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Corporate Management and Governance

- 2.1 Operational Performance and Corporate Governance Structure
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2.1 Operational Performance and Corporate Governance Structure

2.1.1 Company Profile

Since its establishment in 1983, Advantech has focused on the global IIoT field, providing corporate customers with a full range of services such as software and hardware system integration, customized design services, and global technical support. And the vision of the corporate brand of "Enabling an intelligent planet".

Advantech is a Taiwan listed company and has been listed on the Taiwan Stock Exchange since 1999 (TWSE: 2395); Headquartered in Neihsu Science Park, Taipei, Taiwan, our business base spans 27 countries in Europe, America, Asia, and other regions. Our three major manufacturing centers are located in Linkou (Taiwan), Kunshan (China), and Fukuoka (Japan). Furthermore, we have built four logistics management centers and 21 local service centers to provide global customers with real-time and comprehensive integrated services via a complete service system.

Advantech and its affiliated companies focus on the manufacturing, assembly, sales, and after-sales service of industrial computer-related products (see Organization chart in 2.1.2 for details). The major 3 business groups include: Industrial IoT Business Group, Embedded IoT Platform Business Group, and Service IoT Business Group, providing customers with diversified application solutions such as smart manufacturing, smart healthcare, smart energy, transportation infrastructure, communication network security, and smart logistics. To embrace the global trends of the

IoT, AI, and ESG sustainability, Advantech has introduced software and hardware solutions centered around WISE-IoT, the industrial IoT cloud platform, to help partners and customers in connecting the industrial chain. Moreover, we actively work with various industrial partners to "co-create" an industrial ecosystem to accelerate the realization of the goal of industrial intelligence. For more information on the Group, please refer to: [▶ Introduction Video to Advantech Co., Ltd.](#)

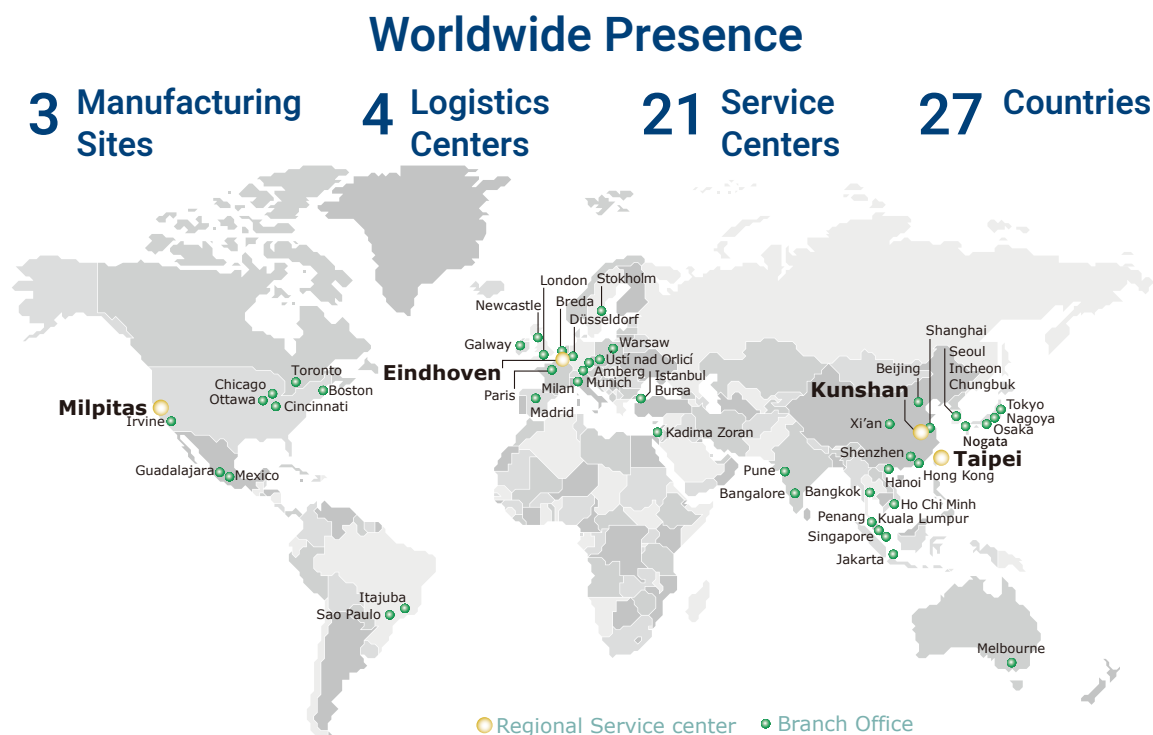


Figure 2.1.1: Distribution of Advantech's operating locations

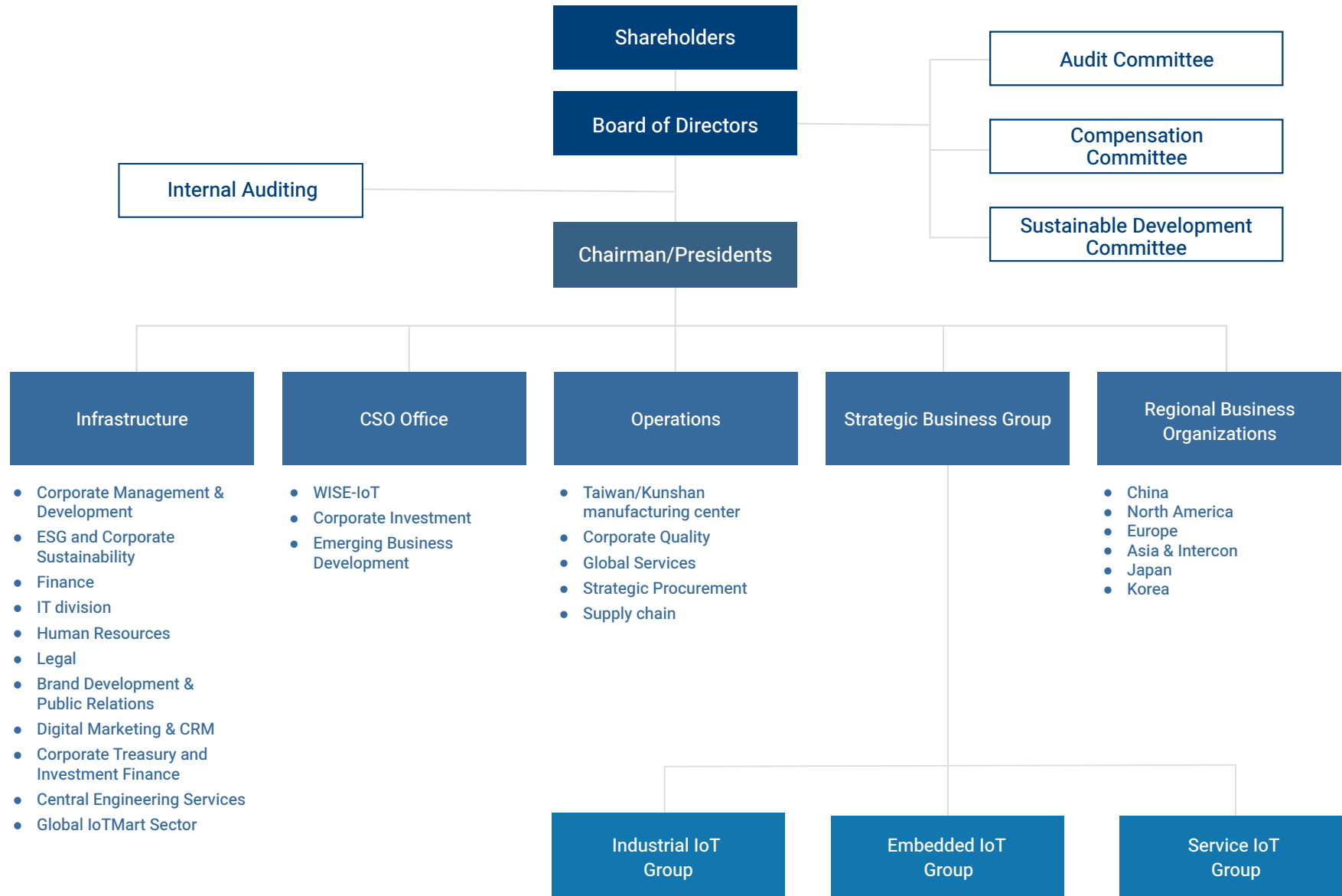


Figure 2.1.2: Organizational chart of Advantech

Management Performance and Brand Value

Due to the high global inflation and economic headwinds in 2023, Advantech's annual revenue decreased by 6%, but its profitability remained stable, with positive growth in gross profit margin, operating profit margin, and net profit margin. The EPS reached NTD 12.65 in 2023, continuing to hit new record highs.

"Advantech has long focused on its core business, maintaining a strong financial structure." It also maintains a high dividend-payment policy and shares business results with shareholders. In 2023, a total of NTD 9.5 of cash dividends was distributed per share in cash dividends, with a payout rate of over 75%, aiming to create a stronger business value for shareholders. Since its inception, Advantech has focused on the management of its own brands. In 2023, we were ranked the 5th among international brands * in Taiwan, with a brand value of US\$ 881 million and a growth rate of 13%, making it one of the top five international brands in Taiwan for six consecutive years.

Main products	2023			
	Sales amount (NTD thousand)	%	Product yield (set / piece)	Percentage of production at self-owned facilities (%)
Embedded board and system	34,679,628	54%	3,592,503	99%
Industrial computers and industrial controls	22,911,585	35%	2,457,342	99%
After-sales service and others	6,976,484	11%	643,340	100%
Total	64,567,697	100%	6,693,185	99%

*Note: The area of production plants is as follows: Manufacturing Center in Linkou, Taiwan (553,030 ft²); Manufacturing Center in Kunshan, China (1,107,821 ft²); Manufacturing Center in Fukuoka, Japan (129,403.7 ft²)

Table 2.1.1: Advantech's Products, Business Proportion, and Product Output in 2023

According to the 2023 evaluation results of Interbrand, an internationally renowned brand evaluation agency commissioned by the Industrial Development Bureau, Ministry of Economic Affairs. Please refer to the [website](#) for details. For more information, please refer to [Financial Results](#) on the Company website.

Advantech Value Chain and Business Development

Advantech specializes in industrial computers, which were first used in factory manufacturing processes, including the control, monitoring, and testing of instruments and machinery. In a narrow sense, industrial computers are limited to industrial automation board systems and mainly automation equipment. In recent years, due to the application and integration of communication, network, software, and optoelectronics, industrial computers have gradually been applied to all aspects of life and become more application-oriented. The IPC industry has flourished with applications such as MRT card readers, automatic ticket machines, ATMs, POS machines, digital electronic billboards, and smart building monitoring and management systems. Its growth has extended far beyond the industrial sector, leading to its recent renaming by the Ministry of Economic Affairs to "Intelligent Industry." Benefiting from the rise of intelligence and IoT systems, the future of IoT technology is very promising, and may further change human society; at the same time, the ecology and needs of different vertical markets are different, prompting the entire industry to develop in an ecological model.

In terms of industrial, upstream, midstream, and downstream relevance, the supply chain of industrial computers and embedded boards is as follows: In the upstream, there are components such as chipsets, CPUs, PCBs, DRAMs, logic ICs, connectors, passive components, and other components. The midstream sector includes I/O equipment, single board computers, barebone systems, industrial computers, and industrial computer peripherals. In the downstream, it includes system integrators, distributors, and end consumers. The upstream, mid-stream and downstream of the IoT are completed by the collaboration of different forms of vendors to provide customers with effective services and form a close relationship of cooperation. For more information, see Sustainable Supply Chain Management.

In 2023, Advantech shifted its core business model from being "Product-centric" to "Industry-centric", under the core spirit of "Sector Driven." They realigned internal resources to focus on eight key sectors: Embedded Design-in & DMS, AFE, Industrial Equipment & Transportation, Industrial Automation, Energy & Utilities, iCity Services, iHealthcare, Industrial Cloud & Video, and IoTMart (IoT Cross-border e-commerce). Advantech integrates the WISE IoT cloud platform with AI technology to connect the innovation resources of all business units to facilitate collaboration.

In addition, in 2023, Advantech accelerated its deployment in key technologies and regional markets, including: expanding production capacity and improving manufacturing resilience in Malaysia; expanding operating bases and establishing a local software R&D center in India; the acquisition of Bitflow, a North American high-end frame capture card company, and AI machine vision technology. The blueprint has become more complete. In 2024, Advantech will continue to make in-depth deployment in the AIoT industry to accelerate future development and growth.

2023 Revenue and Performance by region

US\$m	2023	2022	YoY	Rev%
North America	657	700	-6%	32%
Europe	388	404	-4%	19%
China	425	522	-19%	20%
North Asia	217	215	+1%	10%
Taiwan	103	132	-22%	5%
Asia & InterCon	184	230	-20%	9%
Others	100	110	-9%	5%
Total	2,074	2,313	-10%	100%

Figure 2.1.3: 2023 Global Geo-Region Sales Distribution (USD)

2.1.2 Corporate Governance

Corporate governance is essential for long-term operations. Advantech values discussions and interactions with stakeholders. In terms of board structure and functional committees, all self-expectations exceed the standards required by laws and regulations, and are reviewed and optimized annually.



For more information, please refer to the [Audit Policy](#), [Code of Ethics and Business Conduct](#), [Guideline for Insider Trading Prevention Management](#) Insider Trading on the Company website.

Composition and Functioning of the Board of Directors

Advantech is committed to optimizing the functions of the Board of Directors and has established a comprehensive director [selection system](#). The selection of Board members adheres to the [diversity policy](#) and comprehensive assessments include industry background, professional field, age, and gender balance to promote diverse perspectives. In addition to considering the international market outlook, professional and academic accomplishment, and risk management, Advantech will also consider including the expertise in the field of sustainability in the evaluation indicators of the board members. The process of selecting director candidates is outlined in Article 192-1 of the Company Act. The shareholders' meeting appoints directors from the candidate list. The recruitment process for independent directors is regulated by the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies." Each term of the board of directors consists of three years in office.

Advantech is currently in the 15th term of the Board of Directors, consisting of nine directors, and the term of the Board of Directors is from May 25, 2023 to May 24, 2026. The composition of the current Board of Directors and the evolutionary goals of the next Board of Directors (16th term) are shown in the figure below; Advantech Cultural and Educational Foundation will occupy one seat on the board, and the stakeholders of the public welfare aspect are also included in the composition of the Board of Directors. Overall, the composition of Advantech's Board of Directors complies with the principle of diversity. The diverse professional perspectives of the directors are constructive and beneficial to the Company's ability to cope with operational, industry, and sustainability impacts. The average tenure of the 15th Board of Directors as of the end of December 2023 was 6.7 years.



For more information, please refer to the official website: [Board of Directors](#). The minimum number of seats for independent directors and female directors is specified in the [Corporate Governance Best Practice Principles](#).

