3

Responsible Procurement

3.1 Supply Chain Management

Suggested priority for referring to the stakeholders in this chapter:
☐ Supplier ■ Customer ☐ Employee ☐ Investor ☐ Government ☐ Media
■ Others (such as the general public, academic institutions, etc.)

Not only do the products and services provided by suppliers have a direct impact on TSC's products and operations, but their fulfillment of corporate social responsibility also has an indirect impact on TSC's business ethics. Therefore, TSC and our suppliers, as mutually supportive partners, not only support RBA's vision and goals, but also promote sustainable supply chain assessment. This includes requiring all suppliers to sign up for the RBA Supplier Code of Conduct and setting our clear provisions in various areas, namely labor, health and safety, the environment, and business ethics, with a view to jointly protecting workers' human rights, promoting anti-discrimination and anti-harassment, and engaging in occupational safety, environmental, and ethical corporate management, as well as avoiding the use of minerals from conflict zones, thereby achieving the goal of sustainable supply chain. TSC hopes to make a positive impact in green operations while solidifying our primary businesses.

Material Topics -
Sustainable Supply Chain - Sustainable Supply Chain Management

Policy and Commitments

Supply chain members are one of the key partners for TSC's sustainable growth. TSC is committed to maintaining close partnerships with key and strategic suppliers in terms of quality, delivery, cost, service, and technique (QDCST), so as to sustain the company's operations and ability to serve customers. At the same time, TSC works with our suppliers to fulfill corporate social responsibility from the environmental, social, and corporate governance (ESG) aspects in accordance with the Responsible Business Alliance (RBA) Code of Conduct to enhance our sustainable competitiveness.

The RBA Code of Conduct

Management Policy and Evaluation Mechanism

- TSC has formulated the RBA Supplier Code of Conduct according to the RBA Code of Conduct, aimed at not only requiring our suppliers to comply with laws and regulations in the regions where they run their business, but also setting out clear provisions in various areas, including labor, health and safety, the environment, business ethics.
- TSC regularly updates this code of conduct according to the official version released by RBA, and also discloses it on our official website.
- TSC has established the Regulations Governing Vendor Management for the purpose of supplier management and evaluation.
- TSC not only analyzes and keeps abreast of events that may potentially affect supply continuity, but also activates the business continuity plan in a timely manner to implement response or preventive measures.

Action Plan and Performance

- **In 2023, TSC successfully introduced the business continuity management (BCM) system for the purpose of management and regular tracking, so as to monitor potential risks at all times and optimize the resilience and strength of our supply chain.**
- **The proportion of local procurement to overall procurement at TSC has remained above 60% for three years in a row.**

3.1 Supply Chain Management

3.1.1 Supply Chain Overview

TSC's production sites are primarily located across Taiwan and China. As of the end of 2023, TSC had a total of 299 suppliers to provide products and services for customers worldwide. TSC's key suppliers are defined as suppliers of manufacturing services for the company's products and materials required for production. In 2023, TSC had a total of 176 key suppliers, 123 of which were Tier 1 suppliers.

Production site	I-lan Site*3	Shandong Site	Tianjin Site*4	Li-Je Site	Total
Key supplier*1	58	49	37	32	176
Tier 1 suppliers*2	53	29	21	20	123
Subtotal	111	78	58	52	-

Note:
1. These figures indicate the total number of suppliers of materials listed on the bill of materials (BOM) and vendors that provide manufacturing services, excluding suppliers of equipment and related factory services.
2. Tier 1 suppliers refer to suppliers of primary materials.
3. These figures indicate the number of suppliers with which the I-lan Site, for procurement purposes, and the Outsourced Semiconductor Assembly and Test (OSAT) team engage.
4. These figures include the number of suppliers with which the Tianjin Site engages for procurement and outsourcing purposes.

Local Procurement

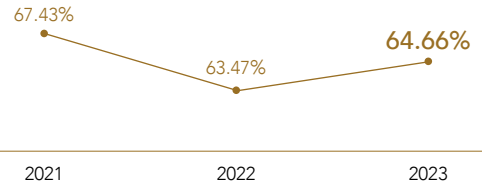
TSC recognizes the importance of sustainable operation and considers its impact in every aspect of our business, including procurement targets and amounts. Although most of our production equipment and raw materials are sourced overseas, TSC's operating sites are committed to collaborating with local suppliers to build a lean, robust, healthy, and sustainable supply chain. In 2023, local procurement accounted for 64.66% of the total amount of procurement at TSC, reaching over 60% for three years in a row. In the future, we will continue to build stable partnerships and bolster mutual trust, in hopes of increasing the percentage of local procurement, thereby facilitating social and economic development.

Procurement from local suppliers at key operating locations Unit: NT$

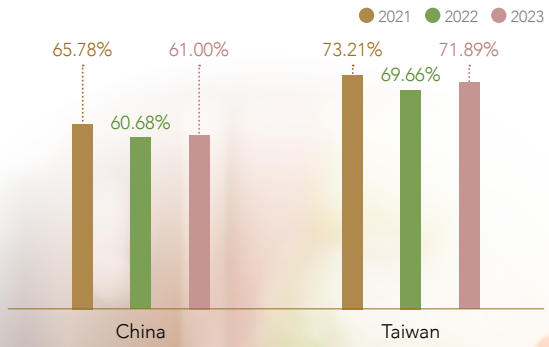
	2021	2022	2023
Amount of procurement from local suppliers	3,021,004,430	3,258,261,400	2,385,856,083
Total amount of procurement	4,480,449,620	5,133,808,220	3,690,102,856

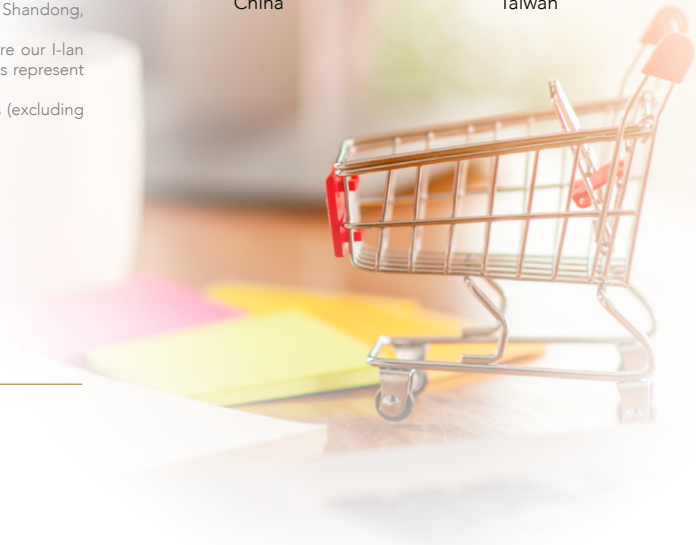
Note:
1. TSC's primary operating sites comprise all production sites, including our Li-Je, I-lan, Shandong, and Tianjin sites.
2. Local suppliers are defined according to the geographical location of each plant, where our I-lan and Li-Je sites represent the entire Taiwan region, while our Shandong and Tianjin sites represent the China region.
3. The statistical scope includes categories of raw material and finished product suppliers (excluding triangular trade).

Distribution of local procurement at TSC



Percentage of procurement from local suppliers



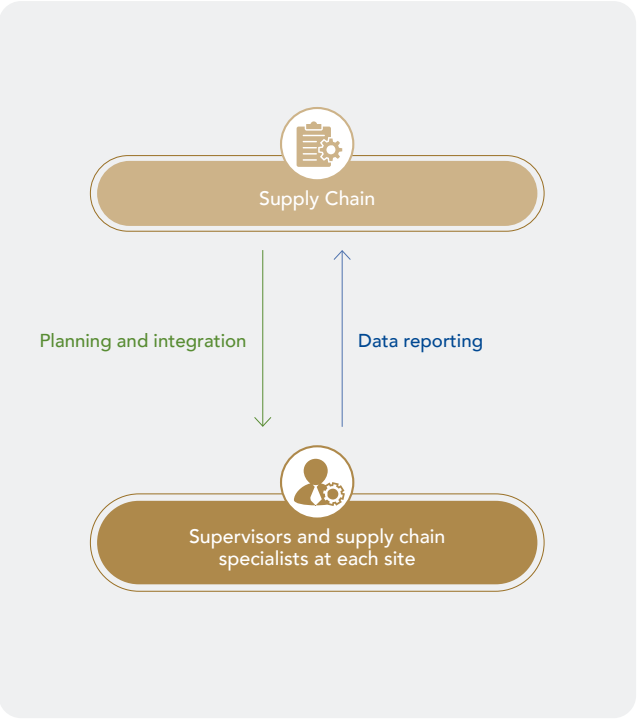


3.1.2 Sustainable Supply Chain Management GRI 2-23 GRI 2-24 GRI 3-3 GRI 308-1 GRI 408-1

Supply Chain Management Measures and Strategies

Sustainable supply is an critical component of TSC's commitment to sustainable supply chain management. In recent years, geopolitical factors, including wars, trade wars, and pandemics,

have transformed the presence of companies worldwide in the industrial supply chain. Against the backdrop of external turbulence, TSC deeply acknowledges the need to bolster supply chain resilience through various means, such as supplier diversification, BCM, and monitoring of inventory levels, so as to cope with potential risks and crises. In 2022, TSC established the Supply Chain Management Department, which is tasked with integrating procurement resources from each site and optimizing the overall supply chain. Sustainable chain management at TSC encompasses various aspects such as resources, demand, manufacturing, and supply. We review the collaborative process flow and operating rules of both production and sale sides, as well as the design of features of the auxiliary operating system based on the monthly production and sales cycle along with the weekly production and sales management platform mechanism, in order to ensure the integration of processes, cut the design of non-standard operations, and comply with the principles of internal audit and internal control, while leading cross-functional teams to support the company's operational growth target with a collaborative model that is in line with industry practices to the greatest extent possible.

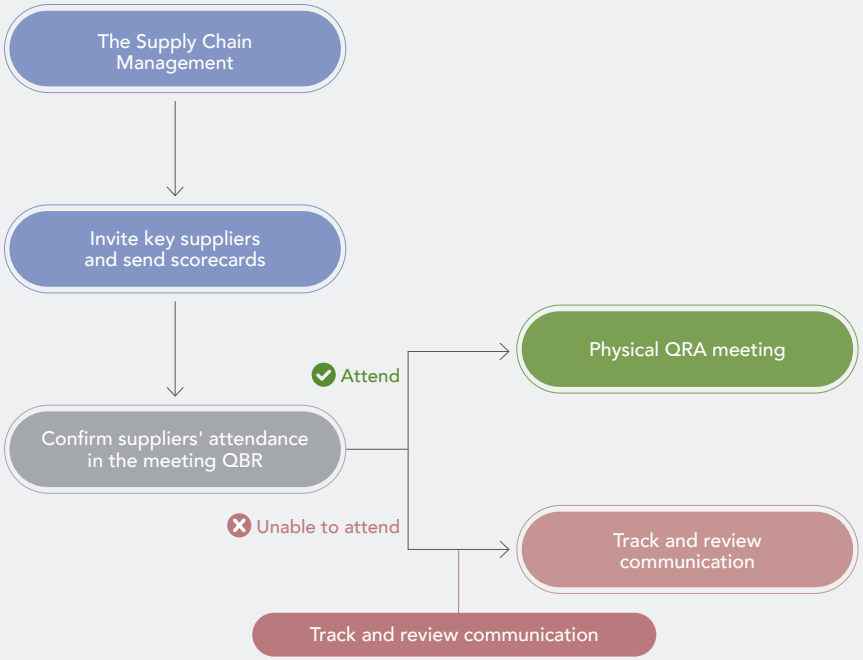


In an effort to ensure that supply chain scheduling considers inventory risks and meets customer needs, the Supply Chain Management Department follows the principle of supply continuity to ensure uninterrupted supply in unforeseen or force majeure events in compliance with the principles of supply continuity, supplemented with flexible control of inventory policy based on changes in product and market demand. In 2023, TSC introduced the BCM system while gradually developing secondary suppliers to minimize procurement risks. Through the management of supply chain issues and collaboration with the headquarters, each site review potential risks at all times, optimize supply chain resilience and strength on an ongoing basis, as well as provide feedback and review consensus on the strategies and implementation of upstream processes, with a view to ensuring balance and consistency in the supply chain.

While integrating organizational resources and strategies, TSC also engages in collaboration with customers. By connecting contracts with information technology, we maintain collaboration and timely exchange of information between both parties to enhance the intensity of supply chain collaboration and its flexibility in response to contingencies while working towards lowering supply chain costs and enhancing efficiency together, enhancing information transparency on both sides, and jointly improving the flexibility of the supply chain system to respond to demand or external factors. On the other hand, TSC also plans training for supply management talents, strengthening information synchronization across departments, and reducing procurement costs by implementing automation and standardized management.

Strengthening Communication with Suppliers

In hopes of fostering a strong and robust partnership with the supply chain to achieve the goal of sustainable supply chain management, TSC aims to roll out communication channels that are more transparent and effective, such as quarter business review (QBR), aimed at maintaining close collaboration with primary and strategic suppliers in various areas, namely quality, delivery, cost, service, and technique (QDCST) while monitoring the ability of suppliers (Tier) to manage their supply chain system (Tier 2). In addition, TSC continues to implement a scorecard assessment mechanism to examine the practices and performance of suppliers in various areas with the expectation of driving continuous improvement in the supply chain through brand influence.



