

3

Responsible Procurement

3.1 Supply Chain Management





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3.1.1 Supply Chain Overview

In order to respond to the increasing complexity of supply management, meet the needs of customers in the automotive and consumer electronics industries, and actively expand its presence in local procurement, TSC established the Supply Chain Management Department in 2022. This department works with relevant units such as the Procurement Department of each site to manage raw materials procurement and wafer fab operations. Additionally, TSC is committed to strengthening its sustainable supply chain and aims to make a positive impact on green operations while consolidating its core business. The Company follows the Responsible Business Alliance (RBA) guidelines to promote sustainable supply chain assessments and avoid suppliers with significant environmental and social impacts, as well as minerals from conflict areas, to fulfill their consolidated green supply chain goal.

Local Procurement

TSC recognizes the importance of sustainable operation and considers its impact in every aspect of its business, including procurement targets and amounts. Although most of its production equipment and raw materials are sourced overseas, TSC is committed to collaborating with local suppliers to build a lean, robust, healthy, and sustainable supply chain. In 2022, our local procurement accounted for 72.7% of its total procurement amount. Moreover, our collaboration with suppliers resulted in the addition of 23 new suppliers, 16 of which were local. We will continue to build stable partnerships, strengthen mutual trust, and increase the percentage of local procurement to promote the social and economic development.

Local Supplier Procurement Status

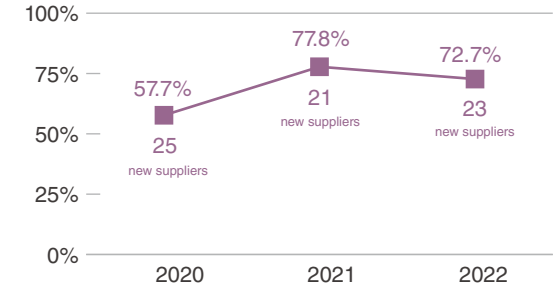
Unit: NT\$ thousand

	2020	2021	2022
Procurement amount from local suppliers	618,567,980	1,081,380,774	797,304,214
Total procurement amount	1,072,548,908	1,390,834,664	1,096,024,758

※ Note:

1. All references to "local" herein are to the "Taiwan area" in the boundary of this report.

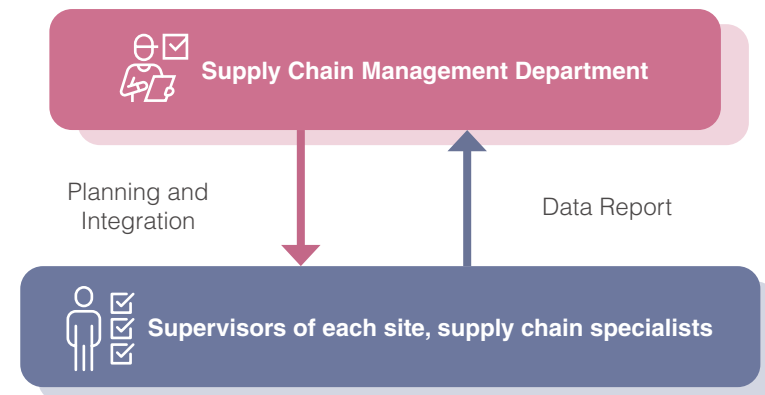
Percentage of procurement amount from local suppliers(%)



3.1.2 Sustainable Supply Chain Management

Supply Chain Management Measures and Strategies

TSC established a Supply Chain Management Department in 2022. The department integrates procurement resources from each site and optimizes the overall supply chain. The management covers aspects such as resources, demand, manufacturing, and supply. It constantly reviews and integrates planning processes, leading cross-functional teams in a collaborative mode to support the Company's operational development goals. To ensure that supply chain scheduling considers inventory risks and meets customer demands, the Supply Chain Management Department follows the principle of "supply continuity" to ensure uninterrupted supply in unforeseen or force majeure situations. The areas of each site manage supply chain issues and collaborate with the headquarters to constantly assess potential risks and continuously optimize the resilience and strength of the supply chain.





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While integrating organizational resources and strategies, we collaborate with customers to lower supply chain costs and improve data transparency using technological collaboration tools. This involves conducting Quarterly Business Reviews (QBR) and maintaining close relationships with key and strategic suppliers. TSC also plans the training of supply management talents, strengthening information synchronization across departments, and reducing procurement costs by implementing automation and standardized management.

With regard to supplier management, we established the Supplier Management Operation Procedure. Before collaborating with suppliers, the Company assesses them based on relevant assessment methods, including the supplier's record of environmental and social impacts. We encourage suppliers to obtain certifications such as ISO 9001, ISO/TS 16949, ISO 14001, and ISO 14064 to jointly enhance corporate social responsibility. In addition, TSC follows the guidelines of the Responsible Business Alliance (RBA) to establish measures related to supply chain management, such as the RBA Vendor Code of Conduct, RBA Policy and Target Management Measures, Environmental and Social Responsibility Exception Handling Measures, Professional Ethics Risk Assessment Management Measures, and Social Responsibility Risk Assessment Management Measures. All relevant policies are disclosed on [TSC's official website](#).

Three Core Elements of Supplier Management

Stable Growth



- Establishment of strategic sourcing to plan and execute supply chain strategy, improving the scope, flexibility, and resilience of the supply chain
- By using a centralized control method, the flexibility of the supply chain to respond to changes can be enhanced, as well as the cost-effectiveness of centralized procurement and the efficiency of program integration

Laying the Foundation



- Integration of production and sales plans, implementation of PDCA management cycle
- Improving of order service response efficiency and capability
- Integration with product development process to promote automation

Sustainable Operation



- Implementation and maximization of the value of information flow in business management

Sustainable Impact Assessment for Suppliers

The resilience of the supply chain is a matter of great concern for TSC. In addition to the basic selection criteria for suppliers, including technology, delivery, quality, cost, and other basic criteria, we conduct comprehensive assessments of economic, environmental, and social aspects to realize the concept of sustainable operation. In order to ensure that suppliers collaborate towards sustainability goals, all suppliers are required to sign the RBA Vendor Code of Conduct, providing the foundation of a solid partnership. The RBA Vendor Code of Conduct covers labor rights, anti-discrimination and anti-harassment, occupational safety, the environment, and business integrity. We hope that all suppliers and contractors will work together to ensure the implementation of the RBA Code of Conduct and promote the welfare of our stakeholders.

In addition, we refer to standards such as ISO 14001 Environmental Management System and ISO 45001 Occupational Health and Safety Management System, extending assessment to include environmental protection, safety and health, and management systems, as well as whether suppliers have adopted policies and conducted due diligence on the sources and supply chain of tantalum, tin, tungsten, and gold (3TG) in their products. For details, please refer to section [3.1.3 Conflict Minerals Management](#).

Since 2017, we have conducted annual environmental and social impact assessments on new suppliers. Out of the 21 new suppliers added in 2021, one did not meet the standards of the assessment. This supplier has been identified as having significant actual or potential negative impacts on the environment and society. We have designated it as a focus of observation² for the following year. In 2022, we collaborated with 81 raw material suppliers¹, all of whom underwent environmental and social impact assessments. There were no suppliers with potential environmental or social impacts, and the sustainability impact assessments for the 23 new suppliers added were 100% passed.





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Sustainable Impact Assessment Sheet for Suppliers

Environmental and Social Impact Assessment	2020	2021	2022
Percentage of new suppliers assessed for environmental standard(%)	100%	100%	100%
Number of suppliers assessed for environmental standards during reporting period	25	21	23
(A) Number of suppliers identified as having significant actual or potential negative impacts on the environment	0	1	0
Number of suppliers in (A) that have improved	0	0	0
Number of suppliers in (A) with whom collaborative relationship was terminated	0	0	0
Percentage of new suppliers assessed for social standard(%)	100%	100%	100%
Number of suppliers assessed for social impact by social standard during the reporting period	25	21	23
Number of suppliers identified as having significant actual or potential negative impacts on the society (B)	0	1	0
Number of suppliers in (B) that have improved	0	1	0
Number of suppliers in (B) with whom collaborative relationship was terminated	0	0	0

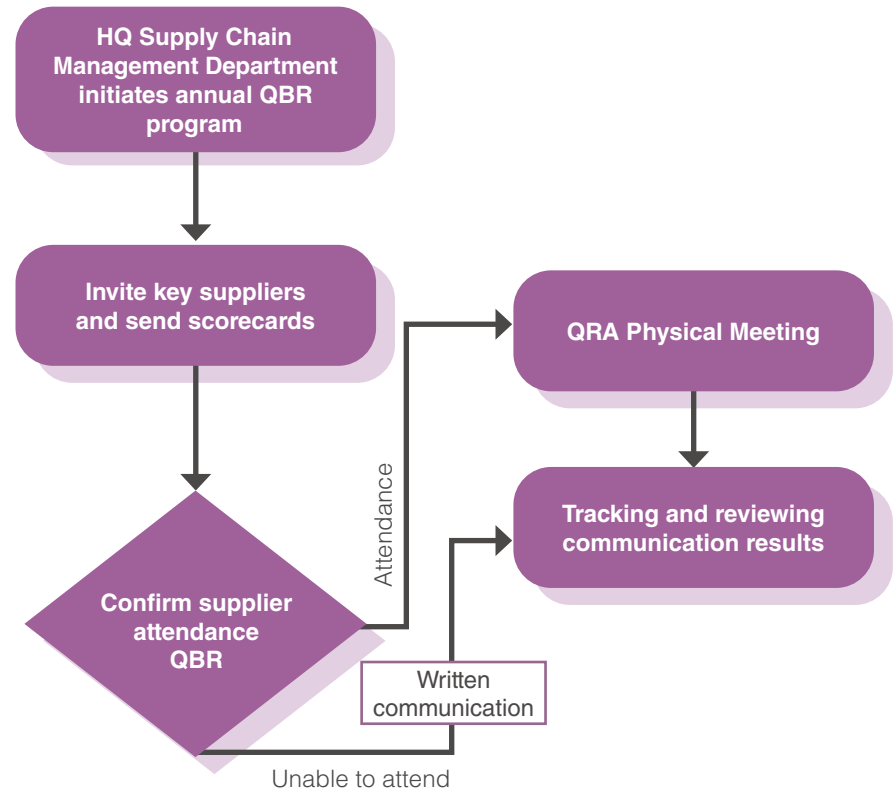
※ Note:

1. In 2021, one company was identified as having potential negative environmental and social impacts because it did not sign the RBA Vendor Code of Conduct. TSC is actively communicating with the company and continuously improving its own supply chain's environmental and social impacts.
2. Suppliers only include suppliers of raw materials and excluded suppliers of equipment and facility procurement.

Enhancing Communication with Suppliers

In 2022, TSC established a Supply Chain Management Department. This is expected to promote more transparent and effective communication channels starting in 2023, such as Quarterly Business Review (QBR) meetings, communicating with suppliers regarding QDCST (Quality, Delivery, Cost, Service, Technique) and other projects. In addition, we plan to implement a scorecard assessment mechanism to examine the practices and performance of suppliers in various aspects, with the expectation of driving continuous improvement in the supply chain through brand influence.

Supplier QBR Program Implementation Procedure



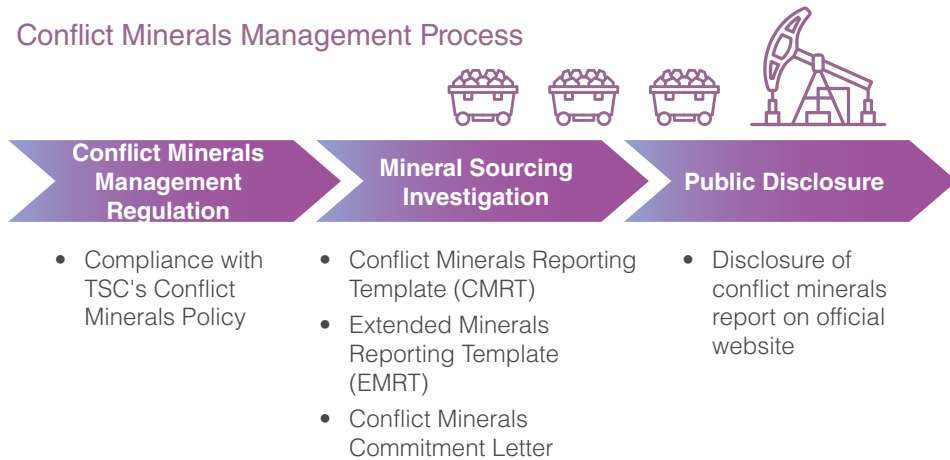


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3.1.3 Conflict Mineral Management

Based on corporate social responsibility and the protection of international human rights, TSC has established the [Conflict Minerals Management Regulation](#) and pledged not to use minerals from conflict areas in our products. Meanwhile, we communicate the conflict minerals management requirements to our suppliers through the Responsible Minerals Assurance Process (RMAP) and conduct due diligence for the entire supply chain. In procurement, we encourage suppliers to opt for smelters or refineries that have been certified by third parties as prohibiting the use of conflict minerals from the Democratic Republic of Congo or neighboring countries. We require suppliers to sign a "Declaration of Non-Use of Minerals from Conflict Areas" during the supplier assessment process. We aim to collaborate with suppliers to reduce social and environmental impacts. In addition, the Company also discloses information about smelters and mineral sources in the supply chain based on the results of mineral reports filled on the official website, as released by the Responsible Minerals Initiative (RMI).

Conflict Minerals Management Process



Conflict Minerals Management Policy and Measures

TSC complies with the results of mineral reports issued by the Responsible Minerals Initiative (RMI) to avoid using metals from conflict areas. TSC explicitly requires suppliers to abstain from using raw materials, such as 3TG and cobalt, that are mined under illegal and abusive working conditions like forced labor and abuse of child labor. Additionally, we encourage suppliers to establish their own minerals management policies and pass them on to the next level of suppliers. In addition, we also encourage suppliers to purchase minerals from non-conflict smelters certified by the Responsible Minerals Assurance Process (RMAP) or other independent third-party auditors. This ensures that TSC does not use minerals from conflict areas in its products.

TSC reassesses the list of smelters used in its products in accordance with the Conformant Smelters List published on the official RBA website, and surveys suppliers of conflict minerals through questionnaire audits. In order to understand suppliers' sources of minerals, we utilize the RMI Conflict Minerals Reporting Template (CMRT) for the survey, requiring all suppliers to disclose the sources of their minerals and sign a Declaration of Non-Use of Minerals from Conflict Areas, guaranteeing that the procurement sources are not from conflict areas and comply with requirements of both customers and laws & regulations. Starting in 2021, the Company has proactively investigated into the sources of cobalt and mica smelters with suppliers, ahead of the updated EMRT 1.1 (Extended Minerals Reporting Template) by the Organization for Economic Co-operation and Development (OECD) by the end of 2022, demonstrating our active attention to this issue. We update the CMRT and EMRT annually and discloses the survey reports on [TSC's official website](#).

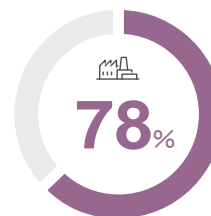
Declaration of Non-Use of Minerals from Conflict Areas

Through the supplier assessment process, we require suppliers to sign a "Declaration of Non-Use of Minerals from Conflict Areas". The signing rate reached 78% in 2022, with a total of 63 suppliers completing the signing. TSC aims to fulfill its corporate responsibility by jointly monitoring with suppliers to eliminate violations of humanitarian-related events and create sustainable corporate value. In the future, we expect to increase the signing rate through continuous promotion.

Signing Status of the Declaration of Non-Use of Minerals from Conflict Areas in Each Site

Site	Number of suppliers confirmed to have signed	Total number of suppliers	Signing rate
Li-Je Site	28	32	88%
I-lan Site	35	49	71%
Total	63	81	78%

Status of Declaration of Non-Use of Minerals from Conflict Areas



63 Suppliers Signed the Declaration of Non-Use of Minerals from Conflict Areas