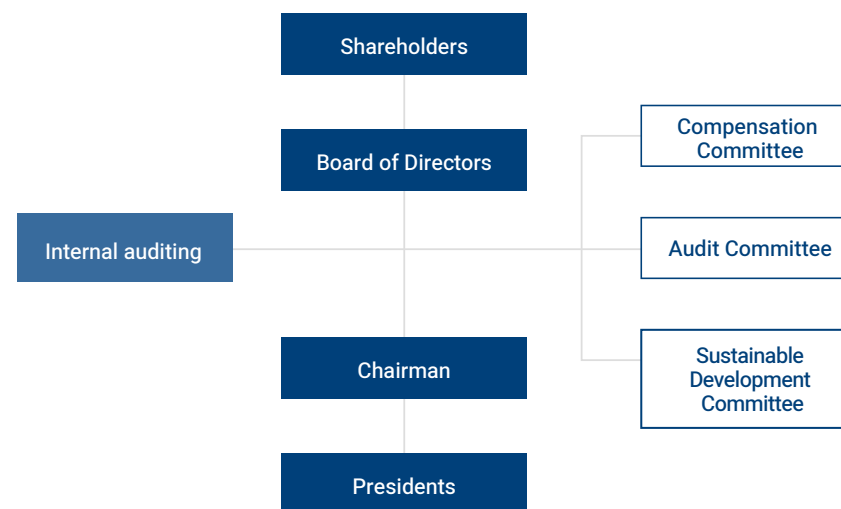
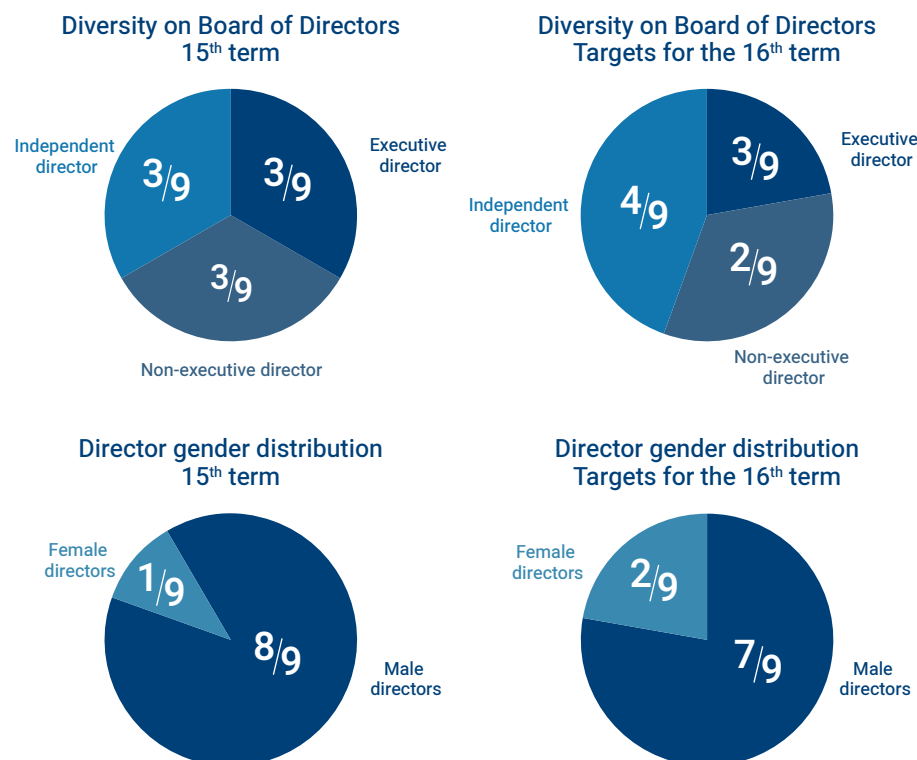


Figure 2.1.4: Advantech corporate governance structure



In terms of sustainability expertise, Director Chaney Ho used to be a member of the Sustainability Committee of Tatung Co. (TWSE: 2371); Independent Director Benson Liu was the former chairperson of Taiwan Corporate Governance Association and is currently the managing director of the association. Independent Director Chan-Jane Lin is the convener of the Board of Supervisors of the Taiwan Corporate Governance Association. The composition of the Board of Directors is sustainable. In the future, the Board of Directors will continue to strengthen its sustainability functions. The Founder and Chairman, K.C. Liu, is also a CEO of the Company. The Company follows the principle of avoidance of interests in the "[Rules and Procedures of Board of Directors Meetings](#)," while adopting a well-established mechanism of co-governance in operations to enhance the balance and separation of powers and mitigate conflicts of interest. On October 30, 2023, the Board of Directors requested the directors with a conflict of interest to be recused from the discussion and decision-making process of the "[Related party transaction](#)" motion, and the resolution was made by the independent directors and directors without conflicts of interest.



The definition of Advantech's controlling shareholder is the same as that of the annual report. For details, see [the top ten shareholders](#) of Advantech on the official website.

Functional Committee of the Board of Directors

The setup of functional committee is superior to regulatory requirements. The composition and implementation status of the committees in 2023 are as follows:

Functional Committee	Members	Attendance rate	Resolutions (see official website for details)	External expert consultants (Attendance without voting rights)
Compensation Committee (statutory)	Independent Director, Ming-Hui Chang (Convener) Independent Director, Benson Liu Independent Director, Chan-Jane Lin	100%	2023	
Audit Committee (statutory)	Independent Director, Benson Liu (Convener) Independent Director, Ming-Hui Chang Independent Director, Chan-Jane Lin	100%	2023	
Sustainable Development Committee (voluntary)	Chairman, K.C. Liu (Convener) Director, Jeff Chen Director, Ji-Ren Lee	100%	2023	Merck KGaA / Chairman, John Lee (Inheritance Mechanism) The Hong Kong University of Science and Technology / Professor, Caroline WANG Chia-Ling (Senior Talent Training and Empowerment) China Europe International Business School / Professor Hwang, Yuhchang (Remuneration and Incentive Design) BCG Consulting Team (corporate inheritance mechanism design)

Mechanism of Progressive Sustainable Development Committee (SDC)

In July 2022, Advantech officially established the Sustainable Development Committee (SDC) at the board level to hold meetings quarterly to formulate the Company's long-term development strategy. Among them, the 1Q/3Q SDC meeting is positioned as an "Progressive SDC": Invite all directors, external experts, consultants, and senior executives on an expanded basis to discuss in-depth Advantech's business model innovation, business succession, medium and long-term vision, and other key development issues. In 2023, the Progressive SDC agenda includes discussions on Advantech's global strategy, the NEG framework, and implementation planning, organizational changes within Corp. Development, optimization of organizational change, inheritance and governance structures, talent development and rotation systems, as well as long-term strategic issues related to the layout and development of emerging business units. The Progressive SDC mechanism incorporates external consultants and experts, builds internal consensus, and promotes changes to demonstrate group intelligence and execution.



The Implementation of Corporate Governance

Implementation status

The Board of Directors held a total of seven meetings in 2023. The attendance of Board members was good, the agenda was carried out smoothly, and the proposals were fully interactively discussed and resolved. The overall operation is good.



For more information, please visit Official Website > [Board of Directors Operations](#)

Job Title	Name	Number of attendances	Number of absences	Attendance rate (%)
Chairman	K.C. Liu	7	0	100%
Director	Advantech Foundation Representative: Chaney Ho	6	1	86%
Director	K and M Investment Co., Ltd Representative: Wesley Liu	7	0	100%
Director	AIDC Investment Corp. Representative: Tony Liu	7	0	100%
Director	Jeff Chen	7	0	100%
Director	Ji-Ren Lee	7	0	100%
Independent director	Ming-Hui Chang	7	0	100%
Independent director	Benson Liu	7	0	100%
Independent director	Chan-Jane Lin	7	0	100%

Training Status and Evaluation mechanism

In 2023, the average training hours per director was 12.0 hours , which is higher than the 6 hours recommended by law. Advantech encourages directors to pursue continuing training and keep abreast of international trends in their professional fields. Besides regularly disclosing information on governance courses offered by professional organizations such as the Taiwan Corporate Governance Association, Securities and Futures Institute, and Taiwan Institute of Directors for reference, The Company organized director training seminars with topics determined with reference to the pan-operational risk map and material issues. The lecturer program invites consultants from outside industry and academia according to the topic. The lecture content combines theory with business practice in order to maximize the strategic effect on business operations. In August and December 2023, Advantech organized two 6 - hour training courses for directors: "Succession Strategies for 100-Year Enterprises" and "Industry Reform and Corporate Transformation Led by Generative AI." In the future, the background diversity and professional fields of the directors will be considered to provide individual directors with customized advice on the training topics that should be strengthened. In order to improve the professionalism of directors and keep pace with international standards, the strategic advice to Advantech also keeps pace with the times. Special invitation: John Lee, Chairperson of the Merck KGaA; Shiaw-Shian Yu, COO of the Industrial Technology Research Institute; and Wen, Yi-Ling, CEO of the Artificial Intelligence Foundation Taiwan. In the future, Advantech will evaluate the diversity of directors' backgrounds and their professional fields, providing customized learning recommendations for individual directors to enhance their professionalism and diversity. This approach aims to align with international trends and ensure that Advantech's strategic advice remains up-to-date.

- Evaluation mechanism

Advantech has established a rigorous evaluation mechanism for the Board of Directors and functional committees. Advantech conducts [self-evaluation](#) every year and [external evaluations](#) conducted by third-party professional institutions every three years. The Board of Directors reports the evaluation results in the first quarter of each year. To address these deficiencies, the management team coordinates resources and collaborates across departments to make improvements every year. Advantech has completed the 2023 internal self - evaluation on the performance of the Board of Directors, Board members, Audit Committee, compensation Committee, and Sustainable Development Committee. For the external evaluation, we commissioned the "Taiwan Institute of Ethical Business" to assess the operations of the Board of Directors and three functional committees, as well as the arrangements for training and various aspects of ESG development. Overall, they provided positive evaluation. The specific evaluation results and improvement plans have been reported to the Board of Directors in the first quarter of 2024.




For more information, please refer to [2023 Board Performance Evaluations](#), [2023 Board Performance Evaluation by Taiwan Institute of Ethical Business](#)

CEO and senior executives compensation mechanism

- **Policy Purpose:** Regularly assess the salaries of the CEO and senior managers to motivate the CEO and senior managers to achieve company goals, generate profits, and improve business performance, and taking into account the reasonable correlation with future risks. Operations are carried out in accordance with Advantech's "Measures for the Management of Managers' Salary and Remuneration."
- **Governing Unit:** Advantech has established a functional "Compensation Committee" at the board level. The 15th term is highly independent, with three independent directors serving as members. External consultants are also consulted to improve decision-making quality: Third-party consulting firms are regularly appointed to investigate remuneration levels and trends; external expert consultants are invited to provide insight and analysis depending on the topic from time to time to assist the Compensation Committee in making an overall assessment and proposing optimal remuneration policies.
- **Review process:** The Compensation Committee considers the manager's salary and compensation policy, system, standards, and structure, taking into account factors such as industry pay levels, individual performance, company performance, and the viability of future risk associations. They conduct regular reviews of the company's performance evaluations, compensation systems, and standards for directors and managers, and report their findings to the board of directors for consideration.

Furthermore, Advantech values the participation and feedback of stakeholders, including shareholders. In addition to fully disclosing individual director remuneration information in the annual report, Advantech also reports on the "Allocation of Employee Remuneration and Director Remuneration" at the annual shareholders' meeting, informing shareholders and soliciting feedback. Advantech's 2023 Annual Shareholders' Meeting was held on May 25, with a shareholder attendance rate of 95.49%. The report proposal "Allocation of Employee Remuneration and Directors' Remuneration" has been submitted to shareholders for their attention, and no objections were raised during the meeting.




Please refer to the [Compensation Committee](#) of the Company, [2023 Shareholders' Meeting Minutes](#), [2023 Annual Report \(Pages 19 - 20\)](#) for directors' remuneration for details.

CEO and senior executives' remuneration structure and short to long term incentive plans

- **CEO and Senior Executives' Fixed Salary:** Including basic salary, various allowances or additions, and a fixed one-month year-end bonus, which are determined according to their professional qualifications and with reference to the market salary level.
- **CEO and Senior Executives' Variable Salary:**
 - **Short-term incentive plan - cash bonus:** It rewards the performance achievements of the past year and is divided into individual performance bonuses and team profit sharing bonuses.
 - **Long-term incentive plan - Employee Stock Option (including ESOP, PSOP*):** to retain talent and incentivize long-term value creation, the rights will be distributed over a three-year period, with a five-year deferral period for disbursement, settling the achievement rate of stage goals annually and cumulatively rolling them over to encourage continuous value contribution. The total achievement rate is settled at the end of the term.
* ESOP: Employee Stock Option Plans, PSOP: Performance Stock Option Program
- **Measure indicators:** They are divided into financial indicators and strategic indicators. Qualitative or quantifiable indicators are adopted to facilitate the regular evaluation of the achievement rate. Strengthen the strategy to ensure continuous growth through a high linkage mechanism between remuneration and performance.

Financial Indicators	Revenue growth, profit growth, ROE, and relative metrics (TSR: Total Shareholder Return). The relative indicator (TSR) is linked to CEO performance. The benchmarking reference is the annual average of the top 50 Taiwanese listed electronics companies by market value. There is a linked relationship between relative performance and CEO compensation.
Strategic Indicators	Growth-driven KPIs and project-based corporate transformation KPIs are broken down from the Company's important strategies to specific items for continuous advancement. In principle, the financial indicators and strategic indicators of the CEO and senior managers account for 50% and 50% each.

- **Risk Linkage:** The Company agrees on the clawback clause. If there are major risk events that are sufficient to affect the Company's goodwill, or gross negligence such as violation of labor contracts or work rules, or the occurrence of obviously low work performance, the bonuses to the CEO and managers will be affected, and the bonuses will be reduced or not paid. To achieve the effect of risk management and control, the Company may withdraw the bonuses and dummy shares already granted (including events that occurred during the deflated years) as appropriate.
- **Severance pay and retirement benefits:** Advantech does not have a severance pay system in place. In terms of retirement benefit plan and contribution rate, directors receive no retirement benefit fund; senior managers are entitled to the same retirement benefits and contribution rate as general employees, and the relevant implementation rules shall comply with the Ministry of Labor and the Labor Pension Act.



Please refer to the official website of the Ministry of Labor - [-Introduction to the New Labor Retirement System](#) and the "Directors' Remuneration" and "Managers' Remuneration" tables in the [2023 Annual Report \(P19, 20, 22\)](#).

