

# **TECO Electric & Machinery Co., Ltd.**

## **Risk Management Policy and Procedures**

(Summary Translation) This English version is a translation of the Chinese version.

If there is any inconsistency or discrepancy between the Chinese and English versions, the Chinese version shall prevail for all intents and purposes.

### **1. Objectives and Rule of Law**

In order to ensure the sound business operation administration, sustainable development, and corporate governance of TECO Electric & Machinery Co., Ltd. (hereafter referred to as the “Company”) and establish an effective risk management mechanism to strengthen the control of the Company’s operations, the Company has established this Risk Management Policy and Procedures(hereafter referred to as “the Policy and Procedures”) in accordance with Article 44 of the Regulations Governing Establishment of Internal Control System by Public Companies for implementation of risk management in each unit.

### **2. Risk Management Policy**

In accordance with the business operation administration policy of the Company, we define various types of risks preventing possible losses within the tolerable risk range, as to increase and enhance the value of shareholders and the Company, and achieve the principle of optimizing resource allocation.

The proposed policies are as follows:

- (1) To establish and maintain an effective risk management framework, and to ensure the completeness of the operation of risk management.
- (2) To create a risk management culture, increase risk management awareness, and fully implement and execute risk management.
- (3) To establish and improve risk management procedures to keep risks within the tolerable range, achieving the goal of rationalizing risks and remuneration, and enhancing the Company’s value.

### **3. Scope of Risk Management**

To protect the assets of the Company, reduce business damage, enhance business interests, and ensure sustainable business operation, the primary risk sources of the Company can be summarized as follows:

- (1) Internal control risk.
- (2) Financial risk.
- (3) Strategic and operational risk.

- (4) Legal compliance risk.
- (5) Information security risk.
- (6) Sustainability risk; and
- (7) Quality risk and other categories.

#### **4. Risk Management Organization Structure and Responsibilities**

(1) The Company's main organizational structure of risk management and responsibilities are as follows:

A. Board of Directors:

This is the supreme decision-making unit for risk management of the Company, in charge of approving risk management policy and important risk management systems, and supervising the implementation of the risk management system to ensure the effective operation of the risk management mechanism.

B. Audit Committee:

This unit assists the Board of Directors in carrying out its risk management duties and is responsible for examining issues "financial risk" and "internal control risk" in the implementation and operation of risk management.

C. Corporate Governance & Sustainability Committee:

This unit assists the Board of Directors in carrying out its risk management duties and is responsible for examining issues raised by each unit regarding the implementation and operation of risk management for "sustainability risk", "legal compliance risk", and "information security risk".

D. Risk Management unit:

