

Significant differences between Taiwan Semiconductor Manufacturing Company, Ltd. (“TSMC”) corporate governance practices and US companies’ practices under NYSE Sections

TSMC’s corporate governance practices are governed by applicable Taiwan law, specifically, the Company Law and Securities Exchange Law, and also TSMC’s Articles of Incorporation. Also, because TSMC securities are registered with the U.S. Securities and Exchange Commission (“U.S. SEC”) and are listed on the New York Stock Exchange (“NYSE”), TSMC is subject to corporate governance requirements applicable to NYSE-listed foreign private issuers.

Under Section 303A of the NYSE Listed Company Manual, NYSE-listed non-US companies may, in general, follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance requirements. However, all NYSE-listed foreign private issuers must comply with NYSE Sections 303A.06, 303A.11, 303A.12(b) and 303A.12(c).

Item 16G of the U.S. SEC Form 20-F as well as NYSE Section 303A.11 requires that foreign private issuers disclose any significant ways in which their corporate governance practices differ from US companies under NYSE listing standards. A NYSE-listed foreign private issuer is required to provide to its US investors, a brief, general summary of the significant differences, either: (a) on the company website in English, or (b) in its annual report distributed to its US investors. To comply with NYSE Section 303A.11, TSMC has prepared the comparison in the table below, as posted on the company’s website.

The most relevant differences between TSMC corporate governance practices and NYSE standards for listed companies are as follows:

NYSE Standards for US Companies under Listed Company Manual Section 303A	TSMC Corporate Practices
NYSE Section 303A.01 requires a NYSE-listed company to have a majority of independent directors on its board of directors.	Taiwan law does not require a board of directors of publicly traded companies to consist of a majority of independent directors. Taiwan law requires public companies meeting certain criteria to have at least two independent directors but no less than one fifth of the total number of directors on its board of directors. In addition, Taiwan law requires public companies to disclose

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	<p>information pertaining to their directors, including their independence status. Please see TSMC's annual report for the relevant year filed with the Taiwan authorities and the U.S. SEC (both of which are available online at www.tsmc.com) for information on the total number of TSMC directors and directors who would be considered independent under NYSE Section 303A.02 and Taiwan law.</p>
<p>NYSE Section 303A.02 establishes general standards to evaluate directors' independence (no director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company either directly or as a partner, shareholder or officer of an organization that has a relationship with the listed company).</p>	<p>Taiwan law establishes comparable standards to evaluate director independence. For further information, please consult TSMC's Taiwan Annual Report for the relevant year.</p>
<p>NYSE Section 303A.03 requires non-management directors to meet at regularly scheduled executive meetings that are not attended by management.</p>	<p>Taiwan law does not contain such a requirement. Except for meetings of sub-committees of the board of directors and those held by managing directors, Taiwan law does not allow separate meetings of part but not all of the board of directors.</p>
<p>NYSE Section 303A.04 requires listed companies to have a nominating/corporate governance committee comprised entirely of independent directors which committee shall</p>	<p>Taiwan law does not contain such a requirement. Taiwan law requires directors to be nominated either by the shareholders or by the entire board of directors.</p>

<p>have a written charter establishing certain minimum responsibilities as set forth in NYSE Section 303A.04(b)(i) and providing for an annual evaluation of the committee's performance.</p>	
<p>NYSE Section 303A.05(a) requires listed companies to have a compensation committee comprised entirely of independent directors.</p>	<p>Taiwan law does not require the board of directors to establish a compensation committee. Nevertheless, TSMC has established a compensation committee. Please see TSMC's annual report for the relevant year filed with the Taiwan authorities and the U.S. SEC (both of which are available online at www.tsmc.com) for further information regarding the composition and functions of its compensation committee.</p>
<p>NYSE Section 303A.05(b) requires a compensation committee's charter to establish certain minimum responsibilities and to provide for an annual evaluation of the committee's performance.</p>	<p>Taiwan law does not contain such a requirement. Nevertheless, TSMC's compensation committee charter contains the same responsibilities as those provided under NYSE Section 303A.05(b)(i) and mandates the committee to review the adequacy of its charter annually.</p>
<p>NYSE Section 303A.06 requires listed companies to have an audit committee that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 (the Exchange Act). Foreign private issuers must satisfy the requirements of Rule 10A-3 under the Exchange Act by July 31, 2005.</p>	<p>Taiwan law requires public companies meeting certain criteria to have an audit committee that satisfies comparable standards (which has yet been promulgated) or public companies may voluntarily elect to establish an audit committee. TSMC has voluntarily elected to establish an audit committee. Please see TSMC's annual report for the relevant year filed with the Taiwan authorities and the U.S. SEC (both of which are available online at www.tsmc.com) for further information regarding the composition of its audit committee. TSMC's audit committee members are all financially literate and are assisted by a financial expert consultant.</p>