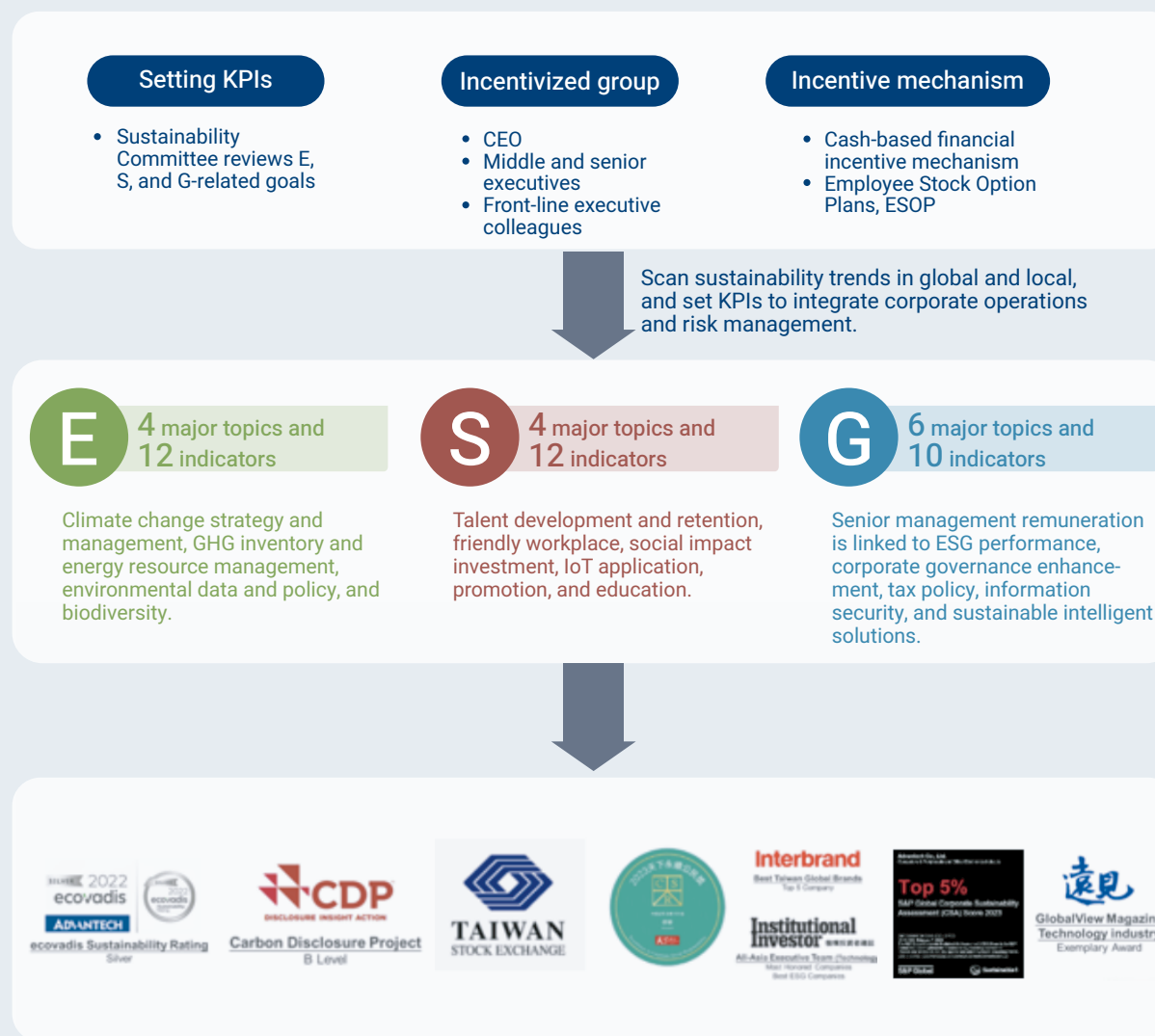


ESG Performance and Incentive Mechanism

Advantech has continued to advance its vision of being an intelligent enabler for a sustainable earth. In 2022, we established and implemented an ESG KPI mechanism for senior executives, including the Chairman, Co-Governance President, senior executives, responsible managers, members of the ESG Corporate Sustainability Development Office, and other accountable colleagues. This mechanism includes ESG sustainability indicators such as environmental, social, and governance aspects. Major performance evaluation items for 2023 and 2024 are planned. The incentives and rewards are mainly based on Employee Stock Option Plans (ESOPs), supplemented by performance bonuses. The payment schedule is in November of each year and in April of the following year issued. At the same time, goals and promotion plans are set and regularly evaluated by benchmarking domestic and international sustainability trends, Advantech's operations and risk management mechanisms. Payments are made based on sustainable goals, quantitative indicators, and actual performance. As a result of the implementation in 2023, over 54,230 shares have been issued to senior executives, junior and mid-level supervisors, and entry-level colleagues with outstanding ESG performance.



ESG KPIs - incentive mechanism for enhancing performance



Shareholding Requirements for CEO and Senior Managers

Advantech believes that the long-term ownership of the Company's shares by the senior management team can strengthen the concept of connecting with the long-term interests of shareholders. According to the "Measures for the Management of Managers' Salary and Remuneration" published by Advantech's Compensation Committee on October 28, 2022, it is specified that the number of shares held in the Company by the CEO and president of the Company shall not be less than 10,000 shares, in order to fulfill the commitment to sound corporate governance. In 2023, the Company's Founder and Chairman/CEO, K.C. Liu, will hold 1,131.55 times the fixed salary, and the average shareholding of the three co-governing presidents will be 7.25 times the fixed salary.

Annual Total Compensation Ratio

- In 2023, the ratio of the annual total compensation of the highest-paid individual to the median annual total compensation of other employees in the organization: 23.34 (6 regions)
- YOY Ratio: Year-over-year Ratio of the percentage increase in the annual total compensation of the highest paid individual to the percentage increase in the annual median total compensation of the rest of the organization: 0.97

*Description:

Calculation methods such as salary type and definition, annual total compensation, and median of other employees are based on the GRI guidelines, and the annual total compensation for all employees is sorted and sampled.

- Five major regions were adopted for the annual salary multiple in 2022, and six major regions were adopted for the annual salary multiple in 2023. (Unable to disclose the comprehensive salary statistics for the U.S. out of the 6 regions in 2022)
- YOY Ratio: To maintain a consistent baseline for comparison, the YoY Ratio is calculated using the values for the five regions in 2023 and divided by the values for the five regions in 2022 to obtain 0.97.
- Median annual salary: The following formula is used for calculation since complete raw data is unavailable for some overseas regions. It is expected that the numerical acquisition method will be optimized in 2024.
The denominator is the average total annual salary in the six regions and the median of the six major regions calculated according to the formula for approximate median of group mean.

$$\text{Approximate Median} = L + \frac{(n/2) - B}{G}$$

• L is the average number of groups that contain the median.
 • n is the total number of data
 • B is the cumulative number of groups that precede the median group
 • G is the number of median groups



Integrity Management: Compliance with Laws, Anti-corruption, and Anti-competitive

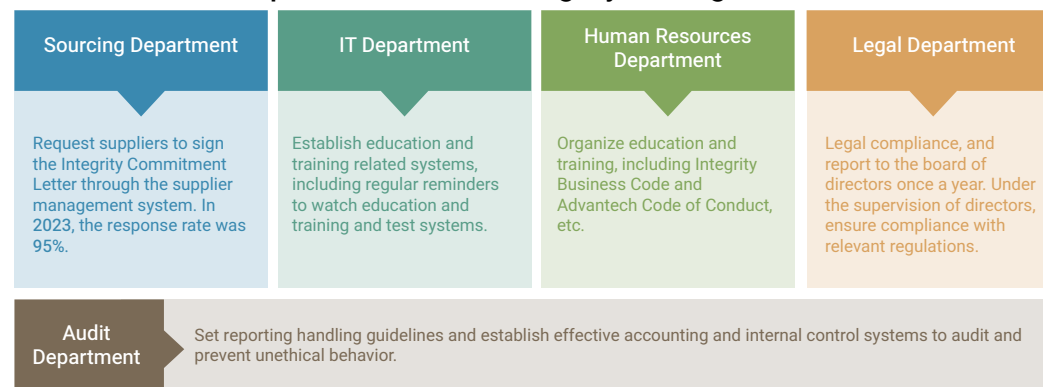
Integrity management is an important part of the internal control mechanism of corporate governance. Advantech identifies various laws and regulations in advance, and then communicates with relevant internal units to evaluate the formulation and implementation of the Company's relevant rules, in order to ensure smooth compliance with laws and regulations and practical practices. The concepts of compliance with laws, anti-corruption, anti-competitive, and social responsibility in integrity management are closely related to the Company's goodwill, which is one of Advantech's sustainable operations.



Key promotion projects in 2023

- Global policy on the addition of "Advantech global entertainment and gift policy"
- Set clear boundaries for hospitality and gifts
- Procedures for disposing high-value gifts

Promotion and implementation of integrity management



Integrity management education and training outcomes

2023 Completion rate of the online integrity management test



The following were Advantech's 2023 major regulatory violations:

*Definition of material breach of laws and regulations:

Any breach of laws and regulations as per the material information listed by the Financial Supervisory Commission (Taiwan, ROC).

- Major regulatory violations (including incidents of fines and non-monetary sanctions) in 2023
 - Corruption and bribery incidents: 0
 - Incidents of discrimination and harassment: 0
 - Breach incidents of customer privacy data: 0
 - Conflicts of interest: 0
 - Incidents of fraud, money laundering, and insider trading: 0
 - Anti-competitive behavior, Antitrust and Monopolistic Practices, Operate market events: 0
 - Other incidents related to integrity management or any major violations of laws and regulations: 0
 - The overall number of incidents for "Incidents of anti-competitive behavior, antitrust and monopoly behavior, and market manipulation" in 2023 is 0. Therefore, no monetary loss due to litigation: \$0.
- Direct or indirect political contributions in 2023: NT\$0



For compliance with laws and anti-corruption information, please refer to Advantech's official website: [Major Internal Policies and Actions](#), [Advantech business Conduct](#), [Guideline for Insider Trading Prevention Management](#)



For internal audit system-related information, please visit Advantech's official website: [Internal Audit](#)

Tax Policy

Advantech adheres to the spirit of altruism, aspires to, and is committed to giving back to society while the Company is thriving. In terms of tax policy, it is our responsibility to pay reasonable taxes to the societies and economies where we conduct business, to refrain from engaging in aggressive tax arrangements, and to comply with all relevant tax laws and regulations. According to the Group's tax policy, Advantech headquarters and its domestic/overseas subsidiaries shall abide by the following principles:

1. Act at all times in compliance with the spirit and the letter of the relevant tax laws and regulations in the countries in which we operate.
2. Advantech complies with Organization for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines to prepare three-tier transfer pricing documentation.
3. Transfer pricing is set based on the "arm's length principle." Profits from each operating entity are reasonably remunerated for the risk and complexity of each entity's activities.
4. Advantech's major decisions are made mainly based on business purposes, and then supplemented by tax analysis to search for optimal solutions.
5. Do not engage in any arrangement that transfers value created to low tax jurisdictions or tax havens simply for reducing tax burden. Do not use tax havens or tax structures whose sole purpose is for tax avoidance.
6. Assess tax risk periodically and reduce it by negotiating Advance Pricing Agreement (APA) with local tax authorities in the countries Advantech generates high income.
7. Build mutually respectful relations with tax authorities based on mutual trust and communication, information transparency, and tax payment with integrity.

Tax Governance

Advantech is subject to tax laws and regulations in the various jurisdictions in which it operates or conducts business. Changes in tax laws and regulations could increase tax liabilities and compliance burdens, which will have an adverse impact on business operations. In order to effectively manage tax risks, Advantech complies with the tax laws and regulations, understands its tax liability and compliance status, identifies potential tax risks, prioritizes the issues, and handles them on a case-by-case basis. Technology tools are also being used for effective tax management. The aforementioned tasks and results are regularly reviewed by the management.

The strategy development of global finance and tax is led by the management, which delegates day-to-day responsibility to the headquarters' finance manager. Local accounting teams execute the tax filings in compliance with tax laws and regulations. In addition, Advantech has engaged external tax consultants and CPA firms for tax reporting and compliance services. Advantech's Audit and Risks Committee, delegated by the Board, oversees the quality and integrity of the accounting, auditing, and financial control practices of Advantech through periodic reviews of certain major matters. These include accounting policies and procedures, internal control systems, legal compliance, and corporate risk management, among others. Advantech's Tax Policy is reviewed by the Audit and Risks Committee and approved by the Board.



Tax Payment Status

Country	Revenue	Net profit before tax	Income tax paid	Income tax accrued (current year)	Number of employees
Taiwan	45,445,230	13,087,184	2,546,066	1,865,784	3,588
China	26,379,413	362,135	-15,036	55,180	3,357
Japan	4,149,165	350,652	165,656	116,066	232
Korea	2,428,278	107,064	23,940	23,721	129
Europe	12,789,290	387,638	70,432	80,063	525
United States	20,556,485	1,363,254	461,190	316,029	536
Other	3,116,425	1,820,991	63,011	20,523	462
Total	114,864,286	17,478,918	3,315,259	2,477,366	8,829

Table 2.1.2: 2023 Revenue, net profit before tax, tax information, and number of employees (Unit: NTD thousand)

Effective Tax Rate

The Group's effective tax rate and cash tax rate for 2022 and 2023 are as follows:

Item	Effective tax rate		Cash tax rate	
	2022	2023	2022	2023
Net profit before tax	13,442,860	13,266,699	13,442,860	13,266,699
Income tax expense / income tax paid	2,700,301	2,477,366	1,255,369	3,315,259
Add: R&D tax incentives	512,000	367,696	512,000	367,696
Add: COVID-19 tax relief	—	—	1,099,948	-439,979
Income tax expense / income tax paid (with adjustments)	3,212,301	2,845,062	2,867,317	3,242,976
Effective tax rate	20.09%	18.67%	9.34%	24.99%
Effective tax rate (with adjustments)	23.90%	21.45%	21.33%	24.44%

Table 2.1.3: Effective tax rates (unit: NTD thousand; %)

*Note:

1. The revenue, net profit before tax, and tax information are aggregated amounts from local entities' statutory financial statements and related party transactions are not excluded.
2. The net profit before tax includes investment gain (loss) accounted using the equity method.
3. For the names of all resident entities and their primary business activities, please refer to the appendix of Advantech Co., Ltd.'s 2023 Sustainability Report.

Source: pages 12 to 13 of the FY2023 Advantech Co., Ltd. Consolidated Financial Statements; please refer to the "Consolidated Statements of Cash Flows" on page 15 for income tax paid.

*Note:

1. Effective tax rate = Income tax expense ÷ Net profit before tax
2. Cash tax rate = Income tax paid ÷ Net profit before tax
3. Differences in effective tax rate are explained below:
 - The effective tax rate was lower than the industry group average. This was primarily due to tax incentives for research and development expenditures according to regulations under the R.O.C. Statute for the Upgrading Industries and Statute for Industrial Innovation. Also, the pre-tax super deduction of R&D expenses and the preferential CIT rate for the high and new technology enterprise in China. After excluding these influences, the adjusted effective tax rate were similar to the industry group average.
 - Apart from what mentioned above, Cash tax rate was also affected by timing differences, such as advance payments and tax policies in different countries (e.g. COVID-19 payment deferral that up to 36-month installments in Taiwan.) After excluding these influences, the adjusted cash tax rate was similar to the industry group average.
 - FY2023 R&D tax incentives amount was estimated. The previous year's R&D tax incentives were revised to match the amount reported in the tax returns.

