

Policies and Procedures for Financial Derivatives Transactions of Taiwan Semiconductor Manufacturing Company Limited

Section I – Objective

Article 1

"Policies And Procedures For Financial Derivatives Transactions" (the "Policy") outlined herein are set up to meet the following objectives:

- (1) To manage TSMC's (the "Company") earnings volatility and to limit asset and liability exposure resulting from fluctuations in the financial markets such as movements in interest rates and foreign exchange rates;
- (2) To effectively control the risks arising from financial derivative transactions.

Any other matters not set forth in the Policy shall be dealt with 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 underlying assets, interest or currency exchange rates, or other. Such instruments include swaps, options, futures, forwards, and various combinations thereof. Forwards referred herein exclude insurance, performance, post-sale service, long-term lease and long-term sales/procurement contracts. The Company shall not enter into transactions involving instruments not specified herein.

Article 3 Strategy

Financial derivatives are mainly used for hedging purpose to limit the Company's net exposure after internal netting of income against expense, and asset against liability in terms of timing, amount and currency type. Transactions involving financial derivatives need to be assured as for hedging purpose.

Article 4 Authorization / Delegation

Financial personnel in charge of trading and confirmation for derivative transactions shall be appointed by Chief Financial Officer ("CFO").

The functions of trading, confirmation and settlement should be performed by different personnel of Finance Department.

Counterparty needs to be informed of trading and confirmation personnel being assigned or discharged before the effective date.

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. No loss control procedures are considered necessary herein for hedging purpose.

Trading

TSMC shall not engage in any transactions for trading purpose.

Article 6 Performance Evaluation

Hedging

Performance is evaluated against the pre-determined strategy.

Section III – Operating Procedures

Article 7 Level of Delegation/Authorization

Transaction Execution

The authorized dealers, based on the net position deriving from business activities of the Company, shall evaluate with and obtain concurrence from Finance Director and Finance Manager and then execute the transactions as concurred. Levels of delegation and authorization of each transaction are set as follows:

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

Transaction Ratification

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

	<u>Delegated Amount of Each Transaction</u>
CFO & Finance Director & Finance Manager	US10MM+
Finance Director and Finance Manager	Up to US10MM

Banks and other counterparties need to be informed in writing of the delegation systems herein 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, are all co-ratified by Finance Director and 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 for a resolution.

Article 8 Work Flow and Related Parties

Please see Exhibit I.

Section IV – Regulatory Reporting

Article 9

The Company should, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its domestic subsidiary which is not a public company up to the end of the previous month in accordance with relevant regulations.

In addition to the aforesaid, all other reporting/publishing items are subject to the relevant regulations. If there is any reporting and announcement, as aforesaid, required for the Company's subsidiary which is not a domestic public company, the Company will follow the requirement on behalf of its subsidiary.

Should there be any mistake or missing in the Company's required public announcements, the Company needs to repeat its public announcement on all items.

Section V – Internal Control

Article 10 Risk Management

Credit Risk Control

Credit risk is controlled by restricting the counterparties that TSMC deals with to those who either have banking relationship with TSMC or are internationally renowned and can 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 should 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 risk.

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 should be performed by different personnel.

Position Control

A trading slip needs to be filled out by the trading personnel upon the completion of any transactions and passed to the confirmation personnel, who, in turn, shall confirm with counterparty and reconcile the master position table for reference.

Monitoring

Internal auditor, due to his/her independency, is required to evaluate, monitor, and control aforementioned risks arising from derivative transactions and report to the President, who is held accountable by the Chairman and the Board of Directors.

Article 12 Evaluation and Correction of Abnormal Situation

Finance Department should prepare a bi-weekly report in connection with the transactions entered into for hedging purpose for the President's review.

The Board of Directors holds the President accountable for the evaluation, monitoring, and control of risks arising from financial derivative transactions. The Board is itself responsible for evaluating Finance Department's hedging performance and result on a regular basis 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 President should also be responsible for regularly reviewing the level of adequacy of the current risk control process and its degree of consistency with the principles and procedures set forth herein. Once having identified unusual performances and results, the President needs to report to the Chairman or the Board immediately and undertake any actions deemed necessary to correct the situation.

Section VI – Internal Audit

Article 13

Internal audit personnel is required to evaluate the suitability of the internal control system in connection with financial derivative transactions on a regular basis, to conduct auditing on how well the related departments follow the Policy, and to produce report with trading cycle analysis on a monthly basis. Should there be any violation found, a written report is needed to notify the Audit Committee.

Section VII – Others

Article 14

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

Article 15

The Company's managers and persons-in-charge shall follow the Policy in order to prevent the Company from incurring any losses. Should there be any violation of related regulations or the Procedures, subsequent castigation is subject to the related Personnel Articles of the Company.

Article 16

When financial derivative transactions are contemplated by the Company's subsidiary to enter into, the Company shall supervise its subsidiary to establish relevant procedures for financial derivative 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 the subsidiary shall be provided regularly to the Company for inspection.

Article 17

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