Sustainable Governance
Since its establishment, TSMC has not only strived for the highest achievements in its core business of dedicated IC foundry services but has also actively developed positive relationships with all stakeholders including employees, shareholders, customers, suppliers, and society to fulfill its responsibility as a corporate citizen and pursue a sustainable future.

**Vision**

**To Uplift Society**

**Mission**

**Guiding Principles**

**Acting with Integrity**

TSMC believes in acting ethically, following the law, and balancing the interests of all stakeholders. The Company endeavors to use the experience of developing a sustainable business to drive the industry and supply chain into a positive cycle and to act together with them as an uplifting force in society.

**Guiding Principles**

**Strengthening Environmental Protection**

TSMC strives to achieve environmental sustainability and continues to promote green fabs, green manufacturing, and green supply chains. The Company seeks the most efficient use of energy and resources and is committed to reducing waste and preventing pollution. TSMC is eager to share its environmental experience and expertise and aims to collaborate with government, academia, and all of society to address the challenges of climate change.

**Guiding Principles**

**Caring for the Disadvantaged**

TSMC believes in equality, justice, and a safe and prosperous society. The Company combines its resources with employee volunteer service to commit money, material, and labor to the two main areas of "education" and "living." TSMC hopes to provide underprivileged students in rural regions with diverse learning opportunities and to offer disadvantaged groups necessary aid and emergency relief for the common good of society.
"TSMC Corporate Social Responsibility Policy" is the top guiding principle for our sustainable development. The "CSR Matrix" set by Chairman Dr. Morris Chang clearly defines the scope of TSMC's corporate social responsibility. The horizontal axis shows the seven areas where TSMC aims to set an example: morality, business ethics, economy, rule of law, sustainability, work/life balance and happiness, and philanthropy. On the vertical axis are actions that TSMC has taken to fulfill its responsibilities.

### Corporate Social Responsibility Matrix

<table>
<thead>
<tr>
<th></th>
<th>Society</th>
<th>Morality</th>
<th>Business Ethics</th>
<th>Economy</th>
<th>Rule of Law</th>
<th>Sustainability</th>
<th>Work/Life Balance</th>
<th>Happiness</th>
<th>Philanthropy</th>
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<td>TSMC</td>
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<td>Anti-Corruption</td>
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<td>Anti-Cronyism</td>
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<td>Environmental Protection</td>
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<td>Climate Control</td>
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<td>Corporate Governance</td>
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<td>Provide Well-paying Jobs</td>
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<td>Employees' Work-Life Balance</td>
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<td>Good Work Environment</td>
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<td>TSMC Charity Foundation</td>
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</table>
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’s chairperson regularly reports to the Board on the activities and actions of the relevant committee. The Board of Directors plays the role to oversee and provide guidance to the Company’s comprehensive sustainable management strategies. The chairperson of the CSR committee reports annually to the Board of Directors on implementation results for the year and the future work plan.

Corporate Governance

Corporate Governance

In order to build an effective compliance system of ethical standards and regulatory compliance initiatives, TSMC established not only the Ethics Code, but also the internal policies and procedures in major areas of law. We also track and identify any relevant regulatory changes to ensure that TSMC's internal policies and procedures are effective and up to date. For more details of Ethics and Regulatory Compliance at TSMC, please also refer to TSMC's 2017 Annual Report “Code of Ethics and Business Conduct” and “Regulatory Compliance”.

TSMC established an enterprise risk management (ERM) program to integrate and manage strategic, operational, financial and hazardous risks together with potential consequences to operations and financial results. For more details of Risk Management, please refer to TSMC's 2017 Annual Report “Risk Management”.

Audit Committee

Compensation Committee

Board of Directors

Shareholders' Meeting

Executive Officers

Internal Audit

In October 2017, Dr. Morris Chang, as TSMC Chairman for the last thirty years, announced his plan to retire from the Company immediately after the Annual Shareholders’ Meeting in early June, 2018. All present directors of the board, except himself, have unanimously agreed to be nominated, and if elected, will serve as directors of the board during the next term. They all have agreed to have TSMC under the dual leadership of Dr. Mark Liu and Dr. C.C. Wei, who are TSMC’s presidents and Co-CEOs currently. Dr. Liu will be the Chairman of the Board, and Dr. Wei will be the Chief Executive Officer.