2.2

Information and Cyber Security Management

Item	Explanation
Materiality	As the threat of cyberattacks continues, information and cyber security has become one of the major risks to corporate operations around the world. Advantech recognizes that information and cyber security issues are critical to the company's operational stability, product safety, privacy, and brand value as a global leader in the Internet of Things (IoT). These factors are critical for stakeholders such as employees, customers, and investors.
Management strategy	<ul style="list-style-type: none"> • Improve information and cyber security visibility • Decrease in attack surface • Improvement of information and cyber security governance and risk awareness • Enhancement of information security resilience
Policy or commitment	To safeguard the Company's and customers' interests, we are dedicated to upholding information and cyber security, continuously evaluating the efficacy of information and cyber security management, and minimizing the frequency of information and cyber security incidents.
Impact description	The positive impact of information and cyber security can strengthen the confidence of stakeholders, etc. in corporate risk management and sustainable operations. Advantech established an information and cyber security management organization and adopted the ISO 27001 standard to continuously improve the information and cyber security management system. On the other hand, the negative impacts of information and cyber security breaches on business operations include leak of confidential information, interruption of system services, resulting in damage to reputation, loss of customers, and legal risks to the Company. In terms of security, our company employs a multi-layered defense framework, deploying mechanisms such as firewalls, antivirus software, endpoint protection, privileged account management, and two-factor authentication to continuously assess information and cyber security risks and strengthen security architecture, thereby reducing the likelihood and severity of information and cyber security incidents. Furthermore, our critical systems have completed 8/12/24 3-Tier Snapshot data backups and established off-site backup centers to establish response and handling mechanisms for information and cyber security incidents, thereby mitigating their impact.
2023 Achievement status	<p>The completion rate of the information and cyber security promotion courses was 89%. In addition, the following goals were all achieved the 2023.</p> <ul style="list-style-type: none"> • Microsoft security score of 62% • Endpoint security protection (EDR) deployment coverage reached 83% • The deployment coverage rate of system vulnerability patching tools exceeded 91% • The availability of key application systems reached 99.9%
2024 Goals	<ul style="list-style-type: none"> • Web security filtering and zero trust network access are implemented in the headquarters and Taiwan region • Information and cyber security risk rating up to 80% • The headquarters and Linkou factory achieve compliance with the new ISO 27001: 2022 standard update
2025 Goals	<ul style="list-style-type: none"> • Introduce web security filtering and zero trust network access in the Asia Pacific region, including the headquarters and offices in Taiwan, China, Japan, Korea, Malaysia, and Singapore. • Information and cyber security risk rating up to 85% • China, Europe, and North America achieve compliance with the new ISO 27001: 2022 standard update
2030 Goals	<ul style="list-style-type: none"> • Advantech introduces global web security filtering and zero trust network access • The information and cyber security risk rating score is higher than the industry standard, and the rating score remains no less than 85% • Global Factories achieve compliance with the new ISO 27001: 2022 standard update

Item	Explanation
Action plans	<ul style="list-style-type: none"> Introducing Security Access Service Edge (SASE), a cloud architecture that integrates network security and access control, to enhance the security and performance of Internet use. Strengthen the digital asset management mechanism, grasp Advantech's global information and cyber security risks for improvement, and understand the security status of outsourced third-party suppliers.
Effectiveness assessment	<ul style="list-style-type: none"> Introduce information and cyber security risk rating tools, continuously monitor information and cyber security risk status, and take corresponding improvement measures to gradually improve the information and cyber security risk score. Pass the external audit of a third-party certification company, and maintain operations within the scope of implementation in compliance with ISO 27001:2022 standards.
Stakeholders engagement	<ul style="list-style-type: none"> Employees: Provide mandatory online courses on information and cyber security and complete tests. Customers: Respond to customer questionnaires and audits, and provide relevant supporting records as needed. Suppliers and contractors: All suppliers are required to fill out the Information Security Management Declaration. Suppliers of major components and system services are required to complete the information security risk self-assessment form and conduct regular information security audits. Shareholders and investment institutions: The Company's major action plans and results for improving information and cyber security are disclosed through the Company's annual report and sustainability report. Business partners: Respond to partners' inquiries and provide supporting records as necessary. Government, public associations, and the media: Respond to inquiries from government units and relevant public associations, and provide supporting records as necessary.

Advantech has achieved ISO/IEC 27001:2013 certification for its Information Security Management System (ISMS), expanding its scope in 2022 to include the management of the headquarters' information center and backbone network. In the same year, Advantech's information operations in Europe and the United States also obtained ISO/IEC 27001:2013 certification. Advantech continues to enhance and broaden the scope of its Information Security Management System, establishing standardized systems and processes across strategic, managerial, technical, and awareness aspects. This ongoing effort aims to continuously improve the depth and breadth of cybersecurity governance.

Information and Cyber Security Policy and Organization

The implementation of information and cyber security requires the awareness and full support of the management. To demonstrate the Company's commitment to information and cyber security, Advantech has appointed the President as Chief Information Security Officer (CISO). A cross-departmental Information Security Governance Team has been formed, led by the quality control and information security teams. This team is in charge of promoting information and cyber security in a variety of areas, including computer information systems, physical environments, product security, supply chain management, and regulations compliance. The Information Security Governance Team convenes a meeting every six months to review the management effectiveness, information security-related issues and directions. The Company also regularly reports the implementation status to the risk management committee to incorporate information security into the scope of corporate risk management.

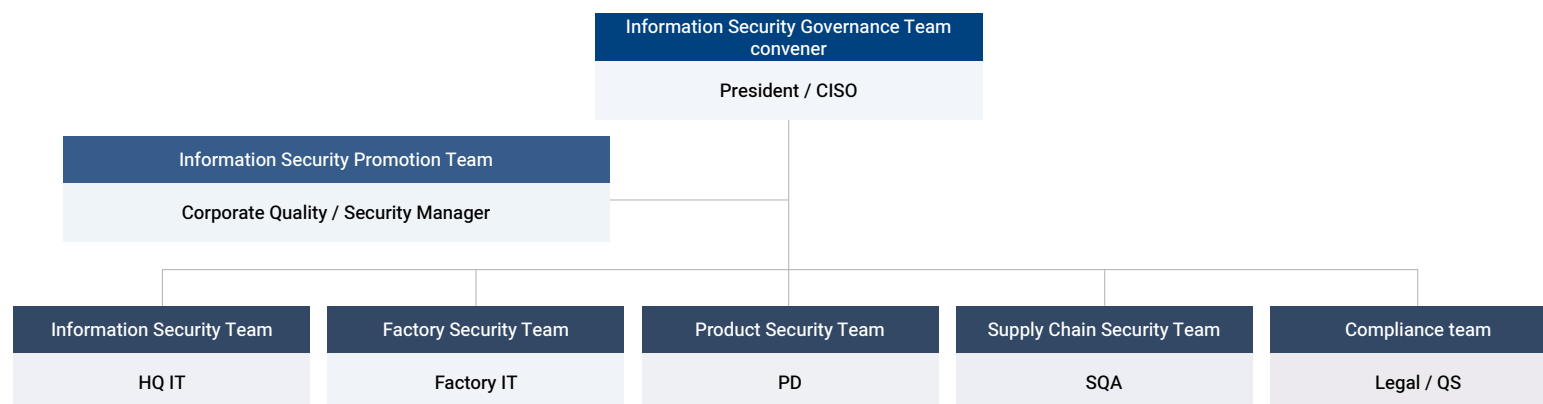


Figure 2.2.1: Organization structure of Information Security Governance Team

Information and Cyber Security Management Strategy

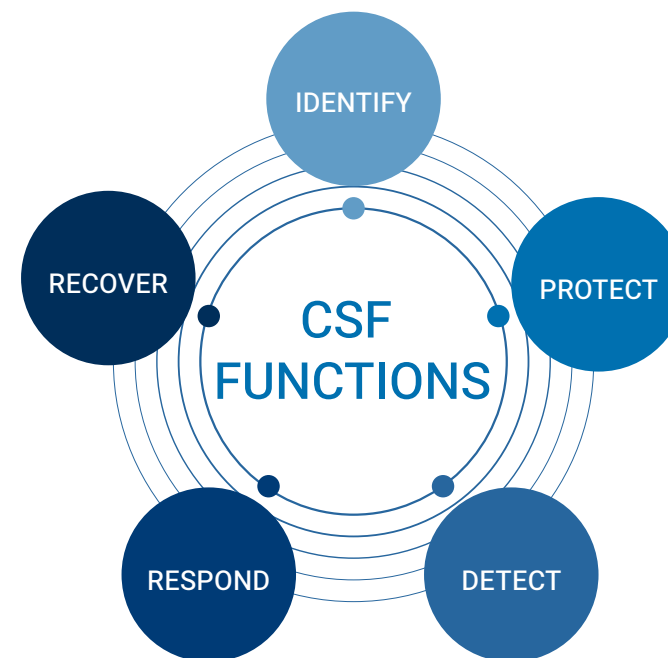
The National Institute of Standards and Technology's (NIST) Cybersecurity Framework (CSF) serves as the foundation for our information and cyber security development roadmap. The framework has five main functions:

Identification, protection, detection, response and recovery are mainly for the different stages of an enterprise's attack, that is, before the event (identification and protection), during the event (detection and response), and after the event (recovery), the measures needed to be taken control.

In response to the United States Securities and Exchange Commission (SEC)'s rules governing cybersecurity risk management, governance, and disclosure of related events for Listed Companies, we have policies and relevant procedures for cybersecurity risk assessments; also supervise the cyber security risks of third-party service providers, and has contingency procedures and cyberattack recovery plans in place for cybersecurity incidents.

Furthermore, we actively participate in the information security organization including Taiwan Chief Information Security Officer Alliance and Taiwan Computer Emergency Response Team / Coordination Center (TWCERT/CC) to acquire cyber threat intelligence, cybersecurity threats, and vulnerability information. By integrating external cybersecurity vendors and expert resources, we continuously monitor new cybersecurity information, technologies, and trends to strengthen our security framework and measures, effectively blocking emerging cybersecurity threats.

In addition, our company continues to assess internal and external cybersecurity risks and trends to develop corresponding cybersecurity management strategies. Our current strategy focuses on reducing the attack surface, improving visibility of cybersecurity risks, enhancing cybersecurity governance and risk awareness, and strengthening cybersecurity resilience. The cybersecurity action plans and key achievements for 2023 will be explained subsequently.



Decrease in Attack Surface

The software used by enterprises ranges from operating systems to business applications for daily tasks. Each software vendor will release patches and security updates to fix vulnerabilities from time to time to mitigate the risk of being vulnerable to attacks. Advantech introduced Endpoint Central, an endpoint management and security solution, in 2023 to strengthen the management of system weaknesses and vulnerabilities and assist with patch operations. It has been deployed on nearly 9,000 computer devices so far, and the coverage will continue to be expanded.

	Taiwan	China	North America
1. Agent deployment rate (Target: 90%)	95.1%	91.5%	91.6%
2. Device onboard rate (Target: 90%)	93.5%	91.7%	92.8%

Target not met Target achieved

Today's enterprises are facing increasingly diverse security threats, such as the security breaches caused by external personnel's equipment, the physical security restrictions that require visitors or employees working from home to circumvent them, and the inability of traditional network architectures to prevent and untrusted network security. The equipment is connected to the Internet, etc. This year, Advantech introduced a network equipment control and network segmentation tool to protect the network connection policy of various information equipment of enterprises and prevent them from malware and virus attacks.

Additionally, the Company has completed Breach and Attack Simulation (BAS) exercises. These exercises employ automated simulations to simulate external and internal threats, lateral movements, and data breaches. The effectiveness of security protection mechanisms is verified by continuously simulating attacks on various assets, ensuring that the Company's defenses are strong and capable of defending against potential security threats. This year, we also commissioned a cybersecurity vendor to conduct vulnerability scans and penetration testing on the Salesforce and IoTMart systems. The test results did not identify any security vulnerabilities beyond low-risk levels.

Improve Information Security Visibility

The traditional concept of information and cyber security protection examines the insufficiency of information security protection capabilities from the Company's internal perspective, but may overlook information such as application security risk, Cubit Score, hacker information exchange, and leakage of account confidential information, which could lead to evaluation blind spots. Therefore, Advantech has introduced information and cyber security risk scoring tools to externally examine the Company's overall security status and identify deficiencies in existing information and cyber security protection mechanisms through the proprietary and open data sources of the vendors, as well as advanced machine learning algorithms and analysis technologies and assist information and cyber security personnel to make improvements.

In addition, in recent years, hacker groups have begun to use these as a springboard to infiltrate suppliers or outsourced companies to intrude into other enterprises, raising the risk of supply chain information and cyber security ecosystems. Advantech also applies the information security risk scoring tool to supplier information and cyber security risk management to grasp the information security status of partners in order to identify and respond to their own risks in a timely manner.

Improvement of Information Security Governance and Risk Awareness

To enhance employees' awareness of information and cyber security, we have included information security as an annual compulsory course, providing e-Learning courses and online tests. In response to the increasing frequency of phishing email attacks, our company conducts social engineering drills to simulate phishing emails from hackers, testing employees' awareness of information security risks. Additionally, we release a security newsletter every quarter. This newsletter includes updates on the latest information security trends, significant domestic and international cybersecurity incidents, important announcements, and more. These efforts are aimed at enhancing awareness and vigilance among our staff regarding information security.



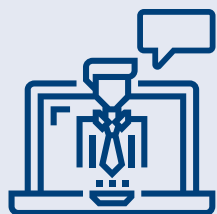
Information and Cyber Security Promotion Course

In 2023, general employees were given online or face-to-face courses. The courses were mainly about common information and cyber security risks and countermeasures, Advantech's information and cyber security policies and regulations, prevention of ransomware and phishing mails, software security control, and information and cyber security incident notification. A total of 8,442 employees and 4,221 hours of employee information and cyber security training courses were completed throughout the Company.



Social Engineering Drill

By simulating company announcements, system notifications, or enticing messages, our employees undergo two rounds of phishing email simulation tests: an initial test and a retest, and a total of 13,689 test emails were sent. The test results still showed that a certain percentage of employees opened the test letters, indicating that the security awareness of employees against phishing mails still needs to be enhanced.



Information and Cyber Security e-newsletter and Information Security Rewards Campaign

- Since the second quarter of 2023, the information and cyber security e-newsletter has been sent to employees around the world every quarter, with a total of 23,718 people sent.
- The Company organized information security rewards campaign to encourage the employees of the IT department to actively participate in the enhancement of information and cyber security and unleash creativity. A total of 10 teams signed up to participate in the competition, and 3 teams received awards.

Enhancement of Information Security Resilience

Considering the possibility of IT services being affected due to internal or external disasters or human errors, Advantech planned a remote disaster recovery at the Linkou factory to achieve mutual remote disaster recovery and remote data backup between Neihu and Linkou through the Nutanix virtual machine. When the Neihu server room is unable to provide services, the remote disaster recovery mechanism in the Linkou server room will continue to provide services for the critical information system. After establishing the remote disaster recovery mechanism, Advantech's IT department completed two disaster recovery drills this year to verify the integrity of the overall architecture and system for disaster response and recovery procedures.

In addition, this year, Advantech introduced the information service incident management platform Statuspage to visualize the service health status of each system, enhance the tracking and reporting of IT service performance and usability, and optimize the process for reporting information service anomalies.

Status of Information Security Incidents in the Last Three Years

From 2021 to 2023, there were a total of 14 information security incidents, but they did not cause a material impact on the Company's business, and there were no instances where customers' personal data was affected or fines were imposed due to the leakage of confidential information. There were a total of 3 information security incidents this year, but they did not cause a material impact on the Company's business, and there were no instances where customers' personal data was affected or fines were imposed due to the leakage of confidential information. The causes of the incidents were cloud service interruption, computer virus attack, and equipment hardware failure. Suffering from cyberattacks (e.g.: hackers, viruses) incidents affecting 1 person, external service disruptions (e.g., utility power, internet connection, cloud service), 3500 people were affected, and equipment failure affected 3500 people.

Type of information security incident	2021	2022	2023	Total number of incident by type
Suffering from cyberattacks (e.g.: hacking, virus)	3	0	1	4
Disruption of external services (e.g.: utility power, internet connection, cloud service)	1	0	1	2
Human error	1	3	0	4
Equipment failure	1	2	1	4
The total number of information security incidents for the year	6	5	3	14

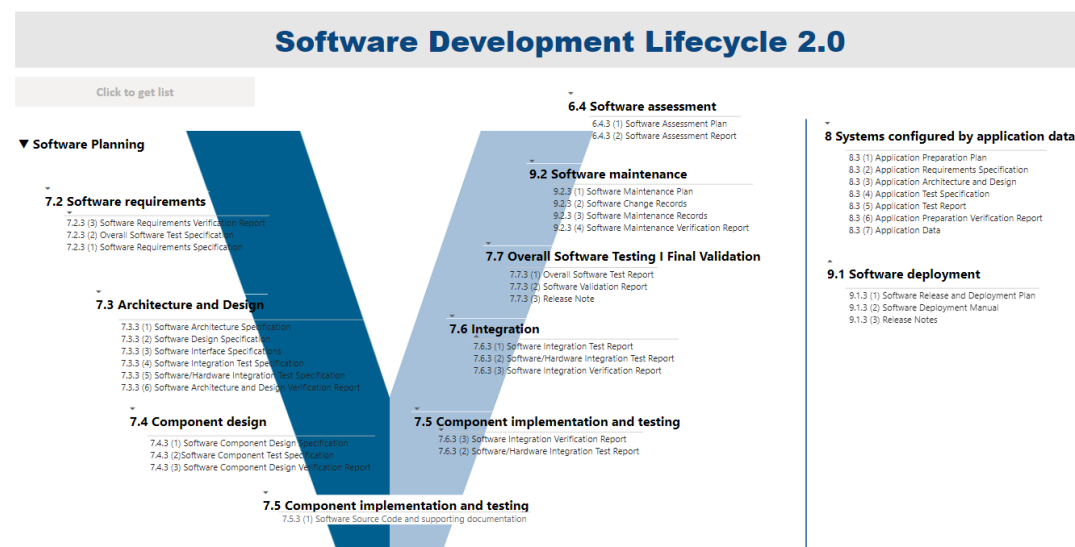
After the root cause of the incident was investigated, an SOP has been established for handling cloud service interruptions, and equipment availability monitoring and regular maintenance have been enhanced to reduce the possibility of equipment failure affecting business operations. For incidents caused by computer viruses, the Company continues to refine the performance of endpoint protection and antivirus tools, and enhances personnel security awareness education.

