

1.3 Risk Management

Risk Management Policies and Procedures

In response to the rapidly changing management environments and to ensure the company's stable management and sustainable development, GlobalWafers has formulated the "Risk Management Policies" and "Risk Management Guidelines" in 2015. In 2021, the Company had integrated the relevant information and redefined the "[Risk Management Policies and Procedures](#)" to establish an effective risk management mechanism, assess and supervise risk tolerance, monitor risk exposure status, determine risk response strategies, and comply with risk management procedures.

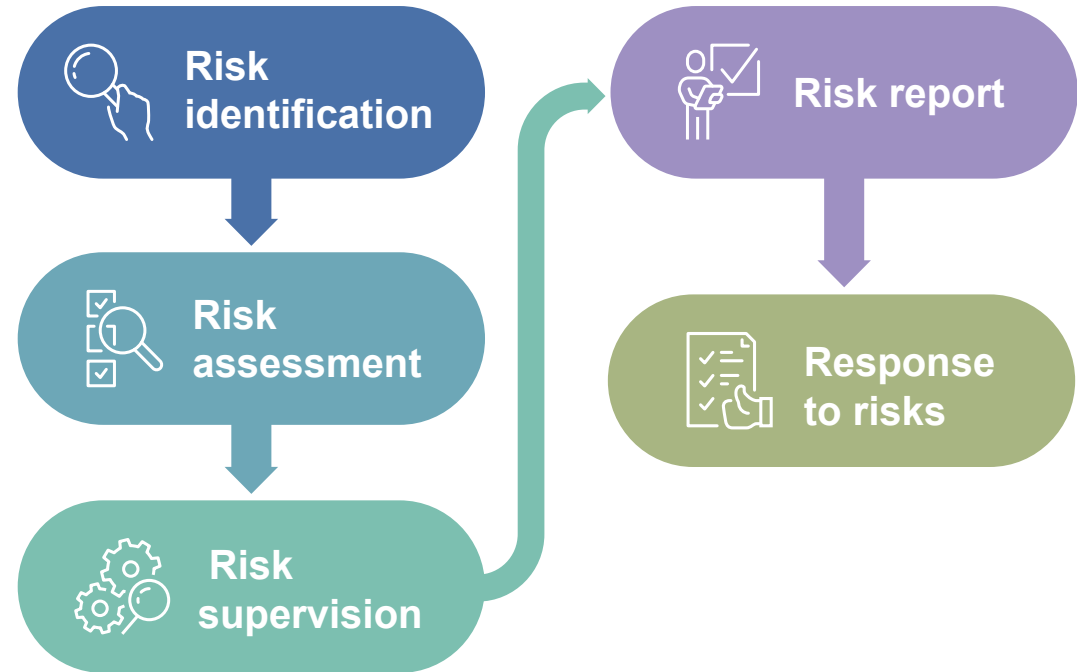
Risk Management Organization Framework

GlobalWafers' risk management organizational structure is as follows:

- I. Board of directors: As the Company's highest risk management unit, the board of directors aims to ensure legal compliance according to the overall business strategy and environment, promote and implement the Company's overall risk management, and clearly understand the risks faced by securities firms' operations, ensure risk management effectiveness, and take the ultimate responsibility for risk management. The above risk management-related matters are supported and supervised by the Audit Committee.
- II. Senior management: Responsible for planning and executing the board of directors' risk management decisions and coordinating cross-departmental risk management interactions and communications to reduce strategic risks.
- III. Various functional units: Responsible for analyzing, managing, and monitoring related risks within the subordinate units and ensuring that risk control mechanisms and procedures are effectively implemented.
- IV. Internal audit: This independent unit is subordinate to the board of directors. It assists the board of directors in supervising and executing the risk management mechanisms, inspects the risk implementation response and control of by functional unit, and provides suggestions for improvement in risk monitoring.

Risk Management Process and Operation

GlobalWafers' risk management procedure includes risk identification, assessment, supervision, reporting, and response operations. With this risk management procedure, we aim to implement and facilitate the company's risk management strategies effectively.



