

# Risk Management Organization Structure and Risk Management Categories

Date:2020.02.27



# Risk Management Organization Structure

The risk management organizations of Walsin Lihwa consist of the following:

- Audit Committee and Board of Directors

The Board of Directors is charge of risk management policy ratification and important decision-makings, while the Audit Committee is responsible for assessment of internal control effectiveness to ensure timely management of existing or potential risks.

- Auditing Office

The Auditing Office reports directly to the Board of Directors, inspects risk management effectiveness, and timely reports existing or potential risks to the management to help ensure compliance with relevant regulations and risk management procedures.

- President and President's Office

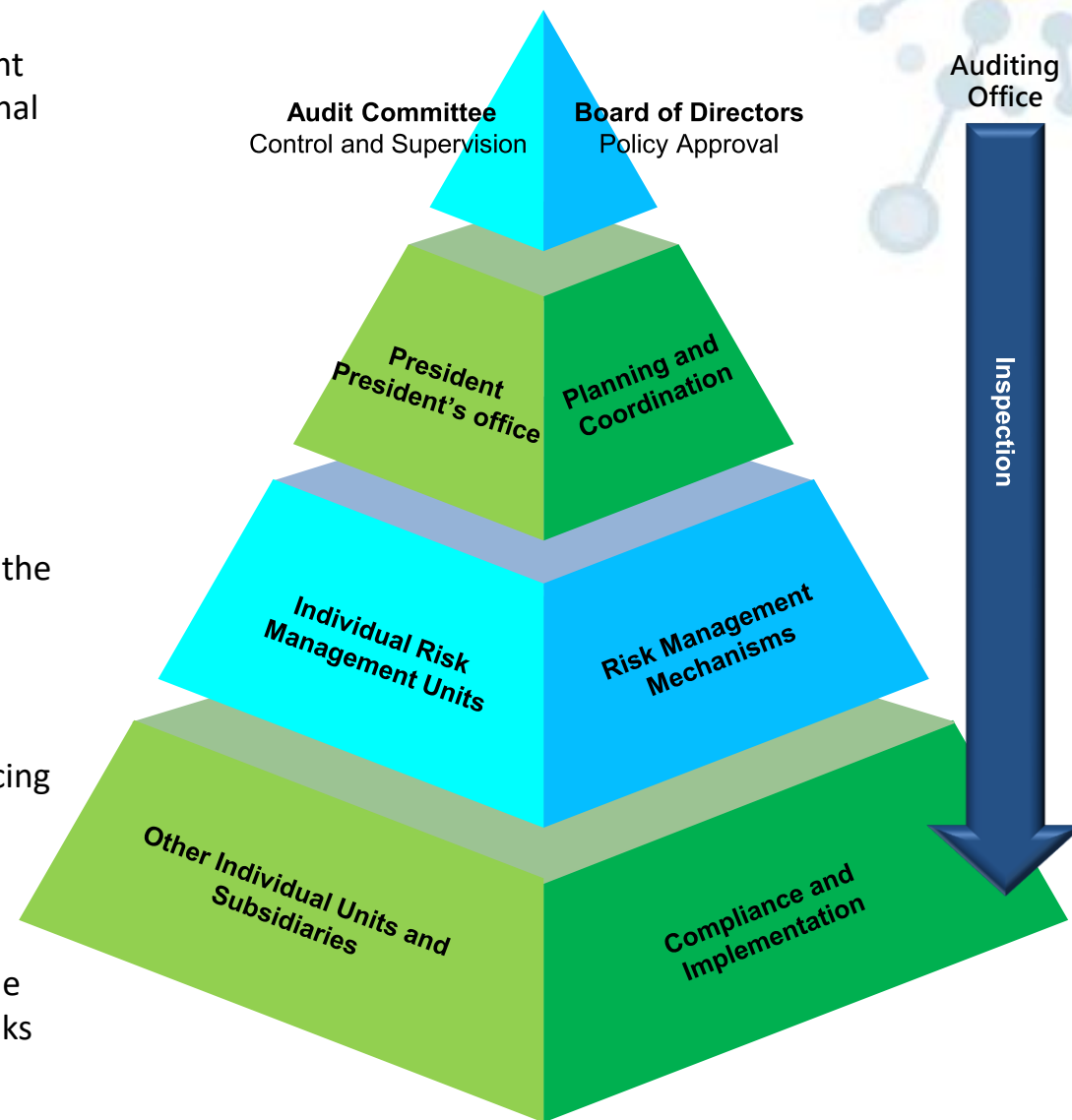
The President is responsible for risk management planning and overseeing risk management coordination and implementation, while the President's Office assists the President in fulfilling the aforementioned duties and is the secretariat for risk management.

- Individual Risk Management Units

Individual risk management units of Walsin Lihwa shall fully understand the risks facing their business to incorporate risk management mechanisms into operation management rules.

- Other Individual Units and Subsidiaries

Other individual units and subsidiaries of Walsin Lihwa shall categorically identify the risks they face to take necessary measures for risk management and ensure their risks remain within defined risk appetite boundaries.



# Risk Management Categories

Dimensions	Risk Type	Risk Management Unit	Risk Description	Control Mechanism
Corporate Governance and Economy	Strategic and Operating Risks	President's Office	Strategic Risks	The operating units regularly report strategic issues to directors in order to reduce strategic risks through participation, counseling, and monitoring of the board members.
		Accounting Div.	Operating Goals Achieved	Attainment of policies and goals each year are managed through business performance meetings.
	Legal Risks	Legal Div.	Penalties for Violations	The legal department is responsible for managing legal risks, internal systems, regulatory compliance, disputes and lawsuit events, investments and acquisitions, and intellectual property rights, as well as providing legal advice and handling recommendations.
			Personal Information Leaks	We established the Regulations for Personal Information Protection Management in December 2014 to protect and manage personal information. The IT, Human Resources, and Legal departments are responsible for personal information protection measures. The Legal department also promotes training courses on the protection of business secrets to ensure the implementation of the duty of confidentiality.
			Employee Misconduct	Established the Honest Business Practices, Guidelines for Honest Business Practices and Conduct, and Employee Code of Ethical Conduct to instill the values of honest business practices and create a corporate culture of integrity, which will guide employees to act according to moral standards, thus avoiding the risk of violating the law, and achieving sound corporate governance.
			Transaction Risks	Lower the overall legal risks of the Company through the contract system used to manage the status of contract signing and related risks, as well as the seal management system to monitor the issuance, use, and abolishment of the Company's seals. The legal department regularly organize legal education and training to raise employees' awareness of legal risks, so that employees comply with relevant laws when engaging in business activities, which will lower transaction risks. This enables us to prevent and control transaction risks in advance, ensure the Company's regulatory compliance, and comprehensively implement corporate governance.
	Capital Expenditure Risks	Accounting Div.	Purchase and Management of Major Equipment	<ul style="list-style-type: none"> <li>Implementation and amendment of the Rules on Capital Expense Management</li> <li>Major capital expenditures must be reviewed by the Audit Committee and the Board of Directors.</li> </ul>
	Information Security Risks	It Center	Information Systems and Confidential Information Protection	<ul style="list-style-type: none"> <li>Continue to implement advanced information security solutions to effectively protect, manage, and monitor systems, mainframes, and network activity.</li> <li>Plan and organize data protection mechanisms to lower risks of data leaks by end-users.</li> <li>Strengthen the protection of external information services and the ability to defend against hacker attacks.</li> <li>Periodically organize education and training activities to promote new knowledge on information security and enhance the information security awareness of employees.</li> <li>Periodically conduct disaster readiness drills for important systems, so as to rapidly restore operations when a disaster occurs to ensure the Company's business continuity.</li> </ul>

Dimensions	Risk Type	Risk Management Unit	Risk Description	Control Mechanism
Corporate Governance and Economy	Interest Rate Fluctuation Risks	Finance Division	Interest Rate Fluctuation	<ul style="list-style-type: none"> <li>Monitor interest rate and market changes, control positions of long-term and short-term loans, and use market tools to fix interest rate costs in a timely manner.</li> <li>Monitor the Company's financial condition and evaluate financing methods and instruments based on annual budget requirements to reduce financing cost.</li> <li>Maintain good relationships with banks to obtain the best interest rates on loans and savings.</li> </ul>
	Exchange Rate Volatility Risks	Commodity BG, Risk Management Division	Exchange Rate Volatility	<ul style="list-style-type: none"> <li>Monitor fluctuations and information in the foreign exchange market on a daily basis, estimate and monitor currency risks derived from imports and exports, and assess foreign exchange risks and changes in gains/losses from the Company's assets and liabilities.</li> <li>Formulate hedging strategies and use hedging instruments, such as spot exchange transactions and forward exchange transactions, for exchange rate hedging.</li> <li>Control foreign exchange risks and carry out hedging for major capital expenditures and fund transfers that will change the Company's foreign currency position.</li> <li>The purpose of market risk management is to control market risks within an acceptable range that enterprises could (or would be willing to) accept and to maximize the rate of return through risk adjustment.</li> </ul>
	Risks Associated with Raw Material Prices and Supply Chains	Commodity BG, Risk Management Division	Price Fluctuations of Raw Materials	<ul style="list-style-type: none"> <li>Supplier management: Carefully evaluate and actively develop new sources of materials to prevent being controlled by a few suppliers.</li> <li>Inventory management: Build a safety inventory level, use spot purchases for a certain portion of materials to flexibly respond to our production requirements.</li> </ul>
		Commodity Procurement Div.	Supply Cut Off	<ul style="list-style-type: none"> <li>Understand the market condition through data collection or market surveys and respond in advance.</li> <li>Management of raw material price risks: Market risk management focuses on operations related to the Company's raw materials. The purpose of material risk management is to control market risks within an acceptable range that enterprises could (or would be willing to) accept and to maximize the rate of return through risk adjustment.</li> </ul>
Technology Risks	Technical Functions of Each Business Group	Prevent the Use of Outdated Technologies and Delays in Product Development Caused by Sudden Market Changes	<ul style="list-style-type: none"> <li>To understand the requirements of customers on terminal applications, accelerate the development of technologies related to product materials, production processes, and product applications, we are strengthening our technical capabilities to respond to the rapidly changing external environment.</li> <li>Implement smart manufacturing and utilize the Internet of Things and big data analysis to improve efficiency and quality and reduce cost.</li> <li>Closely follow and respond to changes in competitors, market, industry, and customers, and use this as a basis for production, technology and product development.</li> <li>Develop high value/quality products, provide better customer services, and transition from manufacturing to manufacturing services.</li> </ul>	

Dimensions	Risk Type	Risk Management Unit	Risk Description	Control Mechanism
Environment	Climate Change and Environmental Risks	Environment, Health & Safety Div.	Carbon Emission Management	<ul style="list-style-type: none"> <li>Implement energy management systems and establish energy management performance indicators for effective long-term management.</li> <li>Invest in green energy and gradually establish the carbon footprint of products to improve carbon reduction performance and prepare for carbon rights management.</li> </ul>
		Environment, Health & Safety Div.	Reduce Environmental Pollution and Energy Consumption.	<ul style="list-style-type: none"> <li>Continue to improve reclaimed water and waste liquid recycling technologies and reduce raw material and tap water consumption.</li> <li>Continue to search for and develop waste reuse technologies to increase the resource reuse rate.</li> </ul>
		President's Office		Improve decision-making and strengthen operational management, including production and process technologies, operational models, and material procurement, in an effort to reduce the impact brought by climate change.
Social	Management Risks	Human Resoures Div.	Personnel Changes Handling Employee-Employer Relations	<ul style="list-style-type: none"> <li>Strengthen the employee-employer communication channel to promote harmonious relations.</li> <li>Strengthen personnel recruitment channels, employee capability eligibility review, as well as the management, implementation, and monitoring of education and training.</li> <li>Strengthen the management measures for the collection, handling, and use of personal information, continue to improve the literation of regulations, and uphold the rights of employees/parties involved.</li> <li>Ensure that the management procedures and relevant administrative operations of human resources comply with relevant laws and regulations.</li> </ul>
	Occupational Safety Risks	Environment, Health & Safety Div.	Work Environment and Employee Safety	<ul style="list-style-type: none"> <li>Organizing environmental safety and health competency and education training: Implement an environmental safety and health management system that is consistent throughout plants in Taiwan and overseas, identify employees' operating risks through reviews, and continue to lower the incident rate.</li> <li>Reinforcement and integration of occupational safety and environmental protection management systems: Integrate the environmental protection and occupational safety and health management system into a Group-wide unified operating model, and provide on-site guidance. Consistent documentation and stable system operations will be required.</li> <li>Implementing contractor management: We not only take it upon ourselves to fulfill our CSR, but also require our business partners and contractors to sign an EHS Policy Commitment to jointly abide by EHS regulatory requirements and reduce disasters and pollution.</li> <li>Improve occupational hygiene management: Strengthen employee health management, occupational disease prevention, and biological health management in order to improve the physical and mental wellbeing of employees.</li> </ul>
	Corporate Image Risks	Corporate Communication Dept.	Negative Image	Establish a crisis response system for operating risks that may affect the Company's image, establish crisis management mechanisms during normal operations and simulate possible events, and have a spokesperson system in place to speak to external audiences on behalf of the Company, or clarify false information using major information platforms to maintain the Company's image and fully communicate with stakeholders.