Advantech has set up notification windows for product data security risks or loopholes to receive relevant reports from customers or information and cyber security companies, and then refer them to the product department for resolution. The patch will be announced on the Company's official website and reply to the reporting unit.

In addition, according to the information security requirements of SASB indicators, Advantech's Switch products comply with the requirements of IEC 62443-4-2 certification. The feature introduction is as follows:

- Secure authentication, such as 802.1X, RADIUS, TACACS+ and other remote encryption and authentication functions.
- Communication encryption, such as TLS 1.3, HTTPS, SSH and other connection encryption functions.
- System integrity, such as Firmware endorsement (electronic signature).

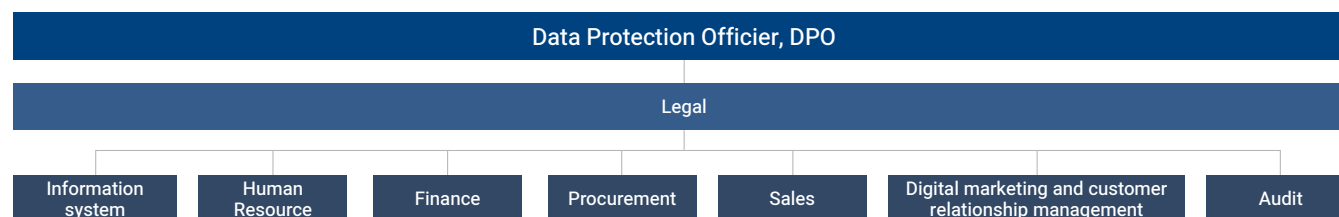
The lifecycle of Advantech's Switch products follows the secure development process defined in IEC 62443-4-1, which discloses the Open Source and GPL application scope of the products.



Privacy Protection

The scope of Advantech's privacy policy includes the following: Advantech's privacy policy includes but is not limited to employees, customers, suppliers, and any third parties using other services of the Website. To ensure that everyone can use Advantech's various services with peace of mind, Advantech has formed a personal data protection team under the legal department and formulated the "Advantech Co., Ltd. Personal Data Protection Manual" and "Privacy Protection Policy" to comply with the Personal Data Protection Act and the General Data Protection Regulation (GDPR).

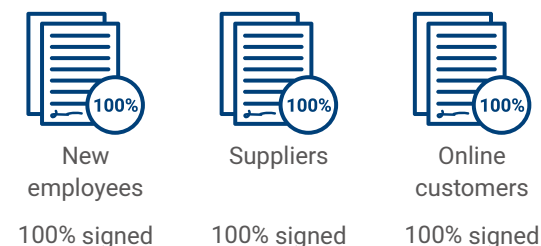
Organizational chart of the personal data protection team



Protection of privacy

- Internal data access is subject to privilege control, and users must apply for it through the internal process form.
- New employees are entitled to privacy-related education and training.
- The purchasing unit announces Advantech's privacy policy in the purchaser management system every year, and requires suppliers to sign it during login before performing related operations.
- Privacy-related clauses in the standard contract that both parties are required to abide by.
- Establish Advantech's privacy policy and explain Advantech's processing and protection of personal data in detail. Please refer to Advantech's privacy policy for details:
Chinese <https://www.advantech.com/zh-tw/legal/privacy>
English <https://www.advantech.com/en/legal/privacy>

Privacy-related consent signed



Privacy protection for digital marketing and customer management

- Differentiating the data that can be accessed and edited according to the regulations of the region to which the user belongs to ensure that customer data is properly managed and used.
- The customer data source channel will request customers to read Advantech's privacy policy, and relevant consent will be recorded.
- Corresponding supporting principles have been developed in accordance with the privacy needs of countries, including Japan, Turkey, California, and Europe's GDPR.



2.3

Sustainable Management of the Supply Chain

Item	Explanation
Policy or commitment	<ul style="list-style-type: none">Suppliers are required to abide by Advantech Supplier Code of Conduct, and comply with and improve the performance of labor, safety and health, environmental management, ethics, and management systems.
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2.3.1 Overview of Advantech's Industrial Value Chain

Advantech is committed to building a sustainable supply chain ecosystem for the IoT, creating a win-win situation as the core. The Company provides services for the IIoT industry. The components for the manufacturing process are purchased from upstream component manufacturers, assembled and manufactured in-house, and delivered to customers. Due to the characteristics of the industry, the products purchased are various and highly customized. Currently, there are more than tens of thousands of supply materials in the supplier database. To ensure supply chain stability and quality, and to understand its manufacturing process, Advantech regularly conducts supplier evaluations that cover quality performance and implementation, technical process capability, commercial cost management, local supply chain priority, and sustainability. We also communicate with suppliers at all times to incorporate the concepts of corporate social responsibility and sustainable management of the supply chain into the evaluation criteria. It is hoped that through Advantech's sustainable supply chain management, suppliers can improve their sustainability capabilities and become our long-term partners. Moreover, in order to achieve the goal of sustainable management of the supply chain, Advantech's COO routinely reviews the procurement practices and management performance of the supply chain at the Meeting of Quality Management (MQM), an essential operational meeting within the organization.

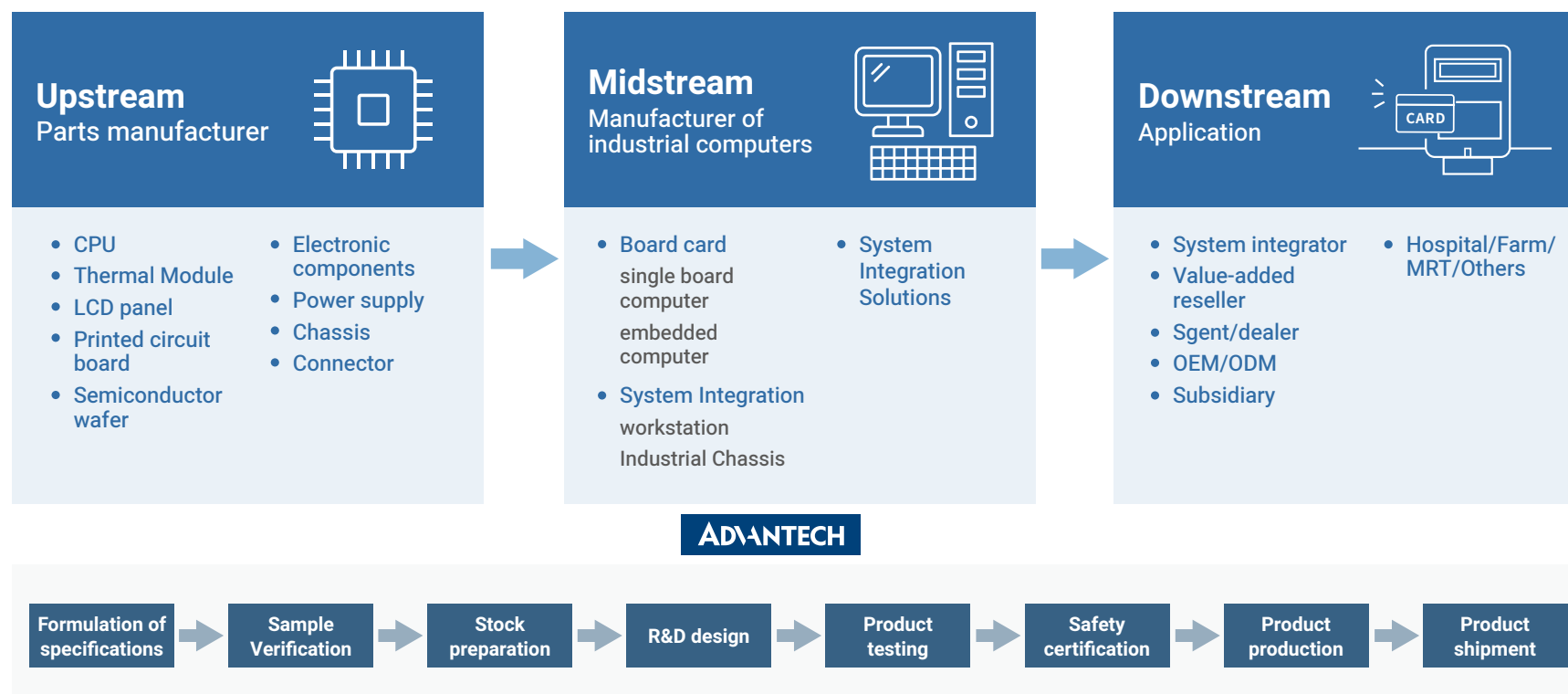


Figure 2.3.1: Advantech industrial value chain

Goal of Sustainable Supplier Relationship Management

Optimizing the core competitiveness of the supply chain	Strengthening the sustainability and resilience of the supply chain
Require suppliers to follow Advantech's Supplier Code of Conduct to improve labor, safety and health, environmental management, ethics and management system performance; actively provide counseling for suppliers to improve core competencies and reduce the risk of operational interruption.	Advantech actively reduces environmental impact of the supply chain. It constantly monitors and evaluates the performance of the supply chain, including the product lifecycle, to identify potential risks and opportunities, and sets electricity, water, waste, and carbon reduction goals together with suppliers to mitigate climate change laying the foundation for the sustainable development of the supply chain.

Table 2.3.1: Short- and medium-term goals of Supply Chain Sustainability Management

Item	Achievements in 2023		2024 Goals	2025 Goals
	100% achieve the target set in 2023			
Requirement to sign Advantech's Supplier Code of Conduct	100% of Tier 1 suppliers (including significant suppliers) comply with Advantech's supplier code of conduct		100% of Tier 1 suppliers (including significant suppliers) comply with Advantech's supplier code of conduct	100% of Tier 1 suppliers (including significant suppliers) comply with Advantech's supplier code of conduct
The execution of due diligence on conflict minerals complies with OECD's third-party mechanism	100% of PVL suppliers do not use conflict minerals		100% of PVL suppliers do not use conflict minerals	100% of PVL suppliers do not use conflict minerals
Audit and counseling for non-conforming improvement work	100% complete the improvement of deficiencies of significant suppliers		<ul style="list-style-type: none">Expand the scope of the annual ESG audit100% complete the improvement of deficiencies of significant suppliers	<ul style="list-style-type: none">Expand the scope of the annual ESG audit100% complete the improvement of deficiencies of significant suppliers

***Note:** Significant suppliers are defined as the following two types of suppliers: PVL suppliers with high annual procurement costs and key raw materials that are irreplaceable, and supplier groups with high sustainability risks identified through ESG evaluation.

Performance Highlights

100%

100% of significant suppliers have completed the signing of the "Agreement for Advantech Supplier Code of Conduct".

100%

100% of new suppliers are evaluated for compliance with environmental standards.

100%

100% of significant suppliers have signed the "Declaration of Non-Use of Conflict Minerals".

100%

100% of significant suppliers completed the counseling and improved their deficiencies.

New

Developed 2,024 solutions for multiple sources of raw materials.

Supplier Composition and Procurement Layout

Advantech's product portfolio is diverse and highly flexible. Its products are widely used in the fields of embedded computing for the IoT, industrial computers and peripherals, cloud computing and industrial automation, and communication systems. Therefore, the supply chain is also active, diverse, and closely interrelated. The raw materials supply chain includes IC, printed circuit boards, electronic components, wires, plastic parts, metal parts, packaging materials, etc. Advantech's main suppliers are divided into raw material and packaging material suppliers, and security, cleaning, and engineering contractors. Among them, raw material suppliers have a significant impact on operations and production. Therefore, Advantech has divided raw material suppliers into 2 categories according to their attributes, including direct materials (materials directly related to production) and packaging material suppliers (materials or packaging materials not directly related to production).

In order to effectively manage raw material suppliers and resource allocation, Advantech selects suppliers with high annual procurement costs and suppliers of key raw materials and irreplaceable ones as PVL suppliers. It also uses ESG evaluation to identify supplier groups with high sustainability risks. These two types of suppliers are significant suppliers as defined by Advantech. Advantech has identified 284 significant suppliers, accounting for 65.3% of total procurement volume.



Definition of Tier 1 suppliers

Suppliers who directly supply the Company with direct or indirect materials

1,127



Definition of Significant Suppliers

There are two types of suppliers. One is a key supplier with high include annual purchase amount, key raw materials and the second is the supplier group with high sustainability risk identified through ESG assessment.

284

Distribution of supplier procurement in 2023

Category		Number of suppliers		Proportion of procurement amount	
Significant suppliers	Significant tier 1 suppliers	284	225	65.3%	36.9%
	Significant non-tier 1 suppliers		59		28.4%

Prioritize Locally procurement

In order to deepen strategic regional cooperation and reduce carbon dioxide emissions generated from the manufacturing and transportation processes on the environment, Advantech continues to implement a localized procurement strategy. Over the years, Advantech has prioritized procurement from local suppliers. Overall, Advantech only purchases from its factories in Taiwan and Kunshan. In 2023, the local procurement amount in Taiwan was NT\$11.53 billion, with a ratio of about 89%; Advantech Kunshan's local procurement ratio is about 40%* of the total due to some electronics and peripheral raw materials are uniformly purchased by Advantech Taiwan. The overall proportion of local procurement increased slightly to 71% in 2023. The proportion of the Company's local procurement amount in recent years is shown in Figure 2.3.2.

