and consultant's attendance status is shown in the following table. In addition to these meetings, the Committee members and consultant participated in four telephone conferences to discuss the Company's Annual Report to be filed with the Taiwan and U.S. authorities and investor conference materials with management.

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Telephone Conferences	Attendance Rate of Telephone Conferences (%)	Notes
Chair	Sir Peter Leahy Bonfield	5	-	100%	4	100%	None
Member	Stan Shih	5	-	100%	4	100%	None
Member	Thomas J. Engibous	4	1	80%	4	100%	None
Member	Kok-Choo Chen	5	-	100%	4	100%	None
Member	Michael R. Splinter	4	1	80%	4	100%	None
Financial Expert	J.C. Lobbezoo	5	-	100%	4	100%	None

Annotations:

A. (1) Resolutions related to Securities and Exchange Act §14-5:

Meeting Dates	Resolution	Any Independent Director had a Dissenting Opinion or Qualified Opinion
2016 1st Regular Meeting February 1	approving the 2015 annual financial statements approving 2015 Statement of Internal Control System	None
2016 2nd Regular Meeting May 9	approving the proposed 2016 service fees to Deloitte & Touche for Nanjing fab approving amendments to TSMC's internal control related policies and procedures	
2016 3rd Regular Meeting August 1	approving the 2016 second quarter financial statements	
2016 4th Regular Meeting November 7	approving the proposed 2017 service fees and out-of-pocket expenses for Deloitte & Touche approving the permitted non-audit services to be performed by Deloitte & Touche	
2017 1st Regular Meeting February 13	approving the 2016 annual financial statements approving the amendments to TSMC's "Procedures for Acquisition or Disposal of Assets" approving 2016 Statement of Internal Control System	

(2) There was no other resolutions which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2016.

B. There were no recusals of independent directors due to conflicts of interests in 2016.

C. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2016 (which should include the material items, channels, and results of the audits on the corporate finance and/or operations, etc.):

(1) The internal auditors have sent the audit reports to the members of the Audit Committee periodically, and presented the findings of all audit reports in the quarterly meetings of the Audit Committee. The head of Internal Audit will immediately report to the members of the Audit Committee any material matters. During 2016, the head of Internal Audit did not report any such material matters. The communication channel between the Audit Committee and the internal auditor functioned well.

(2) The Company's independent auditors have presented the findings of their quarterly review or audits on the Company's financial results. Under applicable laws and regulations, the independent auditors are also required to immediately communicate to the Audit Committee any material matters that they have discovered. During 2016, the Company's independent auditors did not report any irregularity. The communication channel between the Audit Committee and the independent auditors functioned well.

The communications between the independent directors, the internal auditors, and the independent auditors are listed in the table below.

Meeting Dates	Communications between the Independent Directors and the Internal Auditors	Communications between the Independent Directors and the Independent Auditors
2016 1st Regular Meeting February 1	<ul style="list-style-type: none"> <li>reviewing report on SOX 404 self-testing results for the year 2015</li> <li>reviewing the Internal Auditor's report (closed door)</li> <li>reviewing and approving 2015 Statement of Internal Control System</li> </ul>	<ul style="list-style-type: none"> <li>reviewing any audit problems or difficulties and management's response in connection with 2015 annual financial statements (closed door)</li> <li>reviewing regulatory developments</li> <li>reviewing external auditor relationship (i.e. qualification, performance and independence)</li> </ul>
2016 2nd Regular Meeting May 9	<ul style="list-style-type: none"> <li>reviewing the Internal Auditor's report (closed door)</li> <li>reviewing and approving amendments to TSMC's internal control related policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>reviewing any review problems or difficulties and management's response in connection with 2016 first quarter financial statements (closed door)</li> <li>reviewing regulatory developments</li> <li>reviewing the result of CPA evaluation questionnaire</li> </ul>
2016 3rd Regular Meeting August 1	<ul style="list-style-type: none"> <li>reviewing the Internal Auditor's report (closed door)</li> </ul>	<ul style="list-style-type: none"> <li>reviewing any review problems or difficulties and management's response in connection with 2016 second quarter financial statements (closed door)</li> <li>reviewing regulatory developments</li> </ul>
2016 4th Regular Meeting November 7	<ul style="list-style-type: none"> <li>reviewing the Internal Auditor's report (closed door)</li> <li>reviewing and approving the 2017 internal audit plan</li> </ul>	<ul style="list-style-type: none"> <li>reviewing any review problems or difficulties and management's response in connection with 2016 third quarter financial statements (closed door)</li> <li>reviewing regulatory developments</li> </ul>
2017 1st Regular Meeting February 13	<ul style="list-style-type: none"> <li>reviewing the Internal Auditor's report (closed door)</li> <li>reviewing report on SOX 404 self-testing results for the year 2016</li> <li>reviewing and approving 2016 Statement of Internal Control System</li> </ul>	<ul style="list-style-type: none"> <li>reviewing any audit problems or difficulties and management's response in connection with 2016 annual financial statements (closed door)</li> <li>reviewing regulatory developments</li> </ul>

Result: all of above matters were reviewed and approved by the Audit Committee whereupon independent directors raised no objection.

### Compensation Committee Meeting Status

Mr. Stan Shih, Chairman of the Compensation Committee, convened four regular meetings in 2016. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Stan Shih	4	-	100%	None
Member	Sir Peter Leahy Bonfield	4	-	100%	None
Member	Thomas J. Engibous	3	1	75%	None
Member	Kok-Choo Chen	4	-	100%	None
Member	Michael R. Splinter	3	1	75%	None

Annotations:

- There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors in 2016.

- There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

### 3.3 Major Decisions of Shareholders' Meeting and Board Meetings

#### 3.3.1 Major Resolutions of Shareholders' Meeting and Implementation Status

TSMC's 2016 Annual Shareholders' Meeting was held in Hsinchu, Taiwan on June 7, 2016. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1) The revisions to the Articles of Incorporation;
- (2) The 2015 Business Report and Financial Statements; and
- (3) The distribution of 2015 profits.

#### Implementation Status

All the resolutions of the Shareholders' Meeting have been fully implemented in accordance with the resolutions.

#### 3.3.2 Major Resolutions of Board Meetings

During the 2016 calendar year, and as of the date of this Annual Report, major resolutions approved at Board meetings are summarized below:

- (1) Board Meeting of February 1 & 2, 2016:
  - approving 2015 business report and financial statements;
  - approving distribution of 2015 profits, and cash dividends, employee cash bonus and employee profit sharing;
  - approving the establishment of a wholly owned subsidiary in Nanjing of China with capital injection not exceeding US\$1 billion, subject to approval from the Investment Commission of Taiwan's Ministry of Economic Affairs, to set up a 12-inch fab and a design service center with a total capital investment not to exceed US\$3 billion;
  - approving capital appropriations of US\$2,536.9 million (including: 1. installation of advanced technology capacity; 2. second quarter 2016 R&D capital investments and sustaining capital expenditures);
  - approving the capital injection of not more than US\$2 billion to TSMC Global Ltd., a wholly-owned BVI

subsidiary, for the purpose of reducing foreign exchange hedging costs; and

- convening the 2016 Annual Shareholders' Meeting.
- (2) Regular Board Meeting of May 9 & 10, 2016:
    - approving capital appropriations of US\$4,101.3 million (including: 1. installation and expansion of advanced technology capacity; 2. conversion of certain logic capacity to specialty technology; 3. third quarter 2016 R&D capital investments and sustaining capital expenditures).
  - (3) Regular Board Meeting of August 1 & 2, 2016:
    - approving capital appropriations of US\$3,790.4 million (including: 1. expansion of advanced technology capacity; 2. conversion of certain logic capacity to specialty technologies; 3. fourth quarter 2016 R&D capital investments and sustaining capital expenditures); and
    - approving TSMC's acquisition from VisEra Holding Company of 86.9% shareholding in VisEra Technologies Company Ltd. at the book value, and 6.9% shareholding in Xintec Inc. at the market price to simplify investment structure. As a result, VisEra Holding Company will be dissolved and merged into TSMC Partners, Ltd., which is 100% owned by TSMC. After the transaction, TSMC will own 86.9% of VisEra Technologies Company Ltd. and 41.3% of Xintec Inc. directly, which are the same as what TSMC has held directly and indirectly prior to this transaction.
  - (4) Regular Board Meeting of November 7 & 8, 2016:
    - approving capital appropriations of US\$4,908.9 million (including: 1. installation and expansion of advanced technology capacity; 2. upgrading advanced packaging capacity to next generation technology; 3. first quarter 2017 R&D capital investments and sustaining capital expenditures);
    - approving the promotion of Mr. Y.P. Chin as Senior Vice President;
    - approving the promotion of Dr. Y.J. Mii as Senior Vice President;
    - approving the promotion of Dr. Douglas Yu as Vice President;
    - approving the promotion of Dr. Alexander Kalnitsky as Vice President; and
    - approving the appointment of Dr. Kevin Zhang as Vice President.
  - (5) Board Meeting of February 13 & 14, 2017:
    - approving 2016 business report and financial statements;
    - approving distribution of 2016 profits, and cash dividends, employee cash bonus and employee profit sharing;
    - approving capital appropriations of US\$1,927.58 million (including: 1. upgrading advanced technology capacity and expanding advanced packaging capacity; 2.

conversion of logic capacity to specialty technology; 3. upgrading and building specialty technology capacity; 4. second quarter 2017 R&D capital investments and sustaining capital expenditures);

- approving the capital injection of not more than US\$2 billion to TSMC Global Ltd., a wholly-owned BVI subsidiary, for the purpose of reducing foreign exchange hedging costs;
- determining the number of directors to be increased by two to ten and approving the election of two additional directors at TSMC's 2017 Annual Shareholders' Meeting, and authorizing the Chairman to nominate Dr. Mark Liu and Dr. C.C. Wei as candidates for directors to stand for election at TSMC's 2017 Annual Shareholders' Meeting; and
- convening the 2017 Annual Shareholders' Meeting.

### 3.3.3 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors during the 2016 Calendar Year and as of the Date of this Annual Report: None.

