

Further Explanatory Notes to Proposed Resolution 4

1. With regards to the proposed resolution of revising TSMC's "Procedures for Acquisition or Disposal of Assets", Explanatory Notes (1) (ii) on page 7 of TSMC's 2019 AGM Meeting Agenda stated that the purpose of increasing the limits of TSMC's and TSMC subsidiaries' investment in securities is to reduce foreign exchange hedging costs and provide more flexibility for cash investments and strategic investments.
2. The Company would like to provide further details on the background and rationale of increasing the limits of investment in securities to reduce foreign exchange hedging costs and provide more flexibility for cash investments and strategic investments as follows:

- i. Reducing foreign exchange hedging cost

More than 90% of TSMC's sales are denominated in U.S. dollars while TSMC publishes its financial statements in NT dollars. As a result, TSMC uses foreign exchange contracts to protect against currency risks but also incurs hedging cost. Since 2006, TSMC has been making USD capital injection to TSMC Global, a wholly-owned subsidiary which publishes its financial statements in USD, to save hedging cost.

Under the Taiwan securities regulations, which are on a standalone basis, TSMC's contributing capital to a wholly-owned subsidiary would be deemed as "investment in securities". As TSMC expects to continue making capital injection to TSMC Global to save hedging costs in the future, it is proposed to increase the cap of investment by TSMC in each individual security to 40% of the Company's net worth.

- ii. Providing more flexibility for cash investments and strategic investments

With TSMC's continued capital injection, TSMC Global is expected to allocate a portion of those cash in investment grade fixed income securities for cash investment purpose. In addition, there could also be strategic investment opportunities (including M&A) for the Company through TSMC Global in the future. As a result, it is proposed to increase the cap of total security investments and investment in each individual security by TSMC's subsidiaries to 60% and 40% of the Company's net worth, respectively, to provide more flexibility.

Regarding cash investments, the Company follows a very stringent cash investment procedure with the objective to preserve principal and support liquidity requirements. The Company primarily invests in time deposits and investment grade securities and also limits the amount of credit exposure to any one issuer, issue, and sector.