For details of the Company’s corporate governance, please refer to the “Corporate Governance” section of TSMC’s 2017 annual report. Starting from 2016 Annual Report, TSMC voluntarily discloses the compensation of its Directors, President & Co-CEOs and Chief Financial Officer on an individualized basis. For details, please refer to "Board Members" and "Management Team" of TSMC’s 2017 Annual Report. In addition, in 2017, the median total compensation of all TSMC global employees is about NT$1,570,000, and the ratio between the total annual compensation of President & Co-CEO and the median employee compensation is about 134:1.
Corporate Social Responsibility Committee

Achievements in 2017

Main Points of 2017 Chairperson’s Report to the Board of Directors

Implementation Results for the Year

- The strategies and performance of green manufacturing
- Fulfilled RBA Code of Conduct requirements with respect to supply chain management
- Set targets to drive local procurement
- The achievements and highlights of TSMC Education and Culture Foundation, as well as TSMC Charity Foundation

Work Plan for the Following Year

- Continue to align its sustainability targets with the United Nations Sustainability Development Goals (SDGs)
- Expand its coverage of CSR management for TSMC’s overseas fabs and major affiliates
- Execute social impact valuation projects

Corporate Social Responsibility Committee Achievements in 2017

- Responded actively to global sustainability trends through social impact valuation that examined the added value created by TSMC’s sustainability actions
- Led each functional unit to study the United Nations Sustainable Development Goals, develop strategies and programs, and implement them in our daily operations
- Formally established the TSMC Charity Foundation, focused on taking care of elders, promoting filial piety, caring for the disadvantaged, and protecting the environment
- Followed RBA Code of Conduct requirements to increase quality and quantity of supplier audit and training so as to enhance supplier management capability
- Comprehensively strengthened green management through purchasing green power and improving energy efficiency
- Established a more extensive communication system for sustainability issues
- Revised TSMC’s Corporate Social Responsibility Report; set strategies, vision, and targets for the material issues; responded to the United Nations Sustainable Development Goals
- Established online survey platform for internal and external stakeholders
- Launched a new Corporate Social Responsibility Report website

For TSMC, the CSR Report is not just a simple report, but an important tool for aligning with international standards, managing sustainability performance, and meeting benchmarks.

Lora Ho
Corporate Social Responsibility Committee Chairperson

TSMC is committed to its stakeholders and diligently carries out the responsibilities of a good corporate citizen. Through explicit direction from executive leaders and a strong management system, TSMC establishes continuous improvement plans to enhance its sustainability performance on economic, environmental and social dimensions.
Note 1: The output value driven by the supply chain is evaluated by the Industrial Six Main Capitals Process and Methods Sustainable Value of Budget, Accounting and Statistics of Executive Yuan. Output Table (including imports) "published by the Directorate-General Economics and Knowledge Center with reference to the "2011 Input-community participation Society managing sources optimal usage efficiency by consumption and maintain Reduce natural resource development motivating colleagues and for outstanding, like Create key assets for innovative developments and constant dedication in Intelligence and infrastructure maintaining equipment each client by carefully providing optimal usage efficiency by managing sources.

Human Resource Create key assets for the Company by looking for outstanding, like-minded colleagues and strengthening talent development.

Environment Reduce natural resource consumption and maintain optimal usage efficiency by managing sources.

Society Give back to society and obtain its trust through community participation.

Note 2: GHG value = Greenhouse Gas Emissions (tCO₂e) x Excess Emissions Fine per Unit ($/tCO₂e) 

Note 3: Work Injury value = Work Injury Cost + Medical Cost + Willingness to pay of Occupational Injury 

Note 4: Regarding Employee Development and Training value, please refer to "TSMC 2016-2017 Social Impact Valuation Report". 

Note 5: Talent and Community Development covers TSMC University Collaboration Programs in Taiwan, environmental initiatives, and education sponsorships. For relevant value assessment, please refer to "TSMC 2016-2017 Social Impact Valuation Report".

Value measurement is mainly derived from positive and negative impacts. In order to measure TSMC’s impact on interested parties, TSMC adopted international methodologies of impact valuation to develop the Profit and Loss (P&L) evaluation method with the foundations based on the economic, environmental, and social dimensions (Triple Bottom Line, TBL). In 2017, we emphasized on the economic and social dimensions of P&L, while the environmental dimension started with estimating social costs from greenhouse gases emissions. In the future, we will prioritize on developing a methodology for evaluating environmental impacts and extend the concepts of TBL and P&L to both the upstream and downstream stages of TSMC’s value chain, presenting the complete picture of sustainable value.
Responding to the UN Sustainable Development Goals

In 2017, TSMC continued to deepen its understanding and practice of the Sustainable Development Goals Compass (SDG Compass) through implementing the prescribed five steps of “Understanding the SDGs,” “Defining Priorities,” “Setting Goals,” “Integrating,” and “Reporting and Communicating.” Accordingly, TSMC has incorporated SDGs into our core strategy of operations, thereby establishing long-term sustainable development goals and enabling the pursuit of a vision of sustainable development. As one of the global industrial leaders in the semiconductor industry, TSMC bears the responsibility of tackling the challenges faced by all of humanity. This responsibility drives our collaborative efforts with our stakeholders, including employees, customers, suppliers/contractors, and society, to chart a path toward sustainability for the mutual benefit of all involved.

