

2.4 Corporate Risk Management and Policy

To counter the challenges of a fast changing global economy and the sustainability risk, LITE-ON adopts a robust risk management framework and an effective implementation roadmap that approach in three aspects, which are the economy(including governance), environment, and social, to identify and manage potential risks that may have an impact on a company's sustainable development. In addition, LITE-ON implements management strategies and takes measures to transfer, mitigate, minimize, or even eliminate risks entirely and turn them into business opportunities.

Hence, LITE-ON's risk management policy defines risks according to the company's overall business plan. The policy also sets up risk management mechanisms for early identification, accurate assessment, effective supervision, and rigorous control to prevent possible losses and adjust with improvements of best risk management practices constantly to reflect changes in the internal and external environments under certain affordable risks. The goal is to protect the interests of LITE-ON's employees, shareholders, partners, and clients and to create more value and achieve optimal resource allocation for the company.

2.4.1 The Risk Management Framework

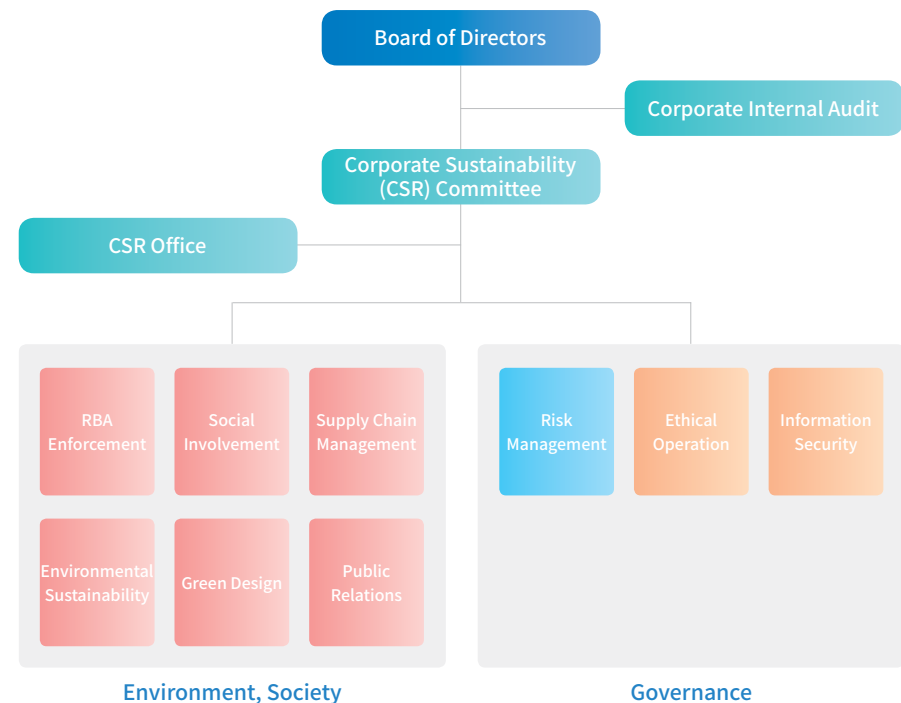
LITE-ON's Board of Directors sits at the top of its risk management system. Its mission is to comply with the laws and regulations and implement and enforce risk management in the company as a whole. The Board shall have a clear understanding the risks of company operation, maintain the validity of the risk management system, and take ultimately responsibility for risk management performance.

The Corporate Sustainability Committee is a functional committee that LITE-ON places under the Board of Directors. There are 2 categories: "Corporate Social Responsibility (E&S)" and "Sustainability Governance and Ethical Management (G)." Nine subcommittees under the committee include a Risk Management subcommittee led by the head of the Operation Management Department. The Risk Management subcommittee is the unit responsible for conducting risk management and reporting results of risk management activities regularly to the Corporate Sustainability Committee.

Given the increasing attention to risk management issues since 2019, the CSR Office and the Risk Management subcommittee follow the existing risk management framework and internal

control system, and manage the risks associated with its operations in the most cost-effective manner. LITE-ON puts all heads of functional units(or departments) in charge of overseeing risk management and analyzing and monitoring risks in their own units in order to ensure effective execution of risk controls and procedures. Meanwhile, Internal Audit department is responsible for assessing risks and presenting annual audit plans accordingly. The Internal Audit is also responsible for delivering reports on risk management performance to the Audit Committee.

LITE-ON's risk management framework is shown as follows:



2.4.2 Risk Management Process and Cycle

The risk(including emerging risks) management process covers risk scope identification, risk assessment, risk monitoring, risk reporting and disclosure, and risk response.



