

# Status of Risk Management

To manage and control TSRC' s risk, the Company formulated the "Policy of Risk Management" which was approved by the Board Meeting of Directors on December 2, 2021, as a guideline of risk management and operation mechanisms. The Company also formulated the "Procedure of Risk Management" for implementation on related operation of all risk management.

TSRC' s organizational structure of risk management: Board of directors as a top institution of governance and performing supervision of the status of the Company' s risk management, TSRC' s Executive Leadership Team (CEO and heads of all functional units) responsible for the management of all items of risk management. Corporate Development Department is organizer, and Task force of Risk Management responsible for implementing projects and items of risk management. The members of the task force are from all related function unit to provide relative assistance.

TSRC's risk management process includes risk identification, risk assessment, risk ranking, risk response, control and disclosure to manage and reduce the possibility and impact of risks. The scope of risk management includes 9 various risks such as strategic risk, financial risk, operational risk, ESG-related risk, risk of cyber security and information technology. TSRC execute control of risk management systematically through identification, assessment, ranking, and taking countermeasures and disclosure for the risk management of the group and its subsidiaries every year. The process is as follows:

- 1. Risk identification and assessment (The first quarter of each year) :**
  - 1.1 Start the annual risk management process and review the actual status of risk management actions taken in the past year.
  - 1.2 Identify risks based on the external environment and the company' s operational needs and evaluate the probability and impact of risks and mark the impact on the company with a matrix.
  
- 2. Risk priority and response (The second quarter of each year) :**
  - 2.1 Risk Priority : Based on the risk assessment results, risks are classified as Level 1 (high), Level 2 (moderate), and Level 3 (low) risks. Based on company operation, select the "priority risks" for the year from Level 1 and Level 2 risks.
  - 2.2 Risk Response : For "Priority risks" , analyze their root causes and assess whether effective management actions are in place. If there is no management action or the existing management action is insufficient for the "priority risk," take immediate action.
  
- 3. Management and response to "risks that require immediate action" (The third quarter of each year) :**
  - 3.1 Evaluate "priority risks," identify risks requiring immediate action, and review the effectiveness of management and response measures.

**4. Implementation, review and improvement of risk management (the fourth quarters of each year) :**

The Risk Management Taskforce will review the risk response measures and implementation status, and report it by the end of the first quarter of the following year. The risk management process is reviewed and revised based on the process and results of risk management in the current year to ensure the effectiveness of risk management.

In 2023, the Corporate Development Department initiated the annual risk management process. The Risk Management Task Force identified 78 important risks based on the company' s internal and external environments. After ranking these risks using the risk matrix, the ESG Committee selected 19 "Priority Risks" , these risks include strategic risks, regional and industrial risks, operational risks, financial risks, ESG related risks, research and development and intellectual property management risks, cybersecurity and information technology risks.

The effectiveness of management actions was then analyzed. Finally, five risks were identified for immediate action, with risk management actions formulated and implemented by the relevant departments on an ongoing basis. The results are expected to be reported to TSRC' s Executive Leadership Team by the end of the first quarter of 2024.

In 2023, quarterly business performance was reported to the Board Meeting of Directors. In addition to reporting TSRC' s operations, we will also provide status of risk management or major issue in the operation. Therefore, directors can be informed of the operations in a timely manner. Additionally, the result of 2023 risk management was reported to Audit Committee in Oct 2023 and the Board Meeting of Directors in November 2023.

For climate-related risks based on TCFD' s guideline, the Company reported the disclosures of climate-related risk to the Board Meeting of Directors in July 2023, and reported the assessment and implementation of climate-related risk to Audit Committee in Oct 2023 and to Board Meeting of Directors in Nov 2023. In addition, considering the increasing importance of information security to the company, we reported to the Board of Directors in November 2023 on the implementation of information security risks.

2023 Priority Risks and Countermeasures

★ Risks with red asterisks are for immediate action

No.	TSRC Risk Categories	Risk contents	Response measures	Management goals or targets	Implementation results
1	Strategy risks	Oversupply of BR products in the market	<ul style="list-style-type: none"> <li>Adopt flexible product mix adjustment strategy</li> <li>Focus on target markets and monitor market dynamics</li> </ul>	<ul style="list-style-type: none"> <li>Annual sales volume budget</li> </ul>	<ul style="list-style-type: none"> <li>Utilize sales strategy and product mix to exceed budgeted sales revenue</li> </ul>
2	Financial risks	High interest rates	<ul style="list-style-type: none"> <li>Adjust the currency and tenor of loans</li> <li>Opt for medium-term borrowing instead of short-term borrowing</li> </ul>	<ul style="list-style-type: none"> <li>Plan capital requirements by anticipating interest rate hikes</li> <li>Net interest expense as a percentage of revenue</li> </ul>	<ul style="list-style-type: none"> <li>Achievement of management objectives by planning and controlling the ratio of net interest expense</li> </ul>
3	Business risks	★ Uncertainty of energy price increase in Taiwan	<p><b>Synthetic Rubber Business</b></p> <ul style="list-style-type: none"> <li>Implement production and marketing programs and cost control</li> <li>Implement pricing strategies to minimize financial impact</li> </ul> <p><b>Advanced Materials Business</b></p> <ul style="list-style-type: none"> <li>Reduce process unit energy consumption</li> <li>Implement pricing strategies to minimize financial impact</li> </ul>	<p><b>Synthetic Rubber Business</b></p> <ul style="list-style-type: none"> <li>Annual budgeted profit</li> </ul> <p><b>Advanced Materials Business</b></p> <ul style="list-style-type: none"> <li>Steam consumption reduction target</li> <li>Develop new process technologies to reduce unit energy consumption</li> </ul>	<p><b>Synthetic Rubber Business</b></p> <ul style="list-style-type: none"> <li>Achieve annual budgeted profit through production and sales planning and pricing strategies</li> </ul> <p><b>Advanced Materials Business</b></p> <ul style="list-style-type: none"> <li>Achieve initial reduction targets</li> <li>Continuously promote the development of new process technologies</li> </ul>
4	Regional risks and industry risks	★ Uncertainty of downgrading of Dashe Factory	<ul style="list-style-type: none"> <li>Continued communication with the competent authorities together with local manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>Advocated for downgrading to grade A industrial area</li> </ul>	<ul style="list-style-type: none"> <li>Regularly discussed with members of factory associations and petrochemical associations on countermeasures and action plans</li> </ul>
		★ Impact of U.S. tariff policy changes on SBC products	<ul style="list-style-type: none"> <li>Continuous optimization of production efficiency and cost reduction in U.S. factories</li> <li>Develop new products and applications with high added value</li> </ul>	<ul style="list-style-type: none"> <li>Estimated annual production volume of SIS and SBS in the U.S. factories</li> <li>Obtain new product approvals from target customers</li> </ul>	<ul style="list-style-type: none"> <li>Continued to stabilize production and reduce unit costs</li> <li>New products have been tested by international customers and are in the process of certification</li> </ul>
5	ESG-related risks	★ Uncertainty of carbon fee price in Taiwan	<ul style="list-style-type: none"> <li>Implement reduction measures to minimize carbon emissions from manufacturing processes</li> <li>Develop new technologies to reduce greenhouse gas emissions</li> <li>Expand and develop ESG-related business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Group-wide GHG reduction target</li> <li>R&amp;D of new low-carbon technologies</li> <li>Develop products to meet customers' ESG needs</li> </ul>	<ul style="list-style-type: none"> <li>Achieve annual carbon reduction targets</li> <li>Continue to develop new low-carbon technology applications</li> <li>Collaborate with customers to research and develop recycled materials and product applications</li> </ul>
		★ Increase the proportion of greenhouse gas reduction in line with national policies	<ul style="list-style-type: none"> <li>Continue to develop carbon reduction technologies and process improvement solutions</li> </ul>	<ul style="list-style-type: none"> <li>Group-wide GHG reduction target</li> <li>Group's renewable energy use target</li> </ul>	<ul style="list-style-type: none"> <li>Achieved management targets for GHG reduction</li> <li>Completed the installation of solar panels at the Kaohsiung Dashe Factory</li> </ul>
6	R&D and intellectual property rights management risks	Leakage of R&D confidential information	<ul style="list-style-type: none"> <li>Enhance new employee training and confidentiality awareness</li> <li>Strengthen IT monitoring and database management</li> </ul>	<ul style="list-style-type: none"> <li>Implement IP-related training for R&amp;D employees and regularly promote confidentiality and security</li> <li>Regularly review database access rights</li> </ul>	<ul style="list-style-type: none"> <li>Perform internal staff training and regular confidentiality counseling</li> <li>Review access rights and continuously enforce confidential information management</li> </ul>
7	IT technology	Hackers invading the company's information systems	<ul style="list-style-type: none"> <li>Continuously update system firewalls, protection software, and Security Operation Center (SOC) monitoring</li> <li>Regular backup and carry out data recovery drills</li> </ul>	<ul style="list-style-type: none"> <li>Zero information security incidents</li> <li>100% success rate of data recovery drills</li> </ul>	<ul style="list-style-type: none"> <li>No information security incidents and continuous monitoring and protection</li> <li>Annual data recovery drill for critical hosts with 100% recovery success rate</li> </ul>