1. Understanding SDGs and Defining Priorities

Based on business-driven and philanthropy-driven, we comprehensively examined the relationship between SDGs and TSMC’s value chain from the perspective of major issues in CSR. A formal declaration was then made through TSMC’s CSR Committee which stated, “SDGs are part of TSMC’s sustainability DNA, and sustainable development vision is a long-term goal that we need to achieve.” Understanding the purpose and spirit of the SDGs, we identified SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action) as our high-priority goals. These are business-driven focuses, as they are integral to the nature of TSMC’s operations. SDG 1 (No poverty), SDG 3 (Good Health and Well-being), SDG 4 (Quality Education) and SDG 16 (Peace, Justice and Strong Institutions) are philanthropy-driven, as they are related to TSMC’s role as a corporate citizen.

2. Goal Setting and Integration

“Businesses need to understand the compelling case for the SDGs, determine methods to incorporate them in their activities, and ultimately find ways to make them part of their organizational culture, reporting systems and operations,” said SDG Fund Director Paloma Durán. After prioritizing the SDGs that TSMC wants to achieve, we worked with our stakeholders, including employees, customers, suppliers/contractors, and society, to set TSMC's own sustainable development goals and incorporate them into procurement, operations, and customer usage — the three different stages of TSMC’s value chain. By working with our stakeholders to implement the SDGs, TSMC echoed the SDGs and put them into practice.

3. Reporting and Communicating

TSMC is committed to abiding to the SDG Compass reporting and communication principles for identifying priority SDGs in terms of TSMC material issues. In the future, TSMC will follow Stage 1 to continually review and revise the SDG priorities and deliver concrete contributions. In addition, TSMC shall clearly state yearly sustainability performance and SDG goal achievement status and further facilitate improvement measures of sustainability management for reporting and engaging with stakeholders.
### TSMC’s Material Issues to UN SDGs

<table>
<thead>
<tr>
<th>TSMC Focuses</th>
<th>Value Chain</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ethical Management</strong></td>
<td>Implementation the core value of “integrity,” fully aware that corruption and bribery will fundamentally undermine the foundation of corporate sustainability. Our open reporting system allows the code of conduct to be deeply rooted in the daily work of employees and suppliers.</td>
<td>![SDGs icons]</td>
</tr>
<tr>
<td><strong>Innovation and Service</strong></td>
<td>Respond to rapid technological changes and global sustainability trends. TSMC introduces new technological applications through innovation, as well as resolves climate change issues faced by humankind through product and process innovation.</td>
<td>![SDGs icons]</td>
</tr>
<tr>
<td><strong>Responsible Supply Chain</strong></td>
<td>Leverage local purchasing volume. As an industrial leader in the semiconductor industry, we should increase our utilization of local service providers as well as incorporate a corporate sustainability mindset and requirements into our supply chain management in order to drive the responsible behavior across the entire supply chain.</td>
<td>![SDGs icons]</td>
</tr>
<tr>
<td><strong>Green Manufacturing</strong></td>
<td>Building cleaner production plants is a basic requirement of corporate sustainability. Our spirit of responsibility drives us to construct green manufacturing plants that emphasize dematerialization, decarbonization, and detoxification across all aspects of our products, processes, and supply chain.</td>
<td>![SDGs icons]</td>
</tr>
<tr>
<td><strong>Inclusive Workplace</strong></td>
<td>Embrace our original vision of seeking out people who subscribe to our values. We are committed to establishing a safe and inclusive workplace, ensuring every employee enjoys basic human rights and can develop their skills in a safe work environment, and making our workplace an asset worth protecting.</td>
<td>![SDGs icons]</td>
</tr>
<tr>
<td><strong>Common Good</strong></td>
<td>Society and Company are interdependent. Through its two major charitable foundations, TSMC has been deeply involved in issues such as education, helping the less privileged, assisting the elderly who live alone, and other cultural assets. We aim to support and encourage the power of love and positive social influence.</td>
<td>![SDGs icons]</td>
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</tbody>
</table>
TSMC Approaches | TSMC 2020/2025 Goals
--- | ---
Replace PFOA-related substances | 100% compliance for product hazardous substance free legal and customer requirements
Improve efficient water and ammonia nitrogen treatment | Reduce ammonia nitrogen concentration in wastewater discharge to <25mg/L
Increase urban reclaimed water usage | Reduce tap water with reclaimed water for up to 28,000 tons/day
Research, develop and manufacture more energy-efficient products | Reduce power consumption per unit wafer (W/A: W in watt equivalent - mask layer) by 3% relative to that in 2010
Cooperate with suppliers to develop energy-efficient equipment | Accumulated 2,800 GWh of electricity savings for new measures of energy saving
Use renewable energy | Continue to purchase renewable energy
Ban child labor | More than 240 suppliers completed the audit by RBA
Promote a safe work environment | Frequency of disability <4.55
Support local suppliers | Cooperate 38 local suppliers for improving process and yield rate
Enhance suppliers’ quality culture | 95% local suppliers participate in the National United Circle Competition
Promote reduction of industrial waste output | Reduce waste volume of major local waste-producing suppliers by 24% relative to that in 2010
Promote fab site economy | Reduce industrial waste treatment cost per unit wafer to $33 per 8-inch wafer equivalent - mask layer
Promote adaptation strategies for climate risk | Reduce GHG emission per unit product by 18% relative to that in 2010
Strengthen resilience of supply chain climate risk | Cooperate suppliers emergency response operation for 160 suppliers