### 3.4 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
1. Does Company follow "Taiwan Corporate Governance Implementation" to establish and disclose its corporate governance practices?		V	TSMC has always followed excellent corporate governance practices, provided the utmost in operational transparency and safeguarded shareholders' equity. Although the Company does not have a formal code of practice for corporate governance, however TSMC has always been highly regarded as the industry leader in implementing comprehensive corporate governance practices. In addition, the Company also has a world-class Board of Directors. The Company believes that corporate governance is based on integrity, professional management and implementation. TSMC has been proving its excellent corporate governance in its operating performance and continued winning of domestic and international awards on best corporate governance company.	Same as explanation
2. Shareholding Structure & Shareholders' Rights (1) Does Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, has these procedures been implemented accordingly?  (2) Does Company possess a list of major shareholders and beneficial owners of these major shareholders?  (3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?  (4) Has the Company established internal rules prohibiting insider trading on undisclosed information?	V		(1) TSMC has designated appropriate departments, such as Corporate Communication Division, the SEC Compliance Department, Legal Department, etc., to handle shareholder suggestions, concerns, disputes or litigation matters.  (2) TSMC tracks the shareholdings of directors, officers, and top ten shareholders.  (3) TSMC has set up internal rules in the Company's Internal Control System and Affiliated Corporations Management.  (4) TSMC has established its "Insider Trading policy" that applies to all employees, officers and members of the Board of Directors of the Company and to any other person having a duty of trust or confidence, with respect to transactions in the Company's securities. This policy prohibits any insider trading and the Company regularly provides internal training on this issue.	None
3. Composition and Responsibilities of the Board of Directors (1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?  (2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?  (3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis?	V		(1) The members of TSMC Board of Directors are nominated via a rigorous selection process. It not only considers diverse backgrounds, professional competence and experience, but also attaches great importance to his/her personal reputation on ethics and leadership. Presently, the Company's Board of Directors consists of eight members who possesses world-class managerial and/or professional experiences. We rely on each directors' knowledge, personal insight and business judgment. One female director currently sits on the Board of Director, and a majority of our Board consists of independent directors.  (2) Audit Committee (founded in 2002): consists of all five independent directors; Compensation Committee (founded in 2003): consists of all five independent directors; CSR Committee (founded in 2011): is formed by the Company's management team and reports to the Board of Directors.  (3) As TSMC's corporate governance concept, the Board of Director's primary responsibility is to supervise, evaluate the management's performance and dismiss officers of the Company when necessary, resolve the important, concrete matters and provide guidance to the management team. TSMC's Board of Directors consists of distinguished members with a great breadth of experience as world-class business leaders or professionals and adhere high ethical standards and commitment to the Company. Each quarter's Board Meeting is last for two days. Company's resolutions are determined in board meeting, also business strategy and future orientation are discussed in the meeting, in order to create best interest for shareholders. Based on TSMC's operating performance and local/international awards of best corporate governance, it certainly proves the Company's excellent performance of Board of Directors. Also, TSMC's audit committee performs self-evaluation and discusses future issues of concern by questionnaire on annual basis.	None
(4) Does the Company regularly evaluate its external auditors' independence?	V		(4) The Audit Committee annually evaluates the independence of external auditors and reports the same to the Board of Directors.	

(Continued)

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
4. Does the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, produce (or record?) minutes of board meetings and shareholders meetings, etc.	V		The Chairman appointed the current General Counsel as the Company's Board secretariat. TSMC's Corporate & Compliance Legal Division, which directly reports to the General Counsel, is in charge of assisting in related affairs, including furnishing information required for business decisions by Directors, handling matters relating to Board meetings, Committees meetings and Shareholders' meetings and recording minutes of relevant meetings, etc. The SEC Compliance Department is responsible for handling corporate registration and amendment registration. All application documents needs to be reviewed by Legal and approved by the General Counsel.	None
5. Has the Company established a means of communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	V		Depending on the situation, the Company's Corporate Communication Division, SEC Compliance department, Human Resources department, Customer Service department and Procurement department will communicate with stakeholders. We also have publicly disclosed the contact information of our corporate spokesperson and relevant departments. Also, we have a stakeholder section on our corporate website to address our corporate social responsibilities and any other issues. For details, please refer to "7. Corporate Social Responsibility" on page 118-133 of this Annual Report and "2. Stakeholder Engagement" of TSMC's CSR Report.	None
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	V		We have appointed China Trust as our registrar for our Shareholders' Meetings.	None
7. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?  (2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)?	V		We have appointed China Trust as our registrar for our Shareholders' Meetings. (1) TSMC discloses its financials business and corporate governance status on its website at <a href="http://www.tsmc.com">http://www.tsmc.com</a> (in Chinese and English). TSMC's American Depositary Receipt (ADR) is listed on the New York Stock Exchange (NYSE). As a foreign issuer, TSMC must comply with NYSE's rules. We have been operating in accordance with NYSE listing standards, and have been disclosing the major differences between our corporate governance practices and U.S. corporate governance practices. Please see <a href="http://www.tsmc.com/download/english/e03_governance/NYSE_Section_303A.pdf">http://www.tsmc.com/download/english/e03_governance/NYSE_Section_303A.pdf</a>  (2) TSMC has designated appropriate departments (e.g. the Corporate Communication Division, the SEC Compliance Department, etc.) to handle the collection and disclosure of information as required by the relevant laws and regulations of Taiwan and other jurisdictions. TSMC has designated spokespersons as required by relevant regulations. TSMC webcasts live investor conferences.	None
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	V		(1) For employee rights and employee wellness, please refer to "Human Capital" of this Annual Report.  (2) For investor relations, supplier relations and rights of stakeholders, please refer to "Corporate Social Responsibility" of this Annual Report.  (3) For Directors' training records, please refer to "Continuing Education/Training of Directors" of this Annual Report.  (4) For Risk Management Policies and Risk Evaluation, please refer to "Risk Management" of this Annual Report.  (5) For Customer Relations Policies, please refer to "Customer Trust" of this Annual Report.  (6) TSMC maintains D&O Insurance for its directors and officers.	None
9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange			TSMC was ranked in top 5% in Corporate Governance Evaluation in 2015 and 2016. The implementation status regarding below two non-scoring items: 1. Establishment a formal code of practice for corporate governance: as the explanation of Assessment Item 1 of this table, although the Company does not have a formal code of practice for corporate governance, however TSMC has always been highly regarded as the industry leader in implementing comprehensive corporate governance practices. In addition, the Company also has a world-class Board of Directors. The Company believes that corporate governance is based on integrity, professional management and implementation. TSMC has been proving its excellent corporate governance in its operating performance and continued winning of domestic and international awards on best corporate governance company. 2. Training of Directors: TSMC's Board of Directors consists of distinguished members with a great breadth of experience as world-class business leaders or professionals. The Company continually arranges relevant training for Directors during Board meetings, and Directors also participate relevant course as needed. For the details, please refer to the below table "Continuing Education/Training of Directors in 2016".	