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<p>NYSE Section 303A.07(a) requires an audit committee to consist of at least three board members. All of its members shall be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in accounting or financial administration.</p>	<p>Taiwan law requires all independent directors of a public company to be members of the audit committee if the company has established such a committee of which at least one shall have accounting or financial expertise. Please see TSMC’s annual report for the relevant year filed with the Taiwan authorities and the U.S. SEC (both of which are available online at www.tsmc.com) for further information regarding the composition of its audit committee. TSMC’s audit committee members are all financially literate and are assisted by a financial expert consultant.</p>
<p>NYSE Section 303A.07(a) requires that if an audit committee member is simultaneously a member of the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its members may serve, then, in each case the board of that company shall determine whether the simultaneous service would prevent such member from effectively serving on the listed company’s audit committee, and shall report its decision in the annual proxy statement of the company or in the company’s annual report on Form 10-K filed with the SEC.</p>	<p>Taiwan law does not contain such requirement. Taiwan law requires all independent directors of a public company to be members of the audit committee if the company has established such a committee. Taiwan law forbids an independent director from serving as an independent director on a total of four or more Taiwan public companies.</p>
<p>NYSE Section 303A.07(b) All members of the audit committee are required to be independent.</p>	<p>Taiwan law requires all independent directors of a public company to be members of the audit committee if the company has established such a</p>

	committee.
NYSE Section 303A.07(c) requires an audit committee to have a written charter establishing the duties and responsibilities of its members, including the duties and responsibilities required, at a minimum, by Section 10A-3(b)(1) of the Exchange Act.	Taiwan law requires comparable standards. TSMC currently has a written audit committee charter containing the same duties and responsibilities as those provided under Section 10A-3(b)(1) of the Exchange Act.
NYSE Section 303A.07(c)(iii)(B) and (C) establishes audit committee objectives: (i) to discuss the annual audited financial statements and the quarterly financial statements of the company with management and the independent auditor, including the information disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; and (ii) to discuss the company’s press releases relating to its earnings as well as the financial information and guidelines relating to its earnings that are supplied to analysts and rating agencies.	TSMC’s written audit committee charter establishes the same audit committee objectives.
NYSE Section 303A.07(c)(iii)(G) requires an audit committee to establish clear policies for hiring external auditor’s employees.	Taiwan law does not contain such requirement. But, consistent with the Sarbanes-Oxley Act of 2002, TSMC’s written audit committee charter contains such requirement.
NYSE Section 303A.07(d) requires each company to have an internal audit function that provides to the management and to the audit committee regular assessments on the company’s risk management processes and internal control system.	Taiwan law requires public companies to establish an internal audit department. Internal auditors are subject to strict qualification standards under Taiwan law, which require the board of directors to approve the head of a company’s internal audit department. TSMC’s internal audit department has substantially the same responsibilities as provided under NYSE Section 303A.07(d).

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<p>NYSE Section 303A.08 requires each company to give to shareholders the opportunity to vote on all equity based compensation plans and material revisions thereto with certain exceptions.</p>	<p>Taiwan law imposes a similar requirement. TSMC currently has in place two equity based compensation plans. First, TSMC’s employee stock option plans (“ESOPs”) are required to be approved by the board of directors. Shareholders’ approval is not required if the number of options granted under the relevant ESOP does not exceed the reservation made in TSMC’s Articles of Incorporation. Otherwise, any change to such reservation in the Articles requires shareholders’ approval. Second, TSMC’s employees’ profit sharing requires shareholders’ approval.</p>
<p>NYSE Section 303A.09 requires public companies to adopt and disclose corporate governance guidelines, including several issues for which such reporting is mandatory, and to include such information on the company’s website (which website should also include the charters of the audit committee, the nominating committee, and the compensation committee.)</p>	<p>Under Taiwan law, if a listed company has adopted corporate governance guidelines, it must inform investors how to access such guidelines.</p>
<p>NYSE Section 303A.09 requires the board of directors to make a self-assessment of its performance at least once a year to determine if it or its committees function effectively and report thereon.</p>	<p>Taiwan law does not contain such requirement.</p>
<p>NYSE Section 303A.10 provides for the adoption of a Code of Business Conduct and</p>	<p>Taiwan law does not contain such requirement. But, because of sound corporate governance</p>

<p>Ethics and sets out the topics that such code must contain.</p>	<p>principles, TSMC has adopted such a Code of Business Conduct and Ethics, which complies with the Sarbanes-Oxley Act's requirements concerning financial officers and CEO accountability.</p>
<p>NYSE Section 303A.12(a) requires the CEO, on a yearly basis, to certify to the NYSE that he or she knows of no violation by the company of NYSE rules relating to corporate governance.</p>	<p>Taiwan law does not contain such a requirement. But, in order to comply with relevant SEC regulations, TSMC's CEO is required to certify in TSMC's 20-F annual report that, to his or her knowledge the information contained therein fairly represents in all material respects the financial condition and results of operation of TSMC.</p>
<p>NYSE Section 303A.12(b) requires the CEO to notify the NYSE in writing whenever any executive officer of the company becomes aware of any substantial non-fulfillment of any applicable provision under NYSE Section 303A.</p>	<p>Taiwan law does not contain such requirement. But, in order to be consistent with the corporate governance principles established under the Sarbanes-Oxley Act of 2002, TSMC's CEO complies with the notice provision as set forth under NYSE Section 303A.12(b).</p>
<p>NYSE Section 303A.12(c) requires each listed company to submit an executed Written Affirmation annually to the NYSE and Interim Written Affirmation each time a change occurs in the board or any of the committees subject to Section 303A.</p>	<p>Taiwan law does not contain such requirement. But, in order to comply with the corporate governance principles established under the Sarbanes-Oxley Act of 2002, TSMC will comply with NYSE Section 303A.12(c).</p>