Business-Driven Philanthropy-Driven

Clean Water and Sanitation | No Poverty
Affordable and Clean Energy | Good Health and Well-being
Decent Work and Economic Growth | Quality Education
Responsible Consumption and Production | Peace, Justice and Strong Institutions
Climate Action | Responsible Consumption and Production

Note: TSMC will directly purchase renewable energy and set its long-term target when regulations on renewable energy and market supply conductions in Taiwan are ready.
Social Impact Valuation – Energy Conservation and Quality Education

To fulfill the 17 Sustainable Development Goals (SDGs) set forth in its new sustainable development agenda, the United Nations established the United Nations Social Impact Fund, which would employ the Social Return on Investment (SROI) framework to measure the economic, environmental, and social sustainable values created by the investments it selected, clearly indicating a trend towards monetizing social impact.

TSMC, true to its ultimate goal of "uplifting society", began conducting a comprehensive study of the relationship between its operations and the SDGs in 2016, actively searching for its primary and applicable area of contribution. In 2017, we selected SDG 13 (Climate Action) and SDG 4 (Quality Education) as our first two topics for SROI implementation, identifying relevant and ongoing areas of sustainability efforts. Through interviews and surveys, we identified the changes and impacts to the stakeholders arising from these efforts and converted them into monetary values from their perspectives.

In the process of communicating with our stakeholders, we received much positive feedback and realized that through our energy conservation activities, we not only lowered our energy consumption, strengthened awareness and skills in energy conservation, increased employees' organizational commitment, but also created business opportunities with a green focus in the industry. As with our efforts in quality education, they enhanced human capital, reduced the economic burden of academics and students, improved the quality of education, cultivated semiconductor talents, and advanced the industry's competitiveness. These actions in sustainability explicitly demonstrate TSMC's investments and managerial talents in the semiconductor industry. For details regarding our calculations, assumptions, and constraints, please refer to TSMC 2016-2017 Social Impact Valuation Report.

Steps to Calculating SROI

**Establishing Scope and Identifying Stakeholders**
- Selected two areas of focus, Energy Conservation and Quality Education
- Identify key stakeholders

**Evidencing and Valuing Outcomes**
- Understand what changes and describe outcomes by engaging stakeholders
- Identify financial proxies to value outcomes

**Calculating Social Impact**
- Perform sensitivity analysis and confirm outcomes with stakeholders
- Calculate the social impact of our efforts

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**Social Impact Valuation – Energy Conservation**

**Stakeholders**
- TSMC
- TSMC employees
- Public
- Suppliers
- Other companies

**Energy Conservation Activities**
- Cooperation with suppliers to develop innovative energy-saving technologies
- Green building and cleaner production process
- Implementation of energy-saving measures and renewable energy to production facilities

**Output**
- Energy-saving mode for renewable power supply
- Energy-saving mode for chilled system
- Green factory and green building
- Energy-saving and carbon reduction activities and green power purchases

**2017 Impact Value**
- 2,389 Lower energy consumption
- 13 Stronger awareness and skills in energy conservation
- 54 Creation of business opportunities in the industry
- Unit: NT$ million

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**Social Impact Valuation – Quality Education**

**Stakeholders**
- TSMC
- TSMC employees
- Enrolled students
- Academia
- Semiconductor industry

**Quality Education Activities**
- Academia-industry R&D partnerships
- Employee development and training
- Youth training
- Augment basic education

**Output**
- Research projects, patents, number of semiconductor talents
- Management training courses
- Scholarship
- Educational activities in science and reading comprehension
- TSMC Dream Builders of Youth Competition

**2017 Impact Value**
- 445 Cultivation of semiconductor talents
- 404 Enhancement of human capital
- 226 Advancement in industry competitiveness
- 45 Reduction of economic burden
- Unit: NT$ million