### Continuing Education/Training of Directors in 2016

The major training methods of Directors includes:

- At quarter Board meetings, TSMC management regularly presents updates on the Company's business, regulatory developments and other information to Directors;
- The Company arranges speeches regarding politics, economics, and regulatory compliance, etc.;
- At quarter Audit Committee meetings, regular regulatory update reports are provided by TSMC's General Counsel and by the Company's independent auditors; and
- Directors participate relevant training courses as needed.

In addition, from time to time, Directors are invited by other parties to give speeches on corporate governance and related topics.

Name	Date	Host by	Training/Speech Title	Duration
Morris Chang	07/01	Pan Wen-Yuan Cultural and Educational Foundation	Speech: New Talent of a New Era	1 hour
	10/29	Fubon Financial Holding Co., Ltd.	Speech: Corporate Governance Structure and Board Operations	2 hours
F.C. Tseng	05/05	Securities and Future Institute	Legal Liability of Directors and Supervisors in Hostile Mergers and Acquisitions	3 hours
	08/04		Case Study on Employee Compensation Strategies and Tool Applications	3 hours
Stan Shih	11/10	Taiwan Corporate Governance Association	Introduction to Significant Mergers and Acquisition Agreements (Including Case Sharing)	3 hours
	11/11		Industrial Sustainable Development - ICT Industry's Low Carbon Investments and Business Strategies in Response to the Paris Agreement	3 hours
Johnsee Lee	08/12	Taiwan Corporate Governance Association	Audit Committee Practices	3 hours
	09/21	Taiwan Mergers & Acquisitions and Private Equity Council	2016 Private Equity Forum	4 hours
	09/29	Oxford Economics	Global Economic Outlook Seminar	3 hours
Michael R. Splinter	10/09	Community College Entrepreneurial Association	Developing Entrepreneurs	2 hours
Morris Chang F.C. Tseng Sir Peter Leahy Bonfield Stan Shih Thomas J. Engibous Kok-Choo Chen Michael R. Splinter Johnsee Lee	02/02	TSMC	"Post-Election Taiwan and its Relations with China and the US" by Dr. Chi SU, Chairman of Taipei Forum	40 mins.
	08/02	TSMC	"Recent Labor Problems in Taiwan and Future Potential Impact" by Dr. Pan Shihwei, Associate Professor of Industrial Relations of Department and graduate studies of Labor Relations, Chinese Culture University	1 hour

Note: Selected speeches on corporate governance and related topics.

### Continuing Education/Training of Management in 2016

Name/Title	Date	Host by	Training	Duration
Lora Ho Senior Vice President and Chief Financial Officer	05/05	Securities and Future Institute	Legal Liability of Directors and Supervisors in Hostile Mergers and Acquisitions	3 hours
	08/04		Case Study on Employee Compensation Strategies and Tool Applications	3 hours
Sylvia Fang Vice President and General Counsel	05/26	Wispro IP & Legal	Sensing the Future Forum Speech: Sensing the Future	3.5 hours
	09/21	Intellectual Property Office, Ministry of Economic Affairs	Taiwan-EU Seminar on Trade Secrets Speech: Challenges Facing Taiwan Companies Protecting Corporate Trade Secrets	8 hours
	11/15	Ministry of Economic Affairs	Trade Secrets Legislation's Impact on Industry Speech: The Status and Predicament of Trade Secrets Protection by Taiwanese Enterprises	3.5 hours
	12/09	Baker McKenzie	2016 Global Patent Seminar Speech: Development & Challenges of Trade Secret Protection in Taiwan	3.5 hours
Cliff Hou Vice President, Design and Technology Platform	05/05	Securities and Future Institute	Legal Liability of Directors and Supervisors Arising in Hostile Mergers and Acquisitions	3 hours
	12/02		Professional Director's Insight into Corporate Governance and Building/Forming Effective Board of Directors	3 hours
Jessica Chou Senior Director, Accounting Division	12/05	Accounting Research and Development Foundation	The Annual Professional Development Training for Principal Accounting Officer	6 hours
	12/06			6 hours
John Liang Director, Internal Audit	05/11	Computer Audit Association	Case Sharing of Procurement Auditing	6 hours
	11/29	Securities and Future Institute	Fraud Risks in Operation Cycles	6 hours

In addition, various training programs and speech presentations were also provided by TSMC's Legal Organization for Management and the relevant divisions, such as:

- Ethics code and anti-bribery/corruption
- Intellectual Property Protection
- Export Control Compliance and Practice

### 3.5 Code of Ethics and Business Conduct

#### Ethics at TSMC

Code of Conduct: 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. The 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.

#### Major Ethics Code Obligations

- Do not advance personal interests at the expense of or in conflict with the Company;
- Refrain from corruption, unfair competition, fraud, collusion, and waste or abuse of corporate assets;
- Avoid any efforts improperly to influence the decisions of anyone, including government officials, agencies, and courts, as well as our customers and suppliers.
- Do not undertake any practices detrimental to TSMC, to the environment, or to society;
- Procure all of our raw materials from socially responsible sources;
- Protect proprietary information of TSMC and our customers; and
- Abide by both the letter and spirit of all applicable laws, rules and regulations.

Intellectual Property Protection: In order to build and sustain an environment of innovation, technology leadership, and sustainable profitable growth, the Code requires that we promote business relationships founded upon an unwavering respect for the intellectual property rights, proprietary information and trade secrets of TSMC, our customers, and others.

Public Disclosures: 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. TSMC has a variety of measures in place to ensure compliance with these disclosure obligations.

Any modification to the Code requires the approval of our Audit Committee to ensure our ethics compliance program is independently reviewed against corporate best practices.

#### Code Implementation

High Standard Ethical Culture: Our ethics program is implemented in four ways by all of our employees, officers and Board members. First, TSMC's management sets the "tone from the top" by acting in accordance with the Code so that they may be an example to all stakeholders. Second, working-level managers are responsible for ensuring their staff's understanding of and compliance with applicable rules and regulations. Third, we encourage an environment of open communications in discussing any questions related to the Code. Any employee may consult his or her direct supervisors, Human Resources or Legal to obtain timely advice. Lastly, TSMC requires all employees to stay vigilant and report any noncompliance by anyone to their supervisors, the function head of Human Resources, the responsible corporate Vice President that oversees the Ombudsman system, or to the Chairman of the Company's Audit Committee directly.

#### Self-Assessment of All Departments and Employees:

Self-assessment of all departments and employees is an important part of our ethics compliance program. All departments and subsidiaries of TSMC are required to conduct Control Self-Assessment (CSA) tests annually to review employees' awareness of the Code. The CSA results are reviewed to track the results of our compliance program. In addition, all employees must disclose any matters that cause, or may cause, actual or potential conflict of interest. In addition to such proactive disclosure requirement, employees with certain job responsibilities and senior officers must annually declare any relationships that may constitute a conflict of interest, which is then reviewed by executive management.

Internal Auditing: The Internal Auditor of TSMC plays a critical role in ensuring the Company's compliance with the Code and relevant rules and regulations. To ensure that our financial, managerial, and operating information is accurate, reliable, and timely and that our employee's actions are in compliance with applicable policies, standards, procedures, laws and regulations, our Internal Auditor conducts audits of various control points within the Company in accordance with its annual audit plan approved by the Board of Directors and subsequently reports its audit findings and remedial issues to the Board and management on a regular basis.

Training and Promotion: To promote awareness to our employees of their responsibilities under the Code, we publish our Code and related policies and documents on our intranet and, provide training courses, posters, and internal news articles. For incoming employees, we provide an introductory training course on the Code which is available to all employees online, as well as advanced courses delving into more specific compliance topics such as anti-corruption, PIP, export control and insider trading.

In addition to our internal compliance efforts, we expect and assist our customers, suppliers, business partners, and any other entities with whom we deal (such as consultants or third party agents who act for or on behalf of TSMC) to recognize and understand TSMC's ethical standards to fulfill our responsibilities as a corporate citizen. For instance, we require all of our suppliers to declare in writing that they will not engage in any fraud or any unethical conduct when dealing with us, our officers, or employees. In 2015, TSMC became a full member of the Electronic Industry Citizenship Coalition (EICC) dedicated to electronics supply chain sustainability. In addition to adopting the EICC Code of Conduct at all of its facilities, TSMC applied the EICC's standards to enhance our audit program of our suppliers and relevant business partners. We provide training and communicate our ethical culture to our suppliers through live seminars to prevent any unethical conduct and detect any sign of Code violations. We exchange views on appropriate business conduct and TSMC's ethical standards with our customers as part of customer audit programs and other occasions.

**Reporting Channels and Whistleblower Protection**

To ensure that our conduct meets relevant legal requirements and the highest ethical standards under the Code, TSMC

provides multiple channels for reporting business conduct concerns. First of all, our Audit Committee approved and we have implemented the "Complaint Policy and Procedures for Certain Accounting and Legal Matters" and "Procedures for Ombudsman System" that allow employees or any whistleblowers with relevant evidence to report any financial, legal, or ethical irregularities anonymously through either the Ombudsman or directly to the Audit Committee. TSMC maintains additional internal reporting channels for our employees. To foster an open culture of ethics compliance, we encourage our employees and the third parties we do business with to report any suspected wrongdoing by TSMC or by any parties with whom we do business.

TSMC treats any complaint and the investigation thereof in a confidential and sensitive manner, and strictly prohibits any form of retaliation against any individual who in good faith reports or helps with the investigation of any complaint.

Due to the open reporting channels, TSMC received reports on various issues from employees and external parties such as our customers and suppliers from time to time. Below is a summary of the Number of Reported Incidents. We did not receive any report related to finance or accounting matters in 2016.

	FY 2014	FY 2015	FY 2016
Incidents reported to the Ombudsman System	39	60	80 (Note 1)
Incidents reported to the Audit Committee Whistleblower System	-	-	1
Incidents reported to the "Irregular Business Conduct Reporting"	22	16	35 (Note 2)
Total incidents investigated as founded	-	-	2 (Note 3)
Sexual Harassment Investigation Committee	4	7	5
Total incidents investigated as founded	4	7	5

Note 1: Among the 80 cases, no incidents related to ethics matters.  
 Note 2: Among the 35 cases, 15 cases related to ethics matters.  
 Note 3: Two employees involved in these two cases separately were discharged after TSMC's investigation confirmed their violation of the Code. TSMC also pressed criminal charge against one of the employees, and the case is currently under investigation by the authority.

**Code Violation Disciplinary Action**

We do not tolerate any violation of the Code and treat every possible violation incident seriously. Any violator of the Code (or relevant regulations) will be severely disciplined to the full extent of our policies and the law, including immediate dismissal, termination of business relationship, and judicial prosecution as appropriate.