GlobalWafers has stipulated an assessment method as the basis for risks management. Regarding quantifiable risks, we have adopted a rather stringent statistics analysis and technique for analysis management and manage such quantifiable risks using a progressive method. With risks that cannot be easily quantified, we assess them using the qualitative method, i.e., linguistic description to express the possibility and impact of a risk occurrence. Relevant operation and risks management information is also disclosed in the Company's [annual report](#) and the [company website](#).



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GlobalWafers operates risk management in accordance with the three-level risk management division of labor structure

Tier-1 liability

Each functional unit or business undertaker shall be the responsible risk-control person for the business it undertakes. This entity must execute the operations according to the relevant business's internal control system and provisions and serve as the initial risk discovery, assessment, and control unit.

1

Tier-2 liability

The powers and responsibilities of each functional unit or the assigned risk management personnel of the functional unit shall be responsible for the risk management of the relevant businesses. This entity shall review the operation rules or operation manuals according to the actual business operations, pay attention to the competent authority's latest regulations (revisions or) amendments and business-related decrees or orders, and (revise or) amend the relevant internal provisions when necessary.

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Tier-3 liability

Senior management must review the integrity of the company's risk management-related mechanisms, supervise the risk management implementation and effectiveness, and report to the Audit Committee and board of directors every year

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To implement the risk management mechanism, the Company's Corporate Sustainable Development Committee reports to the Audit Committee (composed of four independent directors) and the Board of Directors every year on material environmental, social, and corporate governance issues and risk-related strategies, management operations, and execution related to the Company's operations. The Audit Committee and the Board of Directors are to provide feedback and guidance, with the most recent report submitted on May 7, 2024. In consideration of the importance and particularity of the climate change issue, the Corporate Sustainable Development Committee additionally reports to the Board of Directors each quarter on environmental performance indicators and targets, as well as climate change strategies and management.



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GlobalWafers has established an effective risks management mechanism to assess and supervise its ability of withstanding risks and status of risks sustained, and to determine risks-responsive strategies and the compliance status of risks management procedure. The ESG risks and the strategies of turning risks into opportunities that the Company has identified are illustrated below.

○ Strategies of turning risks into opportunities

Corporate Governance Aspect

<p>All risks involving management and investment</p> <ul style="list-style-type: none"> Proactively establish a comprehensive up-, middle- and down-stream integrated supply chain to expand the operation scale and to disperse operation risks via multi-angled management strategies. Establish an automatic feedback production analysis system to improve process stability, optimize quality, and reduce costs Continue to cultivate in the advanced technology R&D, commit to enhanced performance of key materials for power components so as to widen the gap from the competitors. Invest in the development of key technologies for GaN RF components as a response to the market demand for IoT and G5 mobile telecommunication. Establish an information security risk management structure and policy, strengthen the information security management awareness, and prevent possible information security risks and losses by implementing specific management plans as well as related education and training 	<p>Challenges for relationship maintenance and communication with internal & external stakeholders</p> <ul style="list-style-type: none"> Strengthen the stakeholder area on the Company's website, hold legal seminars regularly, and maintain open communication channels with stakeholders to respond to major issues of concern. 	<p>Strengthen the Board of Directors' Competency</p> <ul style="list-style-type: none"> Improve the board of directors' structure and its member composition, implement corporate governance policies and specific incentive measures, formulate relevant governance provisions, and clearly define the punishment and appeal system to enhance the sustainable value of the enterprise 	<p>Regulation Compliance Risks</p> <ul style="list-style-type: none"> Continue to monitor the revisions of relevant laws and regulations, ensure compliance with laws and regulations by adding and revising the corresponding internal procedure specifications, and provide education and training
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Environmental Aspect

<p>Climate change risks</p> <p>Set short-, medium- and long-term carbon emission reduction goals with 2019 as the base year. To achieve these goals, we have planned four major reduction strategies.</p> <ul style="list-style-type: none"> Renewable energy adoption: Continuing to increase the proportion of renewable energy via self-built solar power generation systems and purchased renewable energy (e.g., PPA, RECs). Improve energy efficiency: Reduce equipment energy consumption by improving equipment. 	<ul style="list-style-type: none"> Purchase carbon offset products: Offset carbon emissions by purchasing carbon emission trading credits. Carbon removal: Support tree planting programs and participate in other natural solutions and conservation programs. 	<p>Risks for environmental protection</p> <ul style="list-style-type: none"> Install the pollutant emission supervision system; devote to pollutant reduction Strengthen the risk control for turning waste into resources and reuse; use regenerated raw materials as much as possible
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People Aspect

<p>Risks for occupational health and safety</p> <ul style="list-style-type: none"> Conduct hazard identification and risks assessment plus risk reduction measures, stipulate relevant management procedures and handling guidelines, and implement emergency response drills on a regular basis The Company has conducted regular health and safety education and training to prevent occupational hazards and protect labor safety and hygiene. 	<p>Risks for labor health</p> <ul style="list-style-type: none"> Regarding particular operations prone to health hazards, special physical check-ups are offered to employees who are newly recruited or undergoing job changes. Annual special health check-ups are conducted, and labor operation environment supervision is implemented. To strengthen employees' health awareness, we have held sporadic employee health management and health promotional events in order to share information on major illnesses or health and enable our employees access to comprehensive health information. The factory has established a Covid Contingent Action (CCA) epidemic prevention team in response to COVID-19 to provide rolling adjustment of the plant's epidemic prevention measures and plan epidemic prevention-related employee benefits according to the COVID-19 development. The actions include providing vaccination incentives and purchasing additional employee group insurance to cover new statutory infectious diseases. The goal is to establish a friendly workplace environment, ensure employee health, and enable them to work without worries. 	<p>Risks for labor-management relationships</p> <ul style="list-style-type: none"> Labor-management communication: The Company attaches great importance to the rights and interests of employees. So, before any important decisions are made, the Company will notify the affected employees via labor-management meetings, electronic newsletters or personnel announcements in order to protect their rights and interests. Work hours and output management: Stipulate clear job descriptions and establish work goals. We have adopted work hours and output management to ensure the value and rationality of work, ensure that colleagues can create value under the premise of harmony between work and life, and reduce the risk of labor disputes Employee complaints channel: Install designated personnel for handling employee opinions, handle problems raised by employees in a timely manner, reduce labor-management conflicts
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🕒 [Long-Term Emerging Risks]

Given the drastic changes in the international situation causing macroeconomic shocks, the ongoing risks posed by extreme climate events leading to energy shortages, and emerging information security threats, the Company has formulated the following response strategies for identified long-term emerging risks

Emerging Risks	Risk Description	Potential Impact	Response measures
Geopolitical Risks	Recently, the international situation has changed drastically. Regional trade conflicts, the Russia-Ukraine War, the Israel-Hamas War and the potential conflict in the South China Sea will impact the overall economic environment.	<ol style="list-style-type: none"> 1. Geopolitical factors significantly impact the overall economy, causing fluctuations in the semiconductor industry and affecting changes in the investment environments of various countries. 2. Geopolitical risks also affect exchange rate fluctuations. The Company has established production sites in Europe, America, and Asia, where the labor, utilities and other overheads were paid by these sites separately in respective local currencies. Some of the export sales were settled by the customers in respective local currencies of the host countries while the remainder will be settled in USD. As such, wide fluctuation of the exchange rate between the USD and the currencies of the aforementioned host countries will affect the cost of operation of the Company. 	<ol style="list-style-type: none"> 1. Highly regionalized global operations GlobalWafers' 18 operating production bases are located in nine countries around the world. After the completion of the new plant in the United States, GlobalWafers will have thorough production processes from wafer growth to epitaxy in the Americas, Asia and Europe. For customers, it is a local supplier to meet their needs nearby, and mitigate the impact of geopolitical and overall economic changes. GlobalWafers has production facilities around the world and thus is able to allocate flexibly to respond to the impacts of related regulations, lower duties and operational costs. Clients all over the world also effectively diversify the impacts from the pandemic to the revenue and lower the economic risks from a single area. GlobalWafers also keeps close relationships with customers, and establishes a resilient local supply chain and business continuity plan (BCP) to cope with various challenges flexibly. 2. Strategies for responding to exchange rate fluctuations The international economic situation and exchange rate are so unpredictable. In response, the Company adopts the policy of natural hedge between the positions of assets and liabilities with an attempt to minimize the exposure of the position to exchange risk. The treasury function of the Company pays close attention to the trend of the exchange rate, and will match with appropriate foreign exchange instruments for hedging where necessary to mitigate the influence of exchange rate fluctuation on the cost of operation.
Energy Transition Risks	Extreme climates have prompted countries to continue to set net-zero carbon emission targets. The energy transition will bring about energy shortage worries, which may affect production. The governmental regulations, investment institutions, customers and the national policies of trade partners have increasingly scrutinized specifications for energy saving and carbon reduction. There is an expanded requirement for the use of renewable energy, and the power costs and the carbon tariff at the export destinations are a severe test for the survival ability of enterprises.	<ol style="list-style-type: none"> 1. Extreme climate conditions, such as unusually high temperatures, require maintaining optimal production conditions within the plant, which leads to an increase in operating electricity consumption and greenhouse gas emissions. This results in higher operating costs. 2. In order to comply with the government's regulations on the use of renewable energy and customers' requirements for a green supply chain, such as collecting carbon fees from large electricity users and providing low-carbon products, production costs may increase. 	<ol style="list-style-type: none"> 1. Committed to optimizing its existing equipment and introducing various energy-saving measures, to produce in an environmentally friendly manner. GlobalWafers' new plants have also introduced various energy-saving equipment and solutions during the construction phase, to reduce energy consumption, while comprehensively applying various green solutions, expanding the proportion of green power utilization, and monitoring the impacts of extreme weather at the same time, to minimize operational risks. For example, through the construction of a solar power plant, GlobalWafers' Denmark subsidiary Topsil is expected to become the first semiconductor crystal growth factory to use 100% self-generated green electricity in the second half of 2024. 2. By building our own solar power plants, signing power purchase agreements (PPAs) and purchasing Renewable Energy Certificates (RECs), as well as the Company's RE100 blueprint, we achieved our goals in stages. 3. As the parent company, SAS is a Green Energy Total Solution Provider, their rich experience and vertically integrated supply chain advantages may be adopted to assist the Group in building solar power plants to increase green energy power generation, and the subsidiary, Sustainable Energy Solution, will help in matching the demand for green power.



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Cyber Security Risk	In the era of digital technology, various emerging technologies are developing rapidly, and enterprises will face more complex and changing information security threats, including data leakage, cyberattacks, ransomware, and identity theft. These related cybersecurity risks may pose threats to the Company, its customers, and suppliers.	Cyber security risk incidents may cause damage to the Company's finances or affect overall business operations. On the other hand, leakage of confidential information, hacker attacks, etc., may damage the Company's reputation and various stakeholders' trust in the Company.	<ol style="list-style-type: none"> 1. The Company has established the Information and Communication Security Committee, and each subsidiary has an Information and Communication Security Promotion Team to coordinate the formulation, implementation, risk management, and compliance of information security and protection policies. In addition, the Company has established the "Information Security Management Policy" and "Information Security Management Procedures" and conducted regular annual information security drills to strengthen the Company's emergency response capabilities. 2. Established information security monitoring and vulnerability scanning systems to prevent external hacker intrusions and internal secret theft, and implemented strict software and hardware control (including Internet and personal information equipment) to ensure personal data and internal confidential data protection and security. 3. The Company joined the Taiwan Computer Emergency Response Team/Coordination Center (TWCERT/CC) and SP-ISAC of the Industrial Park. Through the annual exchange with famous information security service providers and programs, the Company pays close attention to issues related to information security and planned for proper response. The Company also conducts exercise drills against DDoS and APT under different information security environments to strengthen the capacity of the management staff in response to the situation with a view to detecting and deterring attack once discovered. 4. To implement the Company's information security risk management, the introduction of ISO 27001 began in January 2024, and ISO 27001 certification is expected to be obtained by the end of 2024

