A Trustworthy Company

With foundations built on the core value of Integrity, TSMC is a company that has always governed itself with the highest standards. The ethical culture of TSMC employees is continuously strengthened through comprehensive education and training, so that TSMC does not let down the customers who put their trust in the Company. At the same time, TSMC works hand in hand with its supply chain to serve the mutual benefit of the industry, and serves as a trustworthy partner to its stakeholders.

39,500
Number of employees who completed TSMC’s 2018 ethics and regulatory compliance training

1,229
Number of TSMC suppliers that attended TSMC’s 2018 ethical standards training program
Ethics and Regulatory Compliance

**Strategies**

**Reinforce Both Internally and Externally**

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

**Long-term Goals**

- Conduct ethics and regulatory compliance training to employees on an annual basis, with a completion rate of 100%.\(^{Note1}\)
  - Target Year: 2025

- No material regulatory violation (where fines exceeds NT$1 million).
  - Target Year: 2025

**2018 Achievements**

- Overall completion rate reached 98.57%; completion rate of non-production employees reached 99.23%; completion rate of production staff reached 96%.
  - Target: >95%

- 100% completion rate for communicating Supplier Code of Conduct with 1,229 Tier 1 suppliers. Among them, a total of 321 of critical suppliers and high-risk suppliers\(^{Note2}\) were invited to face-to-face training, and 313 participated, achieving a 97.5% participation rate.
  - Target: >95%

- No material regulatory violation.
  - Target: No material regulatory violation (where fines exceed NT$1 million)

**2019 Targets**

- 98% completion rate for annual employee training on ethics and regulatory compliance.

**Note 1** The completion rate of training programs is rising: The 2018 completion rate reached 98%, so TSMC has raised its Sustainable Development Goals from 95% to 100%

**Note 2** For definitions of Tier 1 suppliers, critical suppliers, and high-risk suppliers, please refer to "Responsible Supply Chain" in this Report.
Integrity as the Core Value — Tone from the Top

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

Integrity is TSMC's most significant core value. The Company exercises self-discipline by complying with the highest ethical standards and substantially implements integrity, equality, and transparency in daily operations. TSMC holds zero tolerance for corrupt practices and strictly prohibits any behavior of bribery, fraud, misuse of the Company's assets, or impairment of the Company's interest for personal gain. TSMC's Code of Ethics and Business Conduct (the Ethics Code) is the guideline for implementing the aforementioned core values. Every employee is required to shoulder the weighty responsibilities of both maintaining high ethical standards and the Company's reputation. In view of the importance of compliance with the Ethics Code, the Company management periodically reports to the Board and the Audit Committee on ethics and regulatory compliance. TSMC formed an Ethics Committee, which oversees implementation of the Ethics Code as well as the investigation and disciplinary action of reported incidents. Meanwhile, TSMC enhances suppliers' understanding and compliance with the Company's Ethics Code through the 'Supplier Code of Conduct', bringing the core value of integrity into supply chains and demonstrating it in business behavior.
Regulatory Identification and Policy Creation

By periodically tracking regulatory changes, TSMC identifies potential risks and impacts arising from regulatory changes. According to the results of regulatory identification, TSMC assesses whether internal regulations align with the changes to ensure that relevant policies and regulations are applicable and appropriate. TSMC also actively participates in discussions of regulatory changes, sharing the Company’s viewpoints and practical experience. In view of the significant amendment of the R.O.C. “Company Act” in 2018, TSMC’s legal department participated in many public hearings and relevant forums to express the Company’s opinions in hopes that the regulatory amendment would meet practical needs and, through this opportunity, to exchange experiences with different sectors of the community.

Implementation and Execution

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

- Training and Promotion

To raise employee awareness of ethics and regulatory compliance, TSMC, based on laws and relevant internal regulations, provides various training courses for all employees with relevant job responsibilities. The training courses include face-to-face courses and promotions, and online required and elective courses. Through posters around our facilities, guidelines and FAQs of regulation compliance on the Company’s intranet, internal email distributions, and promotional articles, TSMC ensures that all employees have timely access to new information of regulations and have a deeply-ingrained awareness of various issues.

TSMC provides training courses on anti-corruption and the Ethics Code to new employees upon hire. For current employees, TSMC also provides regulatory compliance training courses such as ethics and anti-corruption, prevention and reporting of conflicts of interest, export control, proprietary information protection, intellectual property rights protection, privacy and personal information protection, conflict-free minerals, and antitrust laws. In response to international interest in the EU’s General Data Protection Regulation, the Company has updated online courses on the Personal Information Protection Act and provided many face-to-face training courses. Around 1,900 employees, including Human Resources, Information Technology, and Customer Service department, whose jobs may involve handling personal information, are requested to complete the courses.