**3.5.1 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission**

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures (1) Does the company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?  (2) Does the company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?  (3) Does the company establish appropriate compliance measures for the business activities prescribed in paragraph 2, article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and any other such activities associated with high risk of unethical conduct?	V		(1) Integrity is the most important core value of TSMC's culture. TSMC is committed to acting ethically in all aspects of our business. We have established TSMC Code of Ethics and Business Conduct (the "Code") to require that each employee bears a heavy personal responsibility to uphold TSMC's ethics value. For more details on the Code and the measures that TSMC Board of Directors (the "Board") and the management team take to ensure compliance of the Code please refer to TSMC's Annual Report and the Corporate Social Responsibility Report.  (2) At the heart of our corporate governance culture is 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. Specific requirements under the Code could be found in our Annual Report. In addition, to educate and remind our employees of their responsibilities under the Code, we publish our Code, relevant policies and documents on our intranet and promote its awareness through training courses, posters, and internal news articles. Furthermore, to ensure that our conduct meets relevant legal requirements and the highest ethical standards under the Code, TSMC provides multiple channels for reporting business conduct concerns. Please refer to Assessment Item 3 for details. We do not tolerate any violation of the Code and treat every possible violation incident seriously. Any violator of the Code (or relevant regulations) will be severely punished to the full extent of our policies and the law, including immediate dismissal in accordance with TSMC Employee Recognition, Disciplinary and Ombudsman Procedure, termination of business relationship, and judicial prosecution as appropriate.  (3) Under the framework of the Code, TSMC has established a regulatory compliance program that includes policies, guidelines and procedures in other policy areas, including: Anti-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"). The above-mentioned policies are crucial in strengthening overall compliance with the Code. TSMC, its employees and its subsidiaries are expected to fully understand and comply with all laws and regulations that govern our businesses. The Internal Auditor of TSMC also plays a critical role in ensuring the Company's compliance with the Code and relevant rules and regulations. To ensure that our financial, managerial, and operating information is accurate, reliable, and timely and that our employee's actions are in compliance with applicable policies, standards, procedures, laws and regulations, our Internal Auditor conducts audits of various control points within the Company in accordance with its annual audit plan approved by the Board of Directors and subsequently reports its audit findings and remedial issues to the Board and Management on a regular basis.	None

(Continued)

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
<p>2. Ethic Management Practice</p> <p>(1) Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?</p>	V		(1) We expect and assist our customers, suppliers, business partners, and any other entities with whom we deal (such as consultant or third party agents who act for or on behalf of TSMC) to understand and act in accordance with TSMC's ethical standards. For instance, as for our suppliers, we require all of them 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. In addition to periodic audit, we provide training and communicate our ethical culture to our suppliers through live seminars to prevent any unethical conduct. We exchange views on business conduct and TSMC's ethical standards with our customers in customer audit programs and other proper occasions.	None
<p>(2) Does the company set up a unit which is dedicated to or tasked with promoting the company's ethical standards and reports directly to the Board of Directors with periodical updates on relevant matters?</p>	V		(2) TSMC's Board of Directors strives to perform the responsibilities of supervising the corporate conduct and ethics compliance practice 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 General Counsel and the Corporate & Compliance Legal Division (which directly reports to the General Counsel) promotes, with other divisions, the Company's ethical standards, and the General Counsel reports directly quarterly to the Board on the implementation status. In addition, the responsible corporate Vice President who oversees the Ombudsmen system and Internal Auditors update the Board ethical standards compliance issues on a regular basis. Moreover, 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.	
<p>(3) Does the company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?</p>	V		(3) TSMC requires newly hired employees to declare any conflict of interest situation as appropriate. In addition, 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). Furthermore, key employees and senior officers must periodically declare their compliance status with the Code according to relevant procedures.	
<p>(4) To implement relevant policies on ethical conducts, does the company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically?</p>	V		(4) TSMC continues maintaining the integrity of its financial reporting processes and controls and establishes appropriate internal control systems for preventing higher potential unethical conduct, and the Internal Auditors formulate annual audit plans based on the results of the risk assessment and subsequently reports its audit findings and remedial issues to the Board and Management on a regular basis. In addition, all departments and subsidiaries of TSMC are also required to conduct Control Self-Assessment (CSA) tests annually to review the effectiveness of the internal control system.	
<p>(5) Does the company provide internal and external ethical conduct training programs on a regular basis?</p>	V		(5) 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 laws and regulations related to their daily operations. As for our suppliers, we communicate our ethical culture to our business partners through live seminars to ensure their fully understanding of our commit to ethical conduct.	
<p>3. Implementation of Complaint Procedures</p> <p>(1) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?</p>	V		(1) TSMC's Audit Committee approved and TSMC has implemented the "Complaint Policy and Procedures for Certain Accounting and Legal Matters" and "Procedures for Ombudsman System" that allow employees or any whistleblowers with relevant evidence to report any financial, legal, or ethical irregularities anonymously through either the Ombudsman or directly to the Audit Committee. TSMC also requires all employees to stay vigilant and whistle-blow any noncompliance by anyone to their supervisors, the function head of Human Resources, the responsible corporate Vice President that oversees the Ombudsmen system, or to the Chairman of the Company's Audit Committee directly.	None
<p>(2) Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?</p>	V		(2) TSMC treats any complaint and the investigation thereof in a confidential and sensitive manner, and such manner is clearly stated in our bylaws.	
<p>(3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?</p>	V		(3) TSMC strictly prohibits any form of retaliation against any individual who in good faith reports or helps with the investigation of any complaint, and such requirement is clearly stated in our bylaws.	

(Continued)

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
<p>4. Information Disclosure</p> <p>Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?</p>	V		Our internal website provides guidelines and informative articles on ethics and honorable business conduct (in both Chinese and English) for employees' easy access. In addition, TSMC discloses relevant policies and information in its Annual Report (which is also available at the MOPS) and CSR Report (available at: <a href="http://www.tsmc.com">http://www.tsmc.com</a> )	None
<p>5. If the company has established corporate governance policies based on TSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation.</p> <p>TSMC has established the Code to require that all employees, officers and board members comply with the Code and the other policies and procedures. There is no discrepancy between the Code, including its affiliate policies and procedures, and its implementation. For more details, please refer to "3.5 Code of Ethics and Business Conduct" on page 49-53 of this Annual Report.</p>				
<p>6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy).</p> <p>For details on the implementation of TSMC's Corporate Conduct and Ethics, please refer to "3.5 Code of Ethics and Business Conduct" on page 49-53 of this Annual Report.</p>				

### 3.6 Regulatory Compliance

TSMC's robust compliance efforts are comprised of legislation monitoring, developing and implementation of effective compliance policies and programs, training, and maintaining an open reporting environment.

#### Legislative Monitoring

TSMC operates in many countries. To comply with governing legislation, applicable laws, regulations and regulatory expectations, we closely monitor domestic and foreign government policies and regulatory developments that could materially impact TSMC's business and financial operations. Our Legal organization periodically updates our relevant internal departments, management and the Audit Committee of applicable regulatory changes so that internal teams ensure compliance with new regulatory requirements in a timely manner. We are also a proactive advocate for local legislative and regulatory reform, and our comments and recommendations on legal reforms to the government have been accepted constructively. TSMC is increasingly dedicated to identifying potential regulatory issues and will continue to be involved in advocating public policy changes that foster a positive and fair business environment.

#### Policy and Compliance Program Development and Implementation

Under the framework of the Code, TSMC has established a regulatory compliance program that includes policies, guidelines and procedures in different compliance areas, including: Anti-corruption, Anti-harassment/discrimination, Employment Regulations, 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"). It is our belief that these policies are crucial in strengthening overall compliance with the Code and compliance program. TSMC, its employees and its subsidiaries are expected to fully understand and comply with all laws and regulations that govern our businesses and make ethical decisions in every circumstance.

#### Compliance Awareness Training

Training is a major component of our regulatory compliance program, conducted throughout the year to refresh TSMC's employees' commitment to ethical conduct, and to get updated information on laws and regulations related to their daily operations.

Highlights of our training include:

- Awareness promotion emails to employees, posters at our facilities, and news articles, compliance guidelines, tips and FAQs which our employees can access through our intranet;
- Live seminars focusing on specific topics such as Anti-Corruption (this was the highlight of our compliance training activities for 2016, PIP, Intellectual Property, Personal Data Protection, Conflict Minerals Compliance and Export Control Management. Training is made mandatory for those employees whose jobs are especially relevant to a particular topic to ensure sufficient awareness of relevant laws and internal policies;
- On-line learning programs updated frequently to provide most up-to-date information and timely and flexible access for employees to understand the law and key compliance issues, covering topics of Antitrust, Anti-harassment, Insider Trading, Export Control Management, PIP, and Privacy Protection among others;
- External training, in Taiwan and abroad, for TSMC's legal team to receive current developments of new laws and regulations, and for its lawyers to comply with applicable continuing legal education requirements. External experts are also invited to give in-house lectures on key issues.

### Major Accomplishments

In 2016, TSMC achieved several major accomplishments in regulatory compliance:

- **Public Promotion Activities:** In addition to fulfilling our obligations on regulatory compliance matters, TSMC exercised its civic duties as a responsible corporate citizen by advising the local government on law and policy reform, including urging the Government to amend certain outdated laws and regulations, which we believe were inconsistent with global practice, to improve Taiwan's investment environment and economic development. For example, since Taiwan legislature's acceptance of TSMC's advice to impose criminal liability for trade secret misappropriation in 2012, TSMC continues to be an advocate of trade secret protection which is critical to innovation and fair competition, and hosted and attended multiple events to raise industries' awareness of the importance of this topic.
- **Internal Training:** Throughout 2016, TSMC offered a wide range of training courses on various compliance topics, including 12 on-line training courses, and 42 topics covered via live seminars. These courses were all developed and conducted by internal and external compliance experts and legal professionals.
- **Continuous Awareness Enhancement of Ethics Code and Anti-Corruption:** Any corruption or other violation of the Code could not only impose long-term negative influence on our competitiveness, but could also seriously damage our strong industry reputation. To enhance employees' and external partners' awareness of the Code and anti-corruption rules, the Legal organization set the two topics as our awareness enhancement focus in 2016 and held a series of promotion activities through multiple channels, including: (1) provided over 50 face-to-face training sessions to approximately 3,000 employees, especially manager-level, from various internal organizations to promote awareness of and ensure compliance with TSMC's business conduct standards when interacting with third parties; (2) provided two on-line training programs to approximately 26,000 manager-level and non-manager-level employees, (including those of our subsidiaries); (3) provided 8 live seminars to over 700 suppliers (a special focus for 2016) for a completion rate of 96%; (4) promoted reporting channels and whistleblower rights by emails and through posters throughout our facilities. Ahead into 2017, it is our objective to continuously provide compliance training on these and other compliance topics to our employees.

- **Conflict-Free Supply Chain:** As a recognized global leader in the electronics industry supply chain, we acknowledge our corporate social responsibility to strive to procure conflict free minerals in an effort to recognize humanitarian and ethical social principles that protect the dignity of all persons and have implemented a series of compliance safeguards. In 2016, TSMC has made continued progress to ensure a conflict-free supply chain, and our conflict-free minerals compliance program has also been highly ranked by independent third party rating agencies.
- **Export Compliance:** TSMC's export management system (EMS) and policy has been in place for a number of years, and is continuously maintained to ensure compliance with all applicable regulations covering the export of information, technologies, products, materials and equipment. Our EMS was certified in September 2012 by the Bureau of Foreign Trade, the Taiwan regulator, as a qualified ICP (Internal Compliance Program) exporter. In addition, TSMC implements "No ECCN, No Shipment" control and customers are required to provide end use and export control classification number (ECCN) of the products, among other required information, for TSMC to apply for applicable export licenses. TSMC has frequently earned recognition as "best in class" and often shares our experience on EMS implementation to third parties including a variety of domestic and foreign organizations and industry peers. In 2016 TSMC was recognized by World Export Control Review (World ECR), a well-known international online journal of export controls, as the Export Controls Compliance team of the year for the Rest of the World (outside USA and Europe). We also provided an on-line learning program, live seminars, promotion emails, and posters at our facilities to further enhance relevant employees' awareness of the topic.
- **Other Major Compliance Topics:** For other importance compliance topics such as privacy protection, insider trading, anti-harassment, and PIP, in 2016 we not only provided and updated, if necessary, relevant on-line courses and resources, but enhanced employees' awareness by promotion emails and through posters at facilities. Employees were mandatorily required to complete on-line courses for both anti-harassment and PIP.

### 3.7 Internal Control System Execution Status

#### 3.7.1 Statement of Internal Control System

##### Taiwan Semiconductor Manufacturing Company Limited

##### Statement of Internal Control System

Date: February 14, 2017

Based on the findings of a self-assessment, Taiwan Semiconductor Manufacturing Company Limited (TSMC) states the following with regard to its internal control system during the year 2016:

1. TSMC's board of directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and TSMC takes immediate remedial actions in response to any identified deficiencies.
3. TSMC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the Regulations). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.
4. TSMC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, TSMC believes that, on December 31, 2016, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.
6. This Statement is an integral part of TSMC's annual report for the year 2016 and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement was passed by the board of directors in their meeting held on February 14, 2017, with none of the eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Taiwan Semiconductor Manufacturing Company Limited

Morris Chang,  
Chairman

Mark Liu,  
President and Co-Chief Executive Officer

C.C. Wei,  
President and Co-Chief Executive Officer

3.7.2 If CPA was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report: None.

### 3.8 Status of Personnel Responsible for the Company's Financial and Business Operation

3.8.1 Resignation or Dismissal of Chairman, President, and Heads of Accounting, Finance, Internal Audit and R&D during the 2016 Calendar Year and as of the Date of this Annual Report: None.

### 3.8.2 Certification of Employees Whose Jobs are Related to the Release of the Company's Financial Information

Certification	Number of Employees	
	Internal Audit	Finance
Certified Public Accountants (CPA)	3	30
US Certified Public Accountants (US CPA)	3	15
The Chartered Institute of Management Accountants (CIMA)	-	1
Certified Internal Auditor (CIA)	13	6
Chartered Financial Analyst (CFA)	-	3
Certified Management Accountant (CMA)	-	2
Financial Risk Manager (FRM)	-	2
Certificate in Financial Management (CFM)	-	1
Certification in Control Self-Assessment (CCSA)	3	-
Certification in Risk Management Assurance (CRMA)	4	-
Certified Information Systems Auditor (CISA)	5	-
BS7799/ISO 27001 Lead Auditor	2	-

## 3.9 Information Regarding TSMC's Independent Auditor

### 3.9.1 Audit Fees

The Audit Committee approves all fees payable to TSMC's independent auditor and recommends the same to the Board of Directors for further approval. The Board of Directors has authorized the Audit Committee to approve any increase not exceeding 10% of the approved fees.

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					CPA's Audit Period	Remark
			System Design	Company Registration	Human Resource	Others (Note 1)	Subtotal		
Deloitte & Touche	Yih-Hsin Kao, Yu-Feng Huang, and others	57,926	-	-	2,098	84	2,182	01/01/2016-12/31/2016	Note 2

Note 1: Fees mainly related to accounting research tool.

Note 2: Article 10.5.1 of Regulation Governing Information to be published in Annual Report of Public Companies was not applicable to TSMC.

## 3.9.2 CPA's information

### (1) Former CPAs

Date of Change	Approved by BOD on November 10, 2015		
Reasons and Explanation of Changes	Due to its internal personal changes, Deloitte & Touche updated the audit partners for TSMC from Yih-Hsin Kao and Hung-Wen Huang to Yih-Hsin Kao and Yu-Feng Huang in 2016.		
State Whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Client	CPA	Consignor
	Status	Not available	Not available
	Appointment terminated automatically	Not available	Not available
	Appointment rejected (discontinued)	Not available	Not available
The Opinions other than Unmodified Opinion Issued in the Last Two Years and the Reasons for the Said Opinions (Note)	None		
Is there any Disagreement in Opinion with the Issuer	Yes		Accounting principle or practice
			Disclosure of financial statements
			Auditing scope or procedures
			Others
	No	V	
Explanation			
Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

Note: Starting in 2016, the new auditing standard of the Republic of China requires "An Unqualified Opinion" be replaced by "An Unmodified Opinion".

### (2) Successor CPAs

Accounting Firm	Deloitte & Touche
CPA	Yih-Hsin Kao and Yu-Feng Huang
Date of Engagement	Approved by BOD on November 10, 2015
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	None
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	None

(3) The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards: None.

### 3.9.3 TSMC's Chairman, Directors, Chief Executive Officer, Chief Financial Officer, and Managers in Charge of Its Finance and Accounting Operations did not Hold any Positions within TSMC's Independent Audit Firm or Its Affiliates in the Most Recent Year.

### 3.9.4 Evaluation of the External Auditor's Independence

The Audit Committee regularly monitors the independence of TSMC's external auditor by conducting the below evaluations and reports the same to the Board of Directors:

1. The auditor's independence declaration
2. The Audit Committee pre-approves all audit and non-audit services conducted by the auditor to ensure that the non-audit services do not influence the results of the audit
3. Ensure the audit partner rotates every five years
4. Annually evaluate the independence of the external auditor based on the results of the auditor survey

## 3.10 Material Information Management Procedure

TSMC has established relevant procedures for managing and disclosing material information. The responsible departments regularly remind all officers and employees about the need to comply with these procedures and other applicable regulations when they become aware of any potential material information and the possible need to publicly disclose such information. To ensure that our employees, managers and board directors are aware of and comply with these relevant regulations, TSMC has also established our "Insider Trading Policy". To reduce the risk of insider trading, on-line training programs and live seminars are conducted periodically. In addition, employees can familiarize themselves with relevant internal policies and training articles by easily accessing TSMC's Legal Organization intranet website.