

Other Supplementary Information of Risk Management

I. Strategies to promote an effective risk management culture

Advantech has below strategies and approaches to promote an effective risk management culture

- **Board of director's training:** The Company provide board of directors all available training courses hosted by the Company or external institutions in relation to risk management that directors may take the course with their own selection or as mandatory ones. All such trainings are at the Company's expenses.
- **Employee's focused training:** The Company provides all employee with selective risk management related training every years and mostly served as mandatory training ones.
- **Annual internal control and risks self-evaluation:** This is conducted once every year and key management is encouraged to highlight major risks and mitigation actions of their respective function/region.
- **Annual risk management survey:** Risk Management Team invite all interested parties and manager level and above to response to annual risk survey to highlight major risks and further mitigation action needed
- **Risk Management mailbox:** All global employee may feedback their observation and suggestion on risk management from time to time.

II. Internal Audit's audit of risk management processes in the last 2 years

Internal Audit team have conducted audit of the risk management processes in 2022&2023 for below aspects, and there have been reasonable enhancement for issues identified.

- ✓ Employee turnover and recruitment
- ✓ Waste management
- ✓ EHS risks and organization issues
- ✓ Long material lead time issue
- ✓ Material shortage/lifecycle management
- ✓ High inventory Issues
- ✓ DMS project quality issues
- ✓ Sales order change owing to market recession
- ✓ Cyber security and IT infrastructure continuity
- ✓ RBU financial controlling and reporting issues

III. Incorporation of risk criteria in the development of products and services

In, Advantech, there are mainly two check points during the new product introduction processes:

1. PDCP (planning decision check point):

Before entering product development, establish preventive reviews for the following three risks and respond to countermeasures:

- 1) Material selection: material quality level and key parts health inspection;
- 2) Verification planning: provide certification design considerations to help reduce the risk of future product design changes
- 3) Risks of similar models: Provide quality case sharing and design improvement suggestions, and provide lesson learn for similar models for product development manager's reference

2. ADCP (availability decision check point):

Before entering trial production, establish quantitative review for the following three risks:

- 1) Material quality: material quality level and BOM (Bill of Material) health inspection
- 2) Design quality: completeness of design verification
- 3) Manufacturing feasibility: Design-for-Manufacture evaluation

IV. Financial incentives which incorporate risk management metrics

1. For senior executives: Around 50%~70% of total compensation are variable incentives which include yearly performance bonus and performance stock options. The factors that may impact the incentives considers include both financial and strategic factors, while risk management is one of the strategic factors. Other strategic factors include innovation, ESG, talent cultivation, etc.
2. For line managers: Their compensation composed of fixed salary, group bonus, and performance bonus. Around 5%~22% of total compensation are performance bonus which depend on final ranking of appraisal results. Performance appraisal will consider two aspects with detail metrics as below:
 - Job Competence: annual goal achievement, level of expertise, management capability, etc.
 - Corporate requirement: ESG, risk management, and code of business conducts.