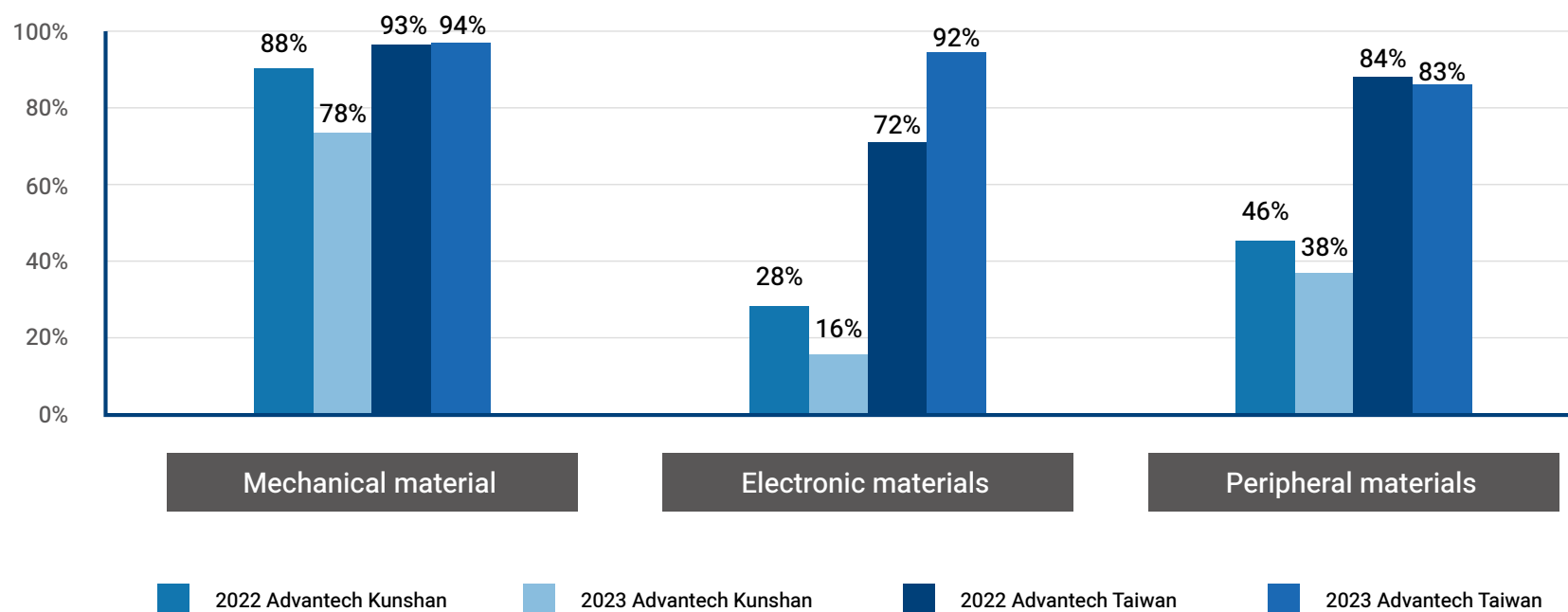


Figure 2.3.2: Local procurement ratio of Advantech Taiwan and Advantech Kunshan, 2022-2023

***Note:**

- Definition of procurement locally: Advantech Taiwan – transaction counterparty is a manufacturer having a uniform invoice number for a for-profit enterprise in Taiwan; AKMC – transaction counterparty is a domestic manufacturer in mainland China.
- Kunshan Electronics' decrease in the proportion of local procurement is mainly due to the switch to the self-purchasing strategy in 2020, but most of the self-purchasing suppliers are agents registered in Taiwan.

2.3.2 Supply Chain Management Strategy

Advantech believes that sustainable supply is an important commitment for corporate sustainability, and is aware of the impact of geopolitical challenges on the supply chain. It aims to deepen our relationships with global customers and partners through consistent global brand power, create sustainable corporate value and jointly establish an industrial chain for mutual benefit and common prosperity. Advantech has a global procurement unit and a supplier quality management unit to implement supplier management and symbiosis to control the supplier selection criteria and process, conduct the risk assessment, performance assessment, audit counseling, education, training, and organize supplier conferences. Implement the continuity requirements in the daily management of the supply chain. Advantech's procurement strategy aims to diversify procurement risks and reduce costs. Therefore, more than two suppliers are used to ensure substitutability and competitiveness with each other; for electronic parts with high commonality, Advantech has established a second source of parts management mechanism; safety stocks are established for major materials to prevent risks caused by material shortages or quality problems. Advantech assigns dedicated procurement staff to analyze market information based on the expected level of availability. Through regular review of market dynamics, a centralized procurement strategy is adopted, and a list of PVL suppliers is established. Paying attention to suppliers' capabilities in cost, quality, delivery, sustainable supply, and improving cooperation efficiency to obtain high-quality materials and stable delivery times.

In addition to evaluating the labor, environment, and business ethical management of our operations in accordance with the RBA Code of Conduct, Advantech also actively requests the sustainable management of the supply chain by requiring suppliers to sign the "Consent form for supplier code of conduct." In addition to local laws and regulations, we also regulate business behavior in various aspects such as labor rights and interests, health and safety, environment, business ethics, and management system. At the same time, suppliers must also communicate this requirement to their next-tier suppliers and monitor their compliance. Take practical actions to build a more resilient and influential supply chain.



Figure 2.3.3: Advantech supplier management strategy

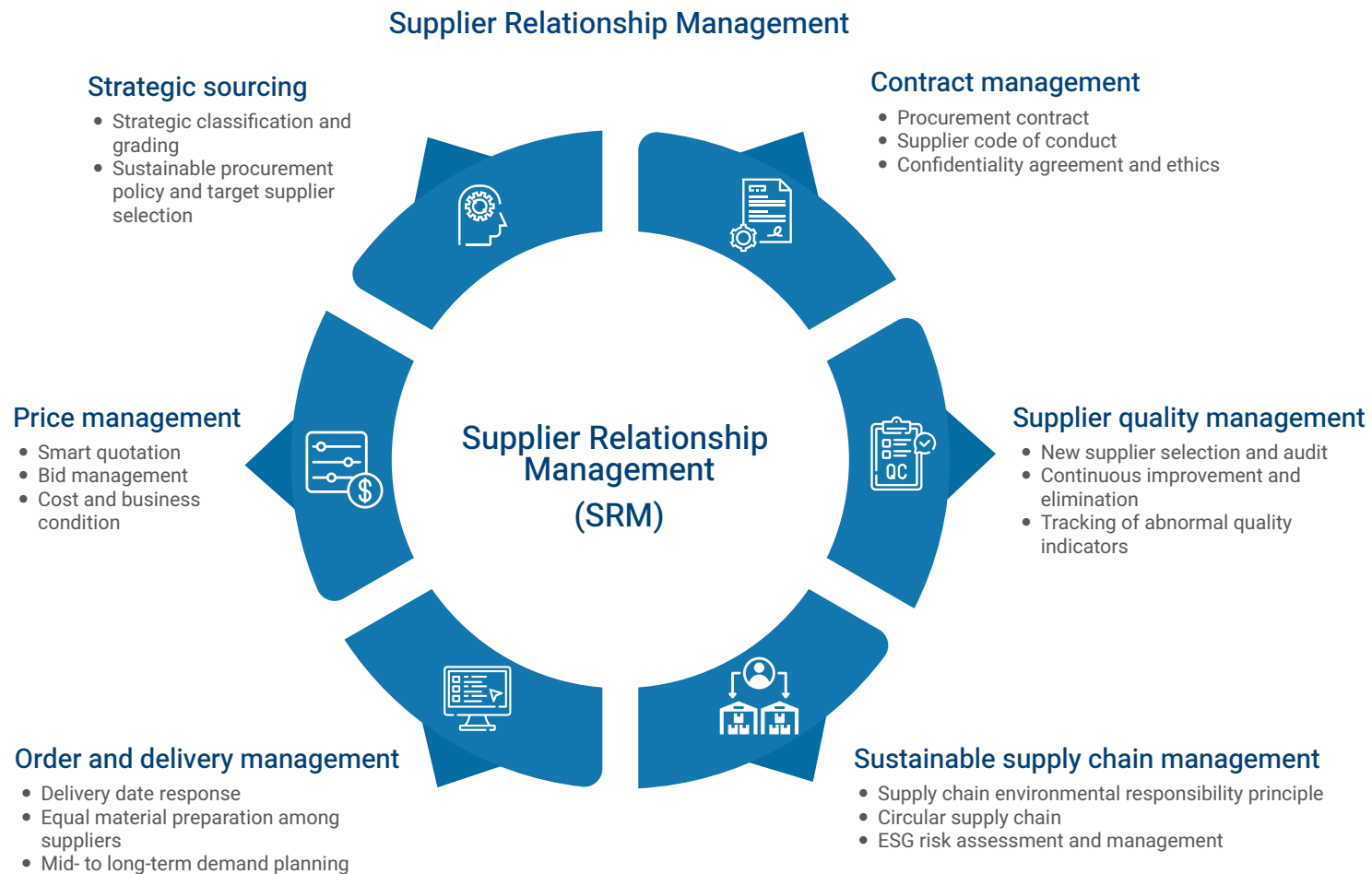
In addition, for the selection of new suppliers, Advantech requires suppliers to sign the purchase contract and the "Consent form for supplier code of conduct" since the recognition stage, unless the products of Advantech are widely used in the market and have passed the international standards, which can be listed as qualified suppliers through the certification of the evaluation team with supporting documents, and others must undergo on-site audits, focusing on quality, procurement, ESG sustainability management, and other fields.

Table 2.3.2: Overview of Supplier and Contractor Management

Type	Management principles	Implementation ratio	Future management priorities
All significant suppliers A total of 284 suppliers, of which all of them have completed the implementation and signing.	Conduct supplier profile review by signing the Supplier Code of Conduct Acceptance Form	100%	Include the supplier code of conduct in the contract
	Key suppliers that adopt ESG sustainability risk assessment (including labor, environment, safety and health, ethics, etc.)	100%	Maintain the evaluation ratio
2023 New Suppliers Out of a total of 146 suppliers, 140 have passed the review and became official suppliers.	Conduct supplier profile review by signing the Supplier Code of Conduct Acceptance Form	100%	Include the supplier code of conduct in the contract
	Adopt ESG sustainable risk assessment to evaluate new suppliers (including labor, environment, safety and health, ethics, etc.)	100%	Maintain the evaluation ratio
	Through the Supplier Audit Form evaluation (assessment requirements for quality system, design control, procurement services, etc.)	100%	Maintain the evaluation ratio
2023 Audit of Existing Suppliers The total number of implementations of ESG plans is 11, and all done. A total of 61 quality audits were planned, and 61 are audited.	Perform supplier profile review by signing the "Consent Form for Supplier Code of Conduct"	100%	Include the supplier code of conduct in the contract
	Through the Supplier Audit Form evaluation (assessment requirements for quality system, design control, procurement services, etc.)	100%	Maintain the evaluation ratio
	Passed the "Audit Form for Third-Party Suppliers" (evaluation on quality system, design control, procurement services, etc.)	100%	Increase the percentage of on-site evaluations

Supplier Relationship Management (SRM)

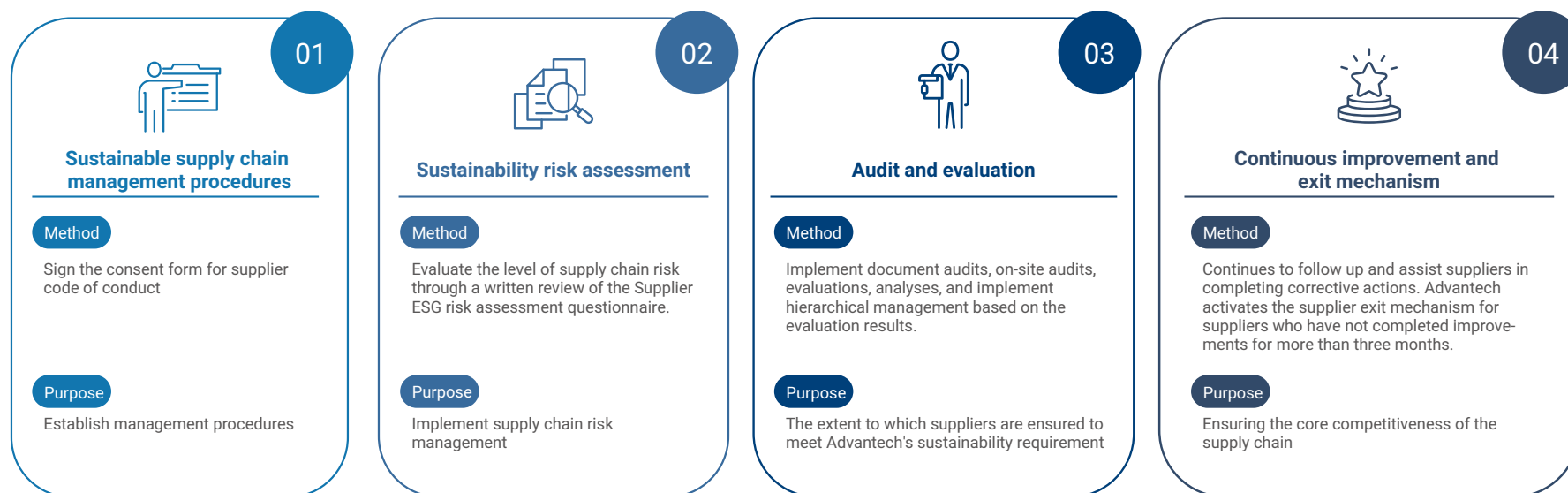
Advantech implements supplier life cycle management and integrates supplier communication channels through the supplier relationship management (SRM) platform. This platform includes functions such as contract establishment, price/quality management, new supplier audits, existing supplier audits, and information release, etc., By controlling online data, we promote offline improvement results to concretely practice a sustainable supply chain.



2.3.3 Sustainable Supply Chain Management

Sustainable Supply Chain Management Implementation

To implement Advantech's procurement and supply chain policy, Advantech has established a four-stage supply chain sustainability management process. Through the annual rolling improvement, circular, and exit mechanism, we ensure that suppliers meet Advantech's standards and improve their sustainability performance.



Supplier Sustainability Evaluation

Advantech has established ESG thresholds for its suppliers (including new suppliers and existing suppliers). To become an Advantech supplier, in addition to signing the supplier code of conduct, PCB suppliers are also required to pass ISO 9001 and ISO 14001 certifications. In addition, in order to understand and identify potential risks in the supply chain, Advantech refers to the Supplier Selection Criteria when conducting supplier screening. During the screening process, factors such as sustainability or business operations are also considered to conduct a supplier survey and evaluation. The ESG screening for but not limited to governance, environmental, social, country, industry, and product collaboration, product and business operation relevancy accounted for 26.7% of the overall procurement evaluation, and was listed as priority conditions of Advantech suppliers. The overall supplier screening items include the following:

Category	Aspect	Selection criteria	Proportion
ESG sustainability	Governance	<ul style="list-style-type: none"> • Business ethics, integrity management, information disclosure and intellectual property protection, identity protection • Public disclosure or corporate governance evaluation records (such as annual reports or sustainability reports) • Financial statement review and analysis 	26.7%
	Environmental	<ul style="list-style-type: none"> • Compliance with environmental regulations, environmental management system (waste, air pollution, etc.), carbon management, and hazardous substance management • Local suppliers are preferred to reduce transportation energy consumption and emissions 	
	Social	<ul style="list-style-type: none"> • Labor regulation compliance, occupational health and safety management, human rights, labor practices • Review public litigation records or media information reports to see if there is any risk of negative impact related to social topics, including but not limited to human and labor rights 	
	Country	<ul style="list-style-type: none"> • Prohibition of use of conflict minerals and materials on the U.S. Prohibited Materials List • Pay attention to existing international sanctions regulations to avoid accidentally violating them • Note that the import and export of specific countries or specific items from economic sanctions country 	
	Industrial	<ul style="list-style-type: none"> • RBA code of conduct, management of energy and resources consumption during the production process • The manufacturing process involves the risk of resource intensity and energy consumption risk (such as the stability and recordation measures of the supply of power generation energy required for production) • The trend of regional regulations with potential polluting industries (such as environmental regulations for the painting spraying industry or electroplating industry, or whether there is a trend of banning migration) 	
Quality process	Product	<ul style="list-style-type: none"> • The resource intensity of the area where the product is manufactured, such as land use scalability, labor structure, integrity of upstream and downstream supply chains, and delivery time • Suppliers who meet specific product certification requirements, such as choosing UL-certified factories to produce specific products 	60.0%
Business cooperation	Operations Related	<ul style="list-style-type: none"> • Industry and business analysis: Research on customer base and brand, or industry reputation for its technology and quality • Regarding to the business operation, any emergency response procedures for production or not 	13.3%

Supplier Risk Identification and Audit Counseling

Since 2021, in order to improve the core spirit of sustainable supply chain management, Advantech has issued the Advantech ESG risk assessment audit form to significant suppliers every two years. In addition to completing the questionnaire concerning their performance in four key sustainability domains (labor, health and safety, environmental management, and ethics), suppliers are obligated to furnish pertinent corroborating materials, including certificates of management system verification or operational documents pertinent to the subject matter. The outcomes of suppliers' self-evaluations form the foundation for subsequent sustainable risk management. In order to ensure that risks can be effectively controlled and reduced, the goal of this audit is to identify suppliers with potentially high risks in terms of economic, environmental, and social aspects, to track the risk items of high sustainability risk suppliers annually, and to provide counseling and audits to high sustainability risk suppliers to ensure their compliance. After summarization, a total of 271 significant suppliers were surveyed in writing in the ESG sustainability risk assessment survey in 2022, and the overall response rate was 100%. In 2023, we also conducted written follow-up on a total of 11 high sustainability risk suppliers, with a follow-up rate of 100%.