Three Core Elements in Supplier Management

Laying the Foundation

- Integrate production and sales plans, as well implement and promote the PDCA management cycle, to lay the foundation for structured and institutionalized supply chain management.
- Improve order service response efficiency and capability.
- Promote systematization and information transparency in product management through the integration of product development process and horizontal business communication, maintain a fundamental supply chain environment with no dead ends, as well as support product development and introduction and go-to-market launch and sale activities.

Stable Growth

- Establish strategic sourcing to plan and execute supply chain strategies, as well as enhance the scope, flexibility, and strength of the supply chain.
- Bolster the ability and flexibility of the supply chain in responding to changes, track and improve the cost-effectiveness of opportunities for joint procurement in the supply chain, and enhance the efficiency of integrating book building at the headquarters and various sites through centralized control and strategy-guided implementation at various sites.

Sustainable Operation

- Implement and realize the value of information flow in corporate business management, gradually progress towards the digitalization of corporate business management with KPIs, assist the management team in quickly identifying problem areas and causes, swiftly initiating action plans and solving problems while executing the continuous improvement process (CIP) on an ongoing basis to enhance the company's competitiveness.
- Endeavor to rapidly grasp opportunities to enhance organizational performance and business process efficiency through the integration of AI technology.

Supplier Sustainability Impact Assessment

TSC continues to keep a close eye on and review supply chain resilience. In addition to the basic criteria for supplier selection, which include technique, delivery, quality, and cost, TSC also conducts comprehensive evaluation from the economic, environmental, and social aspects, with a view to putting our risk management and sustainability philosophy into practice. In an effort to ensure that our suppliers work together towards the goal of sustainability, TSC has taken the initiative to formulate the RBA Supplier Code of Conduct in compliance with the RBA Code of Conduct since 2017. This code of conduct, which is applicable to all operating sites upon approval by the Chairman, not only requires suppliers to comply with the laws and regulations in the regions where they run their business, but also sets out clear provisions in various areas, such as labor, health and safety, the environment, and business ethics, whose content encompasses workers' human rights, anti-discrimination and anti-harassment, occupational safety, the environment, and ethical corporate management. TSC regularly updates this code of conduct based on the official version release by RBA and discloses it on our official website for stakeholders' reference and compliance purposes.

Furthermore, not only are new suppliers required to sign up for the RBA Supplier Code of Conduct, but TSC also carries out supplier evaluation in accordance with the Regulations Governing Vendor Management, which encompasses the supplier's records of environmental and social impacts, and whether the supplier implements various standards and certifications that extend to environmental protection, safety and health, and management systems, such as the ISO 14001 Environmental Management Systems and ISO 45001 Occupational Safety and Health Management Systems standards, in hopes of stepping up efforts to fulfill corporate social responsibility together with our suppliers.

At the same time, we also keep track and review laws and regulations on materials-specific issues, such as tantalum, tin, tungsten, and gold in product composition, ban on Russian steel materials triggered by the Russian-Ukrainian war, restrictions on the export of specific materials from China induced by the US-China trade war, and investigations into products or materials manufactured with Uyghur forced labor in violation of human rights, or restrictions and impacts of specific laws and regulations on the supply chain. TSC adopts policies, conducts due diligence, and make declarations to ensure the vitality of our supply chain and the provision of services and protection for customers. Please refer to 3.1.3 Conflict Minerals Management for more details.

New Supplier Selection Process

01 Search

New supplier/new material development need

- Applicable to the development of new products when existing suppliers are unable to satisfy such needs or provide similar products
- Develop secondary suppliers
- As requested by customers

02 Select

New supplier sustainability risk assessment and supplier evaluation

- Quality: The supplier is required to possess the ISO 9001 Quality Management certification while aiming to obtain the IATF 16949 Automotive Quality Management System certification.
- Environment: The supplier is required to possess the ISO 14001 Environmental Management Systems certification (or other equivalent certifications) and meet the REACH and RoHS requirements.
- Society: The supplier is required to comply with principles concerning workers' human rights, prohibition of child labor, human treatment, anti-discrimination or anti-harassment as stipulated in the RBA Code of Conduct.
- The Conflict-Free Sourcing Initiative: The supplier is prohibited from using conflict minerals in the raw materials it supplies. If the supplier is unable to identify the source of the conflict minerals or it is confirmed that the supplier uses conflict minerals, the supplier is required to issue and disclose a conflict minerals report.
- The RBA Supplier Code of Conduct: The supplier is required to comply with and sign up for TSC's RBA Supplier Code of Conduct.

03 Develop and validate

- Engineering experiment
- VDA 6.3 process audit
- Safe mass production
- Material review meeting

- Engineering technology and quality system certifications: Procurement procedures may only begin after confirming the results of sample analysis and packaging of finished products, as well as passing the evaluation and audit processes.

04 Produce and monitor

Procurement and evaluation

- TSC conducts comprehensive evaluation in terms of quality, delivery, cost, service, and technique while establishing long-term partnerships by enhancing communication and collaboration in the supply chain on an ongoing basis.

Note:
1. Raw material suppliers are the primary category of suppliers in TSC's supplier selection process. In 2023, TSC's operating sites did not add any new supplier, while our existing suppliers did not violate the aforesaid code of conduct.

Highlight Story 01

TSC's Tianjin Site develops secondary suppliers for electroless nickel plating materials to minimize procurement risks

All this while, the Tianjin Site only has a single supplier of electroless nickel plating materials. In an effort to minimize procurement risks and lower procurement costs, the Tianjin Site initiated the secondary supplier development program in April 2022, and successfully signed a collaboration agreement with a secondary supplier in 2023.

This secondary supplier of electroless nickel plating materials is originally a qualified vendor at the Tianjin Site, which primarily supplies photoresist and other chemical products. Under this program, the Tianjin Site first confirmed the samples of electroless nickel plating materials. Next, the Engineering Department at the Tianjin Site was designated to conduct a feasibility assessment based on a number of assessment indicators, such as the appearance of the nickel layer surface and the thickness of the inner layer. The test results for electrical properties at room temperature met the specifications required by the Tianjin Site as no shift in the distribution of electrical properties was observed. In the future, we will continue to refine management of single suppliers at our sites and develop secondary suppliers in order to bolster supply chain resilience.

Highlight Story 02

Highlights of production capacity and inventory management by the OSAT team at the I-lan Site in 2023

In 2023, the semiconductor industry adopted a conservative outlook as end-user demand was not as strong as during the COVID-19 pandemic period. Facing the pressure of long-term contracts with some suppliers, the OSAT team at the I-lan Site conducted a detailed review of inventory level, production capacity estimation, and product strategy, with a view to figuring out what is most favorable for the company.

The OSAT team collaborated with the Sales Department to discuss various feasible solutions in terms of various conditions such as price and shipment. At the same time, the OSAT team actively worked with the Legal Department to assess the feasibility of modifying and adding terms to the agreement so as to minimize legal risks arising from a breakdown in business negotiations. In the end, the OSAT team managed to obtain prices that meet sales requirements and more flexible ways to fulfill contracts through internal review as well as ongoing negotiation and communication with suppliers while maintaining collaborative partnerships with them.

3.1.3 Conflict Minerals 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 zones 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 the Declaration of Non-Use of Minerals from Conflict Zones 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 resultsof mineral reports filled on the official website, as released by the Responsible Minerals Initiative (RMI).

Conflict Minerals Management Measures

Conflict Minerals Survey

Tantalum, tin, tungsten, and gold (3T1G), as well as cobalt are raw materials that may be used in the manufacture of electronic products, whereas conflict minerals refer to minerals mined in armed conflict zones and in violation of human rights, including materials mined in the Democratic Republic of the Congo or in neighboring countries. TSC complies with the results of mineral reports issued by the Responsible Minerals Initiative (RMI) to avoid using metals from conflict zones.

At the same time, 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 zones in our products.

TSC reassesses the list of smelters used in our 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 the Declaration of Non-use of Minerals from Conflict Zones, guaranteeing that the procurement sources are not from conflict zones and comply with requirements of both customers and laws and regulations. In 2023, a total of 148 suppliers, or 90% of our suppliers, completed the signing process, up 12% from the previous year. We endeavor to fulfill corporate responsibility through joint monitoring with suppliers to eliminate incidents involving violations of humanitarianism and create the value of corporate sustainability.

Signing status of the Declaration of Non-use of Minerals from Conflict Zones at TSC's operating sites

Operating site	Number of suppliers confirmed to have signed the declaration	Total number of suppliers	Signing rate
Li-Je Site	30	32	94%
I-lan Site	37	47	79%
Shandong Site	49	49	100%
Tianjin Site	32	36	89%
Total	148	164	90.24%

Declaration of Non-use of Minerals from Conflict Zones