In 2018, the annual required courses of ethics and compliance training were further extended to production staff. As the production staff works in shifts, the Company leveraged digital and face-to-face approaches to ensure that approximately 8,500 production staff have participated and completed the training. In total, approximately 39,500 TSMC employees (including those in subsidiaries) have completed the training.

- Supplier Management

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

Note: Some overseas subsidiaries, employees assigned abroad, and employees with specific responsibilities are provided with face-to-face training.
TSMC’s Action on Suppliers Management

- Developed in accordance with the “Responsible Business Alliance Code of Conduct” and with reference to the UN “Guiding Principles on Business and Human Rights” and the UN “Universal Declaration of Human Rights”, which are recognized internationally
- The “Suppliers Code of Conduct” contains 5 parts: labor, health and safety, environmental protection, code of business conduct, and management of guidelines
- Six face-to-face forums were held, with 888 out of 906 invited suppliers participating in the forums, reaching a participation rate of 98%

Actions Completed

- According to the Supplier Code of Conduct, TSMC provides suppliers with Guidance on Supplier Business Conduct, including topics such as the business code of conduct, avoidance of conflict of interest, labor rights, regulatory requirements of environment, health and safety, as well as having a reporting system
- The Guidance on Supplier Business Conduct was provided to 1,229 Tier 1 suppliers, with a participation rate of 100%. 321 critical suppliers and high-risk suppliers were invited to face-to-face training, with 313 participating for a participation rate of 97.5%
- Through a supplier survey, the Company receives feedback on the Guidance on Supplier Business Conduct to improve methods for training and promotion

Assessment and Examination

To implement the Ethics Code and to avoid potential conflicts, TSMC requires every newly-hired employee to complete a conflict of interest declaration upon arrival. Employees with specific job grades or positions need to complete the declarations annually. Internal Audit performs an audit according to the annual audit plan approved by the Board of Directors and reports the results and follow-up improvement plans to the Board and management. Internal Audit also administers the CSA and assesses its fulfillment by each fab/division to ensure effectiveness and for internal self-assessment.

In addition, every two years, TSMC performs anonymous surveys to suppliers and employees in turn to periodically evaluate the effectiveness of the promotion of ethics and regulatory compliance. A summary of the 2018 TSMC Employee Ethics Awareness Survey is shown below.

Reporting and Protection

TSMC establishes and discloses its Complaint Policy and Procedure for Certain Accounting & Legal Matters and pledges to comply with the relevant regulations in the policy. Open and multiple reporting channels are available for internal and external voices. All reported incidents collected from reporting channels inside or outside of TSMC are properly recorded and traced. TSMC also prevents any form of retaliation by providing proper protection for any individual who in good faith reports a suspected violation or participates in an investigation. The Ethics Committee examines major reported incidents that are investigated. In 2018, the committee held five such meetings in total. TSMC investigates each individual case according to its characteristics through specific divisions, and treats every received case seriously, carefully, and effectively to ensure accuracy of the investigation. Investigated cases confirmed to be true will be disciplined respectively, including dismissal, termination of the business relationship, and legal prosecution as appropriate. TSMC will also improve its management and internal control procedures as necessary. Activities such as emails to employees that disclose the violations and disciplinary actions in each quarter are conducted to promote employees’ awareness and avoid recurrence of similar incidents.

In 2018, we didn't receive any report related to finance or accounting matters, or any material regulatory violation (where a fine exceeds NT$1 million).
In 2018, the incidents reported through the Audit Committee Whistleblower System, Ombudsman System, and Irregular Business Conduct Reporting System totaled 150. Among them, 14 incidents were related to ethics matters. Only 1 incident was investigated as founded and determined for disciplinary action by the Ethics Committee. This case involved financial transactions between an employee and supplier which violated the Company's policy prohibiting conflicts of interest. The employee quit during the investigation. TSMC terminated its cooperation with the supplier and enhanced the promotion of ethical code to employees in the relevant divisions.

### Summary of Incidents Reported to and Investigated as Founded by the Reporting Channels from 2014 to 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Incidents Reported</th>
<th>Incidents Related to Ethics</th>
<th>Incidents Reported</th>
<th>Incidents Related to Ethics</th>
<th>Incidents Reported</th>
<th>Incidents Related to Ethics</th>
<th>Incidents Reported</th>
<th>Incidents Related to Ethics</th>
<th>Total Incidents Investigated as Founded</th>
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<td>0</td>
<td>39</td>
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<tr>
<td>2017</td>
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<td>2</td>
<td>79</td>
<td>0</td>
<td>32</td>
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<tr>
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<td>43</td>
<td>14</td>
<td>150</td>
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**Note**: For reported cases related to sexual harassment, please refer to ‘Human Rights’ in this Report.