Advantech has set suppliers that if the audit result score is lower than 80 points or the suppliers have a high sustainability risk critical item, the supplier will be requested to propose corrective measures for the deficiencies, and will correct the deficiencies and reply within three months. If the supplier still cannot solve the problem, the supplier's tier will be canceled.

According to the results of the current audit and investigation, 4.0% of the suppliers have high sustainability risk, and 11 suppliers with a score lower than 80 points (out of 100 points) have critical projects. Therefore, Advantech designated these suppliers as high sustainability risk suppliers in 2023 and completed the priority on-site counseling and audits. The Company also provides the formulation of improvement measures and ongoing follow-up actions, to ensure that deficiencies are rectified and their risk levels are reduced.

Lastly, in 2023, no supplier was listed as a disqualified supplier due to a violation of major sustainability project specifications in the ESG sustainability risk assessment audit.

Audit items and percentage	Actual/target (number of suppliers)	Actual/target (proportion)
Suppliers performing ESG audits	271/271	100.0%/100%
Significant suppliers performing ESG audits	271/271	100.0%/100%
The proportion of significant suppliers with a total score below 80 points (contingent with critical items)	11 / <15	4.0% / <10%
Implementation of improvement plans for high-risk significant suppliers	11 / <15	100.0% / 100%
Termination of cooperation with suppliers for serious violations	0 / 0	0.0% / 0.0%
Assist high-risk significant suppliers with ESG counseling and improvement	11 / all	100.0% / 100%

Analyzing the performance of each sustainability aspect of risk management, it is found that the business ethics aspect has a relatively high average defect rate of 62%, and the issues covered are mainly procedures or requirements for which ethics-related issues have not been established; the health and safety aspects have a lower average defect rate of 5%; however, there are still some high sustainability risk issues located in the labor aspect, with 19% of suppliers losing score in this aspect, mainly due to the lack of requirements for prohibiting compulsory labor. We will follow up, audit, provide counseling, and require a corrective plan. The total number of audit deficiencies was 21, and the average completion rate for deficiencies was 100%.

Percentage of been provided corrective actions for priority non-conformities and other non-conformities.


100%

Table 2.3.3: Significant suppliers ESG audit deficiencies and improvement actions in 2023

Element	Primary Deficiency Uncovered	Root cause	Improvement Action	Resource provided
Labor	There are no requirements of prohibiting the use of forced, guaranteed (including debt-paid), or compulsory labor, the prohibition of the use of involuntary or exploitative prison labor, slavery, or human trafficking.	Suppliers do not yet have relevant management awareness.	Suppliers are required to formulate relevant policies or measures, and the implementation thereof is requested to be enhanced.	Provide suppliers with suggestions on labor policies or measures for reference and implementation.
Health and safety	Implementation of firefighting, notification, and evacuation training, as described in Article 15-5 of the "Enforcement Rules of Fire Services Act," has not been carried out. The drill shall be held at least once every six months and shall last for no less than four hours, and the local fire department shall be notified in advance.	Suppliers do not yet have relevant management awareness.	Suppliers are requested to enhance the promotion of ESH management regulations and relevant regulatory requirements, and strengthen their implementation.	Provide suppliers with recommendations for fire safety promotion and management for their reference and implementation.
Environmental	Hazardous substance management standards and management measures have not been established (need to comply with environmental regulations such as RoHS and REACH).	Suppliers do not yet have relevant management awareness.	Suppliers are required to establish hazardous substance management standards and conduct regular inspections to ensure the classification and storage of hazardous substances.	Provide suppliers with recommendations on hazardous substance management standards for their reference and implementation.
Business ethics	No commitment, offering, authorization, giving or acceptance of bribes, illegal or inappropriate advantages, or other forms of interest-related procedures or requirements.	Suppliers do not yet have relevant management awareness.	Suppliers are required to formulate relevant policies or measures, and the implementation thereof is requested to be enhanced.	Provide suppliers with suggestions on policies or measures for reference and implementation.
	Whether the information required by laws and regulations is properly managed and disclosed to ensure that there are no false or erroneous contents, and that there are no relevant procedures or requirements.	Suppliers do not yet have relevant management awareness.	Suppliers are required to formulate relevant policies or measures, and the implementation thereof is requested to be enhanced.	
	There are no procedures or requirements to prevent intellectual property rights infringement or illegal duplication, and this includes information dealing with customers.	The supplier has not converted the actual management mechanism into documented information.	Suppliers are required to formulate relevant policies or measures, and the implementation thereof is requested to be enhanced.	
	They did not establish procedures or requirements to ensure that the company's information complies with regulatory requirements and that its public statements are not false or misleading.	The supplier has not converted the actual management mechanism into documented information.	Suppliers are required to formulate relevant policies or measures, and the implementation thereof is requested to be enhanced.	

Supplier Evaluation and Elimination Mechanism

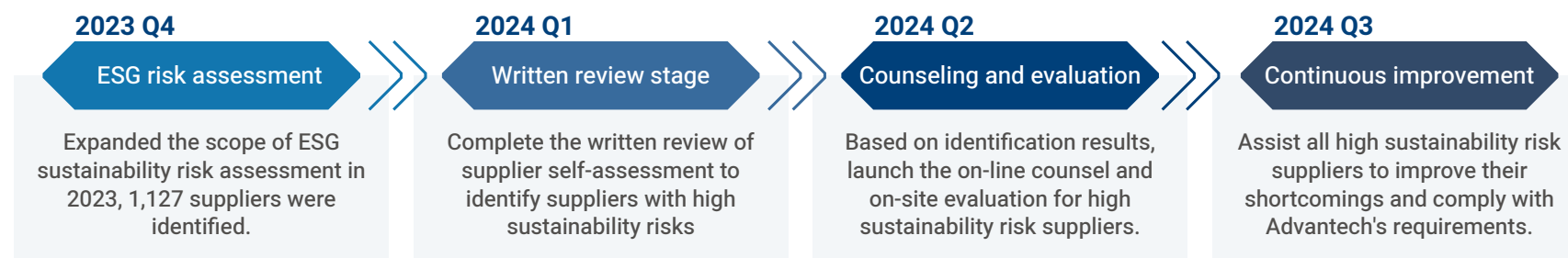
Advantech has established a supplier performance evaluation system to implement supplier sustainability and performance management. The scores are divided from A to D in four levels (A is more than 95 points and D is less than 70 points). The system as a performance evaluation mechanism for managing suppliers, the evaluation mechanism is as follows. A review of the supplier performance evaluation results in 2023 showed that 0 suppliers were rated D, and no suppliers were eliminated that year. Relevant units score suppliers based on the quarterly Management Circle of Suppliers (MCS) and quarterly supplier evaluation results. A grading system is adopted in accordance with the corresponding management procedures, and a reward, penalty, and elimination mechanism is implemented.

Implementation measures and mechanisms	
 Rewards	The Company has been awarded the excellent supplier award for A-grade suppliers for 4 consecutive quarters. The Company is praised and rewarded at the annual supplier conference. In terms of business cooperation, more orders are allocated and opportunities to participate in new projects are given.
 Penalty	C-level suppliers will be included in the observation list, and suppliers are required to conduct relevant reviews and propose improvement measures.
 Elimination	Those exhibiting a rating of C for two consecutive quarters or those exhibiting any other serious violations of Advantech's policies will be suspended from application for new projects, the number of orders will be reduced, and the policy will be changed to "delivered with the second supplier". Immediate execution of the contract will not be possible due to shipment-related issues. The elimination mechanism may be implemented after the introduction of the alternative solutions. For suppliers still unable to cooperate with the Company for improvement within two years, the amount of purchases will be reduced or the amount of purchases will be suspended, and their supplier qualifications will be cancelled.

2.3.4 Enhance Supplier Sustainability

Supply Chain Sustainability Improvement Plan

Starting from 2023, Advantech expanded the scope of ESG sustainability risk assessment from PVL suppliers to tier 1 suppliers. A total of 1,127 suppliers were identified to capture the sustainability risk of suppliers. In order to implement supplier sustainability risk management, we audit the concerned suppliers. The sustainability audit includes written audit and on-site audit. In 2024, we expect to complete supplier online counseling in a two-phase method and conduct on-site audits if necessary to optimize the core competitiveness of the supply chain.











Supply Chain Improvement and Empowerment Plan

In terms of the supplier improvement plan, Advantech has planned supplier counseling, training, and supplier innovation cooperation. After 2023, we continue cultivating and training suppliers, providing supplier resources, developing collaboratively with the supply chain, and driving innovative technology through cooperation. Incubation and application of new materials; in addition, we also cooperate with 6 suppliers to assist suppliers in introducing third-party suppliers/validate inventory consultation counseling to establish new system management, and purchase new high-performance equipment after diagnosis and verification by energy-saving experts to achieve the purpose of energy saving and improvement. To jointly achieve the goals of energy conservation and emission reduction, and reduce energy consumption and environmental impact.



Supplier Improvement and Training Program

Category	Course / Conference Name	Course /Conference Content	Participants	Number of Participants/ Number of Companies	Training Materials	
Supplier improvement Program	Supplier code of conduct	The courses covered the four major topics of labor and personnel, environmental management, health and safety, and business ethics to help suppliers understand Advantech's supplier sustainability regulations.	Tier 1 suppliers	856 suppliers		This course aims to help suppliers understand Advantech's supplier sustainability regulations, which we use as an indicator for supplier ESG risk assessment.
	Vendor Summit	Advantech invites PVL suppliers to the vendor summit, hoping to achieve friendship, mutual benefit, and mutual growth and sustainable management.	PVL suppliers	80 people/ 33 suppliers		At the Vendor Summit held in 2023, Advantech's President of General Management explained Advantech's sustainability-related management policies to suppliers and jointly swore an oath of Advantech's strategic goals and determination to achieve net zero carbon emissions by 2050.
	Carbon Management - RE100	The role of RE100 in achieving net zero carbon emissions, and the analysis of the global and Taiwan green power market.	PVL suppliers	384 people/ 285 suppliers		This course helps suppliers understand the positive benefits of renewable energy use on mitigating carbon emissions from suppliers' operations, and explains the importance and supplier-related questions about the use of renewable energy.
			Internal supply chain management/product development/ESG office/investment unit	149 people		This course helps internal colleagues understand the positive benefits of renewable energy use on corporate operations carbon emissions, and illustrates the importance of this effect when applied to carbon reduction goals in supply chain management.
Supplier Training Program	One of the purposes of the supplier training program is to incubate low-carbon co-creation, and work together to create low-energy power supplies to drive innovative technology incubation and new material application. Successful cases include the development of power supplies with high energy efficiency and low energy consumption to enhance product competitiveness. The actual performance is also reflected in the carbon reduction performance of the products.		High Carbon Emission Suppliers	6 suppliers	<div> Third-party counseling/ verification</div> <div> New system introduction</div> <div> Purchase new high-performance equipment</div> <div> Energy-saving improvement of key energy-consuming equipment and systems</div>	

2.3.5 Conflict Mineral Procurement Management

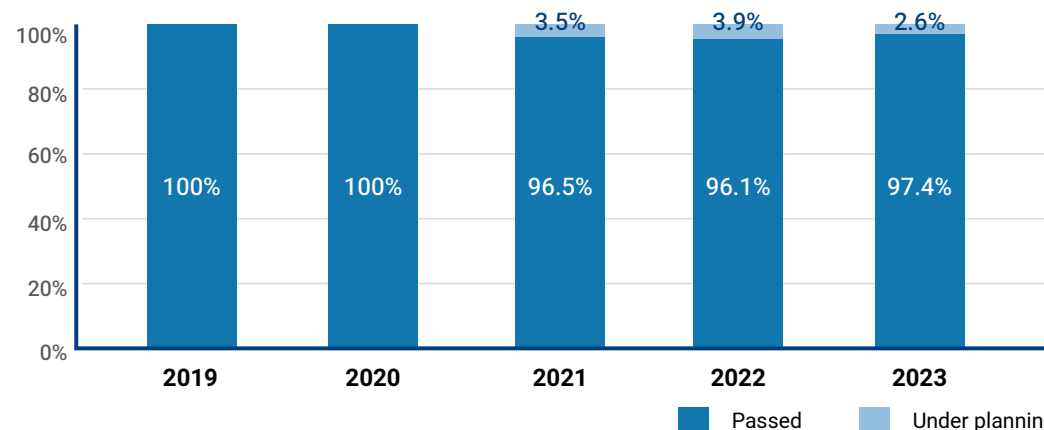
Tantalum, tin, tungsten, and gold are all 3TG minerals required for the operation of electronic devices. A significant portion of our global product portfolio (such as industrial computers and peripherals, cloud computing and industrial automation, communication systems, IoT intelligent systems, and embedded platforms) relies heavily on these materials, particularly electronic components. For example, tin is used in solder, tantalum is used in capacitors, tungsten is used in electronic contacts, and gold is used in electrical connection coatings. These are all crucial components in many of our products. To avoid using minerals from conflict-affected and high-risk areas (CAHRAs), Advantech follows the "Responsible Business Alliance (RBA) Code of Conduct" to implement a policy of not using conflict minerals. The Company not only declares and pledges not to use metals from CAHRAs, but also requires suppliers to comply with and make commitments to it to ensure that Advantech's supply chain respects human rights and does not involve participation in conflict activities. By 2023, 100% of Advantech's key suppliers have signed the "Declaration of non-use of conflict minerals." Furthermore, none of Advantech's own products uses conflict minerals. As a brand-name company, Advantech does not directly purchase raw ores or unrefined 3TG minerals. We have multiple supply chains with mines. Once raw ores are smelted, refined, and converted into ingots, bars, or other mineral-containing derivatives, it is impossible to determine the source of 3TG minerals. SORs are the focal point of ore and are at the best point of the supply chain to understand the source of ore. Suppliers who have a direct relationship with Advantech and influence procurement decisions are considered tier-one (PVL) suppliers, therefore rely on them to help Advantech identify and assess risks in our supply chain and provide information on the SOR for supplying 3TG contained in our product.

Advantech continues to follow the OECD Due Diligence Guidance as the basis for the "Conflict minerals management plan". The Conflict Minerals Reporting Template (CMRT) is used to investigate the source of minerals used by suppliers and identify whether the 3TG smelter has passed the independent third party audit verification, such as RMI/LBMA/RCJ. If there are any non-compliant smelters in the supply chain, and their use is not essential, suppliers are required to cease procurement and use of conflict minerals and to select new mineral sources, providing valid evidence that the new minerals are conflict-free and meet RBA requirements. If the use of these smelters is essential, suppliers must submit a removal plan or ensure that the smelters pass an independent third-party audit verification. Advantech conducts due diligence based on the OECD Five-Step Framework:



According to the conflict minerals due diligence results for 2023, we identified 232 smelters in our supply chain. 226 smelters have been certified as meeting the Responsible Minerals Assurance Process (RMAP) standards (or equivalent cross-recognized assessments). There are currently 6 smelters in the certification process, with qualified smelters achieving a compliance rate of 97.4%.