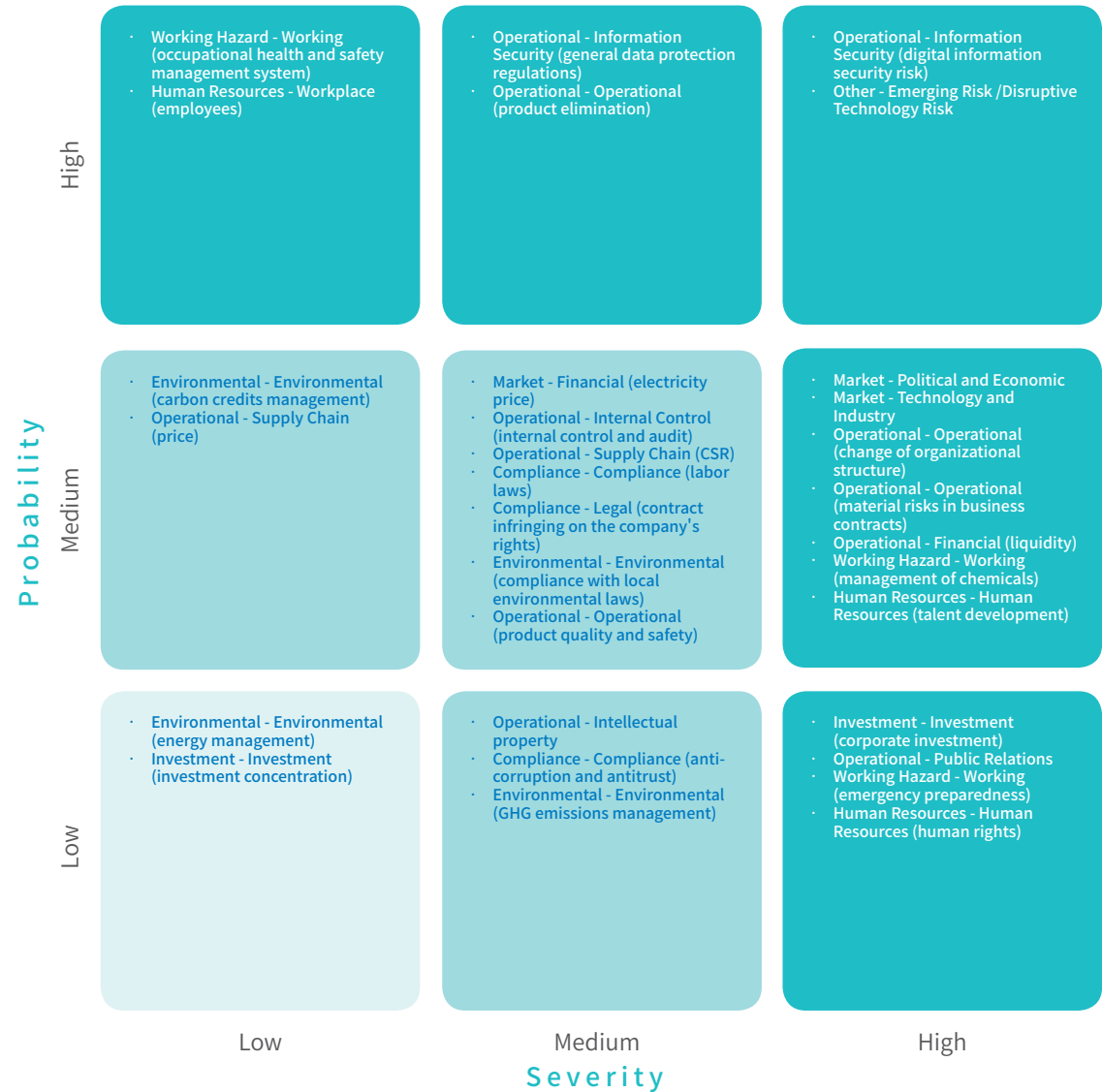
2.4.2.1 Identification of the Scope of Risk

LITE-ON has been able to develop a comprehensive and robust risk management framework with task functions and responsibilities clearly segregated for risk identification purposes. The LITE-ON Risk Management subcommittee follows the materiality principle and divides risks into 8 categories by economic (including corporate governance), environmental, social and other aspects as shown in the table below.

Aspect	Risk type	Risk description
Economic (including corporate governance)	Market Risk	<ul style="list-style-type: none"> Political and Economic: covering domestic and international political, economic, and regulatory requirements and the risk of adverse effects to the company's finance or sales. Technology and Industry: covering domestic and international changes in technology and industry and the risk of adverse effects to the company's finance or sales. Financial: covering volatility in the company's financial assets or liabilities (including assets and liabilities on and off the balance sheet) due to market risks(interest, exchange rate, stock price, merchandise price and power price, etc.) and the risk of value changes and various losses.
	Operational Risk	<ul style="list-style-type: none"> Operational: coverage the risk of adverse effects to the company as a result of change of the business model, modification of the organization, excessive concentration of sales/procurement, product elimination, design and quality control for products and services, and management of material risks in business contracts. Financial: covering the risks to the company arising from asset valuation, credit standing and solvency risk, liquidity risk, and accounting policies or accounting risk. Internal Control: covering risks associated with internal control. Intellectual Property: such as patent application and maintenance, intellectual property protection and so on. Supply Chain: covering supplier quality, price, delivery date, and CSR issues and the risk of adverse effects to the company. Information Security: such as digital information security and general data protection regulations and the risk of adverse effects to the company. Public Relations: covering public relations issues, such as brand management and corporate image building and maintenance and the risk of adverse effects to the company.
	Investment Risk	<ul style="list-style-type: none"> Investment: covering risks arising from investment excessive concentration, high risk and highly leveraged investment, derivatives trading, price volatility in financial plans and other short term investments or risks in management of operational guidelines of long term subsidiary investment, and the risk of adverse effects to the company.
	Compliance Risk	<ul style="list-style-type: none"> Compliance: covering the risk of failure to comply with the laws and regulations, including but not limited to labor laws, the Company Act and securities trading laws, import/export regulations and controls, industrial code of conduct, and anti-corruption and antitrust regulations, and potential risks arising therefrom. Legal: covering potential risks arising from failure to comply with the laws and regulations or various legal risks that may infringe on the company's rights.
Environmental	Environmental Risk	<ul style="list-style-type: none"> Environmental: covering risks related to issues deriving from climate change and natural disaster issues, such as GHG emissions, carbon credits management, and energy management; and risks related to the need to comply with international and local environmental regulations, such as air/water/waste/toxic/noise/emission pollution management or environmental evaluation requirements.
Social	Working Hazards Risk	<ul style="list-style-type: none"> Working: covering risks to the company arising from occupational health and safety, management of chemicals, safety and protection and emergency preparedness, and other inappropriate operations or human errors.
	Human Resources Risk	<ul style="list-style-type: none"> Human Resources: covering risks arising from human rights issues related to employees or suppliers, including but not limited to employees-employer relations, child labor, and force labor; and risks arising from talent pool development and management issues such as recruitment, retention, and talent development mechanisms. Workplace: covering risks arising from issues related to employee or supplier safety in the workplace.
Other	Other Risks	<ul style="list-style-type: none"> Other: referring to risks that are not listed above but will cause the company significant losses, such as emerging risks, major external hazards, model risks, and tail risks following extreme events. Furthermore, adequate risk control and response procedures should be implemented for any other risks depending on the risk attributes and the degree of impact.

Each risk is further evaluated by probability and severity to determine critical material risks, and then mapped onto a risk map for ease of identification in 2019 by Risk Management subcommittee. This enables LITE-ON to take further steps to transfer, accept, mitigate, or avoid the identified risks. By executing the PDCA (Plan-Do-Check-Act) cycle, the company is able to improve its control over various risk factors and reduce the chances of risks occurring and the impact they might create.

Furthermore, as more categories are being added to emerging risks around the world and the probabilities keep rising, we have also made identification and management of long-term emerging risks part of the enterprise risk management plan. In 2019, we identified new critical material risks/emerging risks including (1) disruptive technology risk; (2) digital information security risk; and (3) human resource risk (human resource development system), and others.



2.4.2.2 Risk Assessment

The functional units, having identified potential risk factors, should implement adequate assessment methods to provide a basis for risk management.

- Risk assessment covers risk analysis and evaluation. It analyzes the probabilities of risk incidents and the degree of adverse impact in the event of such an incident. The goal is to evaluate the effects of risks on the company so to provide a basis for deciding priorities in risk control implementation and response selection.
- Rigorous statistical methods and techniques should be deployed to analyze and manage quantitative risks.
- Qualitative methods will be used to assess other risks more difficult to quantify. Qualitative risk assessment refers to the use of words to describe the probabilities of risks and the degrees of impact.

2.4.2.3 Risk Monitoring

The functional units(departments) should monitor risks in their business activities. The departments should propose countermeasures as appropriate, and submit the risks and their countermeasures to the Risk Management subcommittee to be presented in routine meetings of the Corporate Sustainability Committee.

2.4.2.4 Risk Reporting and Disclosure

To record risk management procedures and results in detail, the Risk Management subcommittee should update the Corporate Sustainability Committee regularly on relevant risks.

2.4.2.5 Risk Response

The functional units, having assessed and summarized the risks, should take appropriate actions in response accordingly.

2.4.3 Risk Management Projects and Culture

In order to address high probability high impact external and operational risks, LITE-ON has made the risk management plan an integral part of the risk culture. The plan focuses on "raising safety awareness", "improving critical asset protection", and "establishing safety systems and rules", all of which are interconnected.

• Raising safety awareness

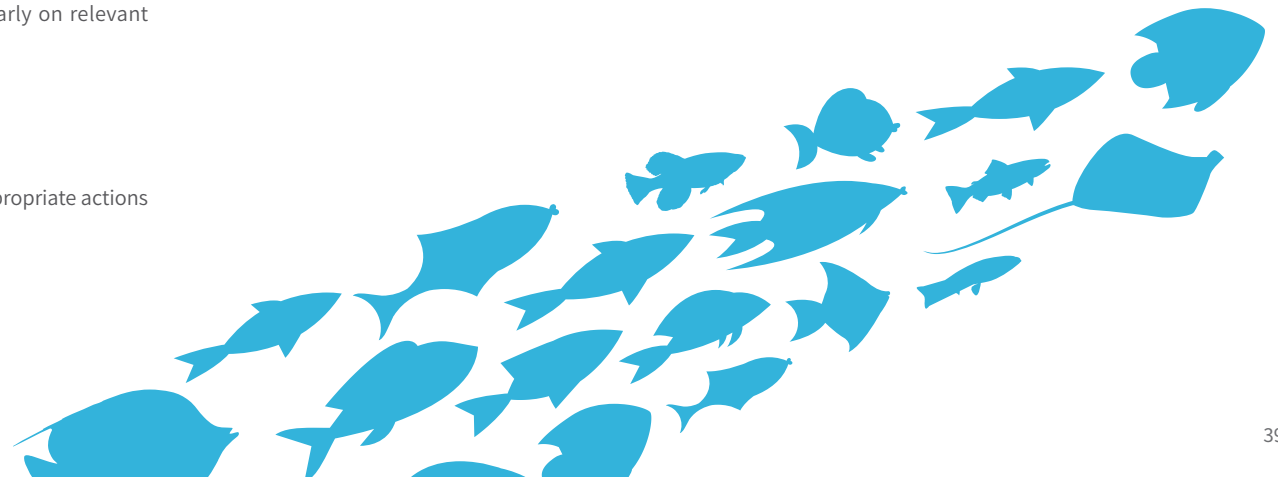
The Risk Management subcommittee arranges regular training and seminars to help employees learn from past mistakes, and hence raise their awareness towards safety and risk management.

• Improving critical asset protection

Important equipment, logistics processes, and final products are inspected every year in order to examine the practices at individual business units from product design and production to liability risk management after sales.

• Establishing safety systems and rules

Through regular inspections and improvements, LITE-ON is able to optimize the risk profiles of its production sites, reducing the possibility of accidents and hence minimizing loss of workers, plant, equipment, raw materials, and operations.



2019 Risk Identification and Control Measures

Concerns	Risk Identification	Risk Control Measures
Economic Concerns	Finance	<ul style="list-style-type: none"> The information can be found in Section 7.6 Analysis of Risk Management (p 112) of Section 7 "Review of Financial Conditions, Financial Performance, and Risk Management" of the 2019 Annual Report.
	Operational Management	
	Legal & Compliance	
	Internal Audit & Internal Control	
	Corporate Investment	
	Public/Investor Relations	
	Product Quality and Safety Management	<ul style="list-style-type: none"> Approach product design by international standards and brand clients' specifications Strengthen technical teams
Supply Chain Management	<ul style="list-style-type: none"> Ensure products and supply chains do not contain illegal conflict minerals Guidelines for selecting new suppliers Supplier training Differentiate management and assistance for suppliers by characteristics and by risk attributes 	
Ethics and Anti-corruption	<ul style="list-style-type: none"> Establish the LITE-ON Code of Conduct, the Ethical Management Principles, and the Ethical Procedures and Code of Conduct Provide training on ethics and anti-corruption campaigns on an ongoing basis Implement complaint and reporting channels that bypass the management 	
Digital Information Security Risk	<ul style="list-style-type: none"> Create a cross-departmental and cross-functional information security committee to support information security management tasks Follow ISO27001: 2013 standards to implement information security management documents Use the PDCA cycle to create, implement, maintain, and improve information security management systems Perform regular internal information security audits in order to confirm the status of information security management practices Implement InfoSec technology controls to prevent external hacker attacks and internal confidential information leakage Provide InfoSec education and training and raise awareness 	

Concerns	Risk Identification	Risk Control Measures
Environmental Concerns	Climate Change Risks	<ul style="list-style-type: none"> Develop green, innovative, and energy efficient products Develop green, advanced production techniques Establish a green factory management system Conduct energy-saving and carbon emission reduction project Take energy consumption inventory and perform traceability management
	Workplace Safety	<ul style="list-style-type: none"> Comply with the regulations and establish operations management guidelines The Workplace Health and Safety Committee regularly reviews compliance with environmental regulations.
Social Concerns	Human Resource Risk Management	<ul style="list-style-type: none"> Perform regular human resource inventory and audits Design and implement employee training and career development Devise competitive compensation and benefit packages Formulate plans for full training and cultivating local talent
	Disruptive Technology Risk	<ul style="list-style-type: none"> Complete business transformation by change of operating model and product portfolio

Details of risk management in terms of financial, environmental, and social concerns above are shown in the annual report and appropriate chapters of this report.

2.4.4 Management of Long Term Emerging Risks

Disruptive technology risk

To adapt to emerging/disruptive technologies and create good sources of profits, LITE-ON continues to complete business transformation by change of operating model and product portfolio. In addition, the business group transformation project focuses on cloud computing, LED/outdoor lighting, automotive electronics, smart manufacturing and IoT, all of which are aimed at creating a safer, friendlier, and more energy efficient user experience. IoT, for example, takes the concept and uses sensors to connect manufacturing and transport equipment and create awareness. Systems are able to perform identification, analysis, deduction, decision making, and control. Manufacturing products of this kind can be said to be an extensive integration of advanced manufacturing technology, information technology, and smart technology. The entire process from placing an order to finishing a product and entering it into the warehouse is shown in on-line database. In the event of an irregularity in the production process, a controller will be able to react quickly, thereby facilitating more effective operation and production in a factory.

Digital information security risk

While driving digital transformation in the company, LITE-ON came to identify digital information security as a major risk and an important opportunity. It has created a cross-departmental and cross-functional InfoSec organization to perform InfoSec tasks. The Information Security Policy has been implemented to provide the basis for management and compliance with ISO 27001: 2013 standards. Meanwhile, InfoSec tools and ongoing improvements are being introduced alongside regular internal InfoSec audits and training to ensure effective information security and privacy protection. Please see 2.6. Information Security and Privacy Management for more details on strategies and response measures.

Climate change risk management

LITE-ON sees climate change as a major risk and an important opportunity. The Climate Change Risk Task Force is in place to identify potential physical risks and transformation risks for LITE-ON to arise from climate change. We take further steps to analyze climate related risks and opportunities and assess the probability and severity of each. We also follow the Task Force on Climate-related Financial Disclosures (TCFD) and disclose climate change data and the associated risks and opportunities. Please see 4.2. Climate Change and Energy Management for more details on strategies and response measures

Supply chain risk management

As part of its effort to build a sustainable supply chain, LITE-ON performs supplier sustainability risk survey every year. LITE-ON screens supplier risks on a preliminary basis by analyzing potential risks in terms of location of a supplier, amount of procurement, and production process of a supplier. Furthermore, to better understand a supplier's risks, we send sustainability risk questionnaire surveys to critical suppliers, and identify high risk suppliers based on the results of these surveys, confirm the supplier's risk status and continue to reduce risk with onsite audits or be required to complete the RBA Validated Audit Process (VAP). The risk assessments above are performed to identify potential economic, environmental, and social risks in the supply chain as well as suppliers with potentially higher risks. We target suppliers with potentially higher risks and perform audits and provide assistance to ensure their risks are effectively kept under control and minimized. Please see 3.2 Sustainable Supply Chain for more details on strategies and response measures.

Human resource risk management

According to reports released by research institutions, the changing global environment and the rise of social enterprises are transforming the labor market and altering the landscape in human capital. For example, employers have to recruit through a wider range of channels, provide more comprehensive training, and offer more flexible and more competitive benefit and compensation packages. LITE-ON is aware of the importance of the current transformation. For recruitment, we have started exploring talent through industry-academia cooperation in addition to the conventional recruitment channels. Please see 6.3 Supporting Internships for more details. The training system is built on four tiers, new employees, field of training, level of authority, and self-development. The learning blueprint consists of 12 modules aimed at helping employees to improve and adapt to a company's constantly changing social role. Please see 5.3 Employee Development and Training for more details