***Note:** 3TG refers to minerals extracted from the Democratic Republic of the Congo and surrounding countries, such as: tantalum, tin, tungsten, and gold.



2.4 Risk Foresight and Crisis Management

Item	Explanation
Policy or commitment	Advantech has risk management policies and business continuity plans in place, aiming to perform risk impact assessments in advance, promotion of countermeasures, and define handling processes during risk occurrences in order to reduce their possible impacts and influences when risks occur and to facilitate subsequent correction and management. Advantech strives to provide transparent and sufficient information and communication to potentially affected stakeholders regarding major risk events and countermeasures.
Impact description	The risks identified in Advantech's risk management process involve economic, environmental, and social issues. If each risk item is not effectively managed and responded to, the possible negative impacts on the Company include affecting the Company's strategy execution and operational performance achievement, impair the Company's goodwill, or increase the Company's operating costs and expenses. Please refer to the individual risk item descriptions for relevant preventive or mitigation actions. On the other hand, through early identification of risk events and effective response, risks can also be transformed into future business opportunities and competitiveness.
2023 Goals achievement status	<ul style="list-style-type: none"> Expand risk management Training course to all overseas employees, with the target completion rate of more than 80% of global employees (excluding direct employees): Actual completion rate: 86% Facilitate project discussions and actions formation on at least two high-level risk issues: <ol style="list-style-type: none"> Strengthening risk management mechanism of large-scale DMS projects Strengthening of Polish service center in Europe
2024 Goals	<ul style="list-style-type: none"> Expand risk management training course to all overseas employees, with the target completion rate of more than 80% of global employees (excluding direct employees) Facilitate project discussions on at least two major domestic or overseas risk issues Pan strategy risk to be included in risk assessment and risk map
2025 Goals	<ul style="list-style-type: none"> The completion rate of risk management training course exceeded 85% of the global employees (excluding direct employees). Facilitate project discussions on at least three major domestic or overseas risk issues Reasonable evolution of risk management mechanism or organization benchmarking to leading peers
2030 Goals	<ul style="list-style-type: none"> Provide advanced risk management training course for domestic and overseas management, completion rate > 70% Facilitate project discussions on at least five major domestic and overseas risk issues Reasonable evolution of risk management mechanism or organization in comparison with benchmarking peers
Key action plans or programs	<ul style="list-style-type: none"> For key action plans for major operational risks, please refer to 2.4 Risk foresight and crisis management
Effectiveness assessment	<ul style="list-style-type: none"> The management unit builds data dashboards and KPIs for major risks to report and track abnormalities in real time. The Internal Audit team lists risk topics as audit topics for deep dive and follow-up Material risk topics are included in the matters to be tracked at the quarterly risk management meeting and reported to the Board of Directors or the Audit Committee. The risk management team proposes evolution proposals every year with reference to the best practices of benchmarking peers risk management
Stakeholder engagement	Advantech conducts an annual risk survey, targeting mid-to-senior managers, directors, certified public accountants (CPA), and external consultants. The purpose of the survey is not only to identify major risk items, but also to gather opinions on risk management improvement. A risk mailbox was created to encourage and solicit all employees feedback for improving risk management. Major risks and relevant mitigation actions are fully disclosed through various channels such as the official website, sustainability reports, earnings call, and press releases, so that investors, institutional shareholder and other stakeholders can fully understand.

Advantech defines various risks based on the Company's overall operational direction, and implements an enterprise risk management mechanism (ERM) to establish, identify, precisely assess, effectively supervise, and strictly control risk management mechanism. Prevent possible losses within the risk appetite and continuously adjust the best risk management practices according to the changes in the internal and external environment. Major risks identified through Advantech's risk management process include economic, environmental, and social issues. Economic issues include business succession, management of overseas business subsidiaries, sustainable supply chains, information and cyber security, and cross-border tax issues. Environmental issues include low-carbon and eco products, climate transition risks, etc.; social issues include talent cultivation and retention, labor relations, personal data protection, etc.; the results of the annual survey on significant sustainability issues are also used to identify and assess major risk issues each year. Taking 2023 as an example, material sustainability issues were also considered as the main strategic or operational risk issues in enterprise risk management, for the proportion of up to 70%.

Advantech uses the risk management mechanisms to reduce or mitigate the potential impact of risks on the Company's revenue, costs, and reputation; at the same time, we proactively explore opportunities that may arise from risks, such as investing in solar energy, wind power, and electric vehicle-related applications, and developing energy management platforms that can be applied to different industries.

Risk Management Governance Framework and Organization

As the highest governance unit for risk management, the Board of Directors oversees the overall risk management mechanism and approves the revision of policy and procedure. The Board of Directors, Sustainable Development Committee, and Compensation Committee are responsible for the supervision and tracking of pan strategy risk items and risks with a diverse or global impact, while pan operational risks are mainly supervised and by the Audit Committee.

The risk management team is the highest management unit for operational risk management. It is responsible for implementing the risk management process and reviewing progress of risk mitigation actions implementation status quarterly. The responsible managers of each function are responsible for formulating risk mitigation actions and actual implementation. The internal audit team closely supervises or even assists in the execution of all risk management processes and provides opinions. It also conducts audits of various risk topics as needed. Basically, major risks that will be prioritized and included in the annual project audit. The proposal for the evolution of the risk management mechanism is also proposed by the risk management group and the internal audit after joint discussion.

The risk survey and identification process is initiated by the risk management team in the fourth quarter of each year, and the measurement and response plans for major risks are completed at the beginning of the following year. Due to the rapid changes in the business environment, the risk management team and the management flexibly observe and propose changes in various risks that require attention. Add or adjust the identification and measurement of risk items and mitigation plans, and include them in the discussion and tracking of quarterly risk management meetings or senior management meetings.



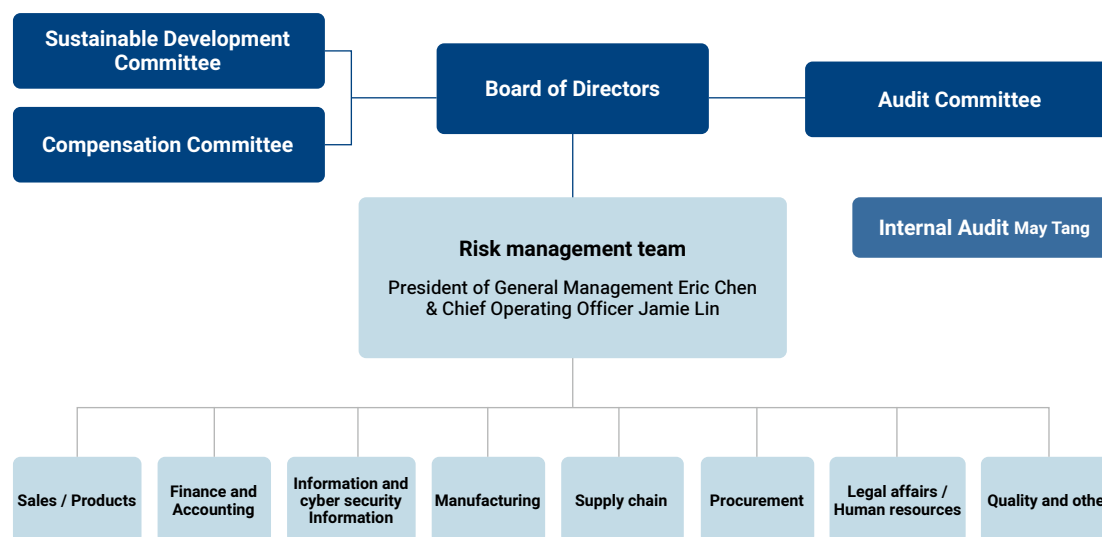


Figure 2.4.1: Risk management organization

Three Lines of Defense Model for Risk Management and Others

Three lines of defense model	Corresponding unit	Role
First line: those responsible for operational risk	Operational/functional unit manager in charge and front-line employee	<ul style="list-style-type: none"> The manager in charge is responsible for planning and implementing risk management mechanism at the first line. Manager in charge and front-line employee are accountable for proper completion of the response actions.
Second line: risk management and compliance oversight	Risk management team: <ul style="list-style-type: none"> Led by Corporate President of General Management and Chief Operation Officer (COO) Depending on the nature of risk topic, the Chairman, President of business units and other senior executives will be invited to join the discussion 	<ul style="list-style-type: none"> Supervise the implementation and effectiveness of risk management response measures. Supervise quality compliance with the quality unit, and supervise legal compliance with the legal unit.
Third line: independent Internal Audit	Internal audit team	<ul style="list-style-type: none"> In-depth participation and supervision of risk management meetings and execution of risk management mechanism. Provide independent and objective assurance services to ensure the effectiveness of risk management and compliance processes.

For the following information, please refer to the risk management page of the Company's website ([Chinese/English](#))

- Risk governance framework and major risk items
- Risk management policy and procedures
- Risk management mechanism and processes
- Emerging risks and countermeasures
- Major risks sensitivity analysis

Advantech Operational Risk Map

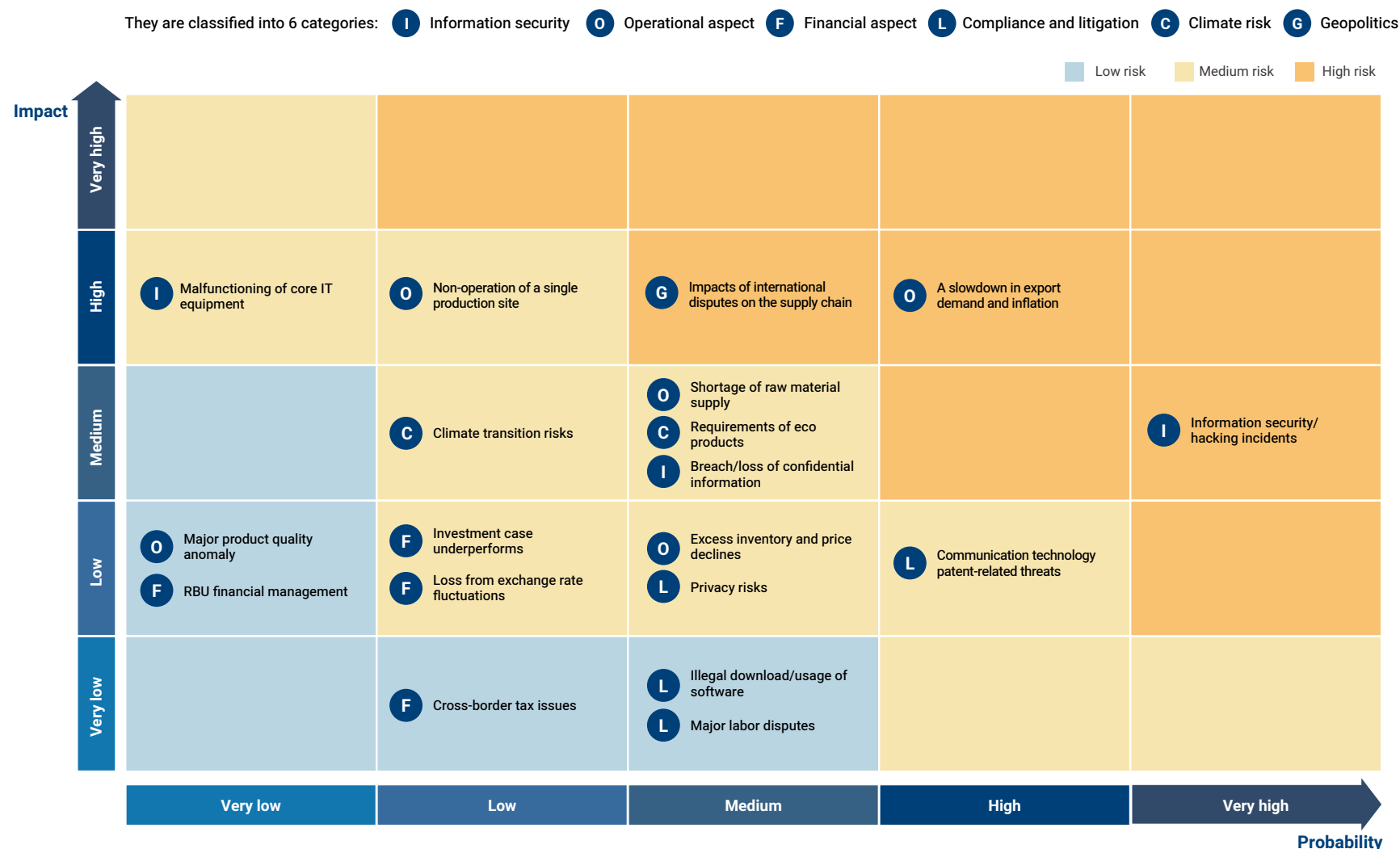


Figure 2.4.2: Pan-operational risk map for 2023

The high and medium risk areas highlighted in orange on the risk map has exceeded the Company's tolerable risk appetite, and it is necessary to adopt risk adjustment strategies and countermeasures as a priority to reduce the likelihood of occurrence or the level of potential impact, and the improvement results are closely monitored.

Mitigation actions to Major Risks and Risk Appetite

Major risk items	Major mitigation actions	Risk appetite and mitigation description
1 Impact of international disputes on the supply chain	<ul style="list-style-type: none"> Expanded the selection and use of materials from China Expanded Fukuoka Japan office as a cross-strait backup manufacturing site Forged an outsourcing partnership in Malaysia to conduct partial product trial productions Expanded CTOS assembly capabilities and capacity in major overseas regions 	Considered a high risk, the negative impact of risks on revenue and profitability must be lowered
2 A slowdown in export demand and inflation	<ul style="list-style-type: none"> Strengthened software and integration services to enhance customer loyalty Strengthened sales-end management of order demands Close tracking of unshipped orders, including customized and standard products Strict control over the number of employees in each region and operating expenses 	Considered a high risk, the negative impact of risks on revenue and profitability must be lowered
3 Information and cyber security or hacking incidents	<ul style="list-style-type: none"> Information and cyber security testing and strengthening of security awareness among employees Implementation of the sensitive data protection mechanism Information division's information security rewards campaign; information security newsletters are sent quarterly Implementation of the information service incident management platform Tracked the implementation level of server vulnerability patching 	Considered a high risk, it is necessary to reduce the likelihood of risk occurrence and reduce the losses that may be caused by potential incidents
4 Non-operation of a single production site	<ul style="list-style-type: none"> Production transfer between Linkou and Kunshan plants External partners supported productions Continue to introduce automation in the plants to reduce labor intensity Established a comprehensive security management system 	Considered a medium risk, it is necessary to reduce the likelihood of risk occurrence and reduce the losses that may be caused by potential incidents
5 Raw material supply shortage	<ul style="list-style-type: none"> Formed a direct strategic supply relationship with key manufacturers Vigorously promoted alternative materials and suppliers with low sustainability risks Conducted a market trend and industry analysis on key raw materials Promoted the critical material convergence project to eliminate the use of risky materials 	Considered a medium risk, it is necessary to reduce the likelihood of risk occurrence and reduce the losses that may be caused by potential incidents

*Note: Due to space considerations, the above description includes the high-risk part and the medium-risk part with a higher degree of impact.

Figure 2.4.3: Major risk items and counteractions



Project highlight 1

Number of employees trained on internal control and risk management courses: About 1,600 people were trained in 2021; more than 4,000 people were trained in 2022; more than 5,000 people were trained in 2023, accounting for 86% of the total number of employees (excluding direct employees).



Project highlight 2

Expansion of recipients of the 2023 risk management opinion survey

A total of 1,055 surveys were sent to board members, external consultants, CPAs, and senior managers at home and abroad. The response rate was about 33%. The number of surveys increased by 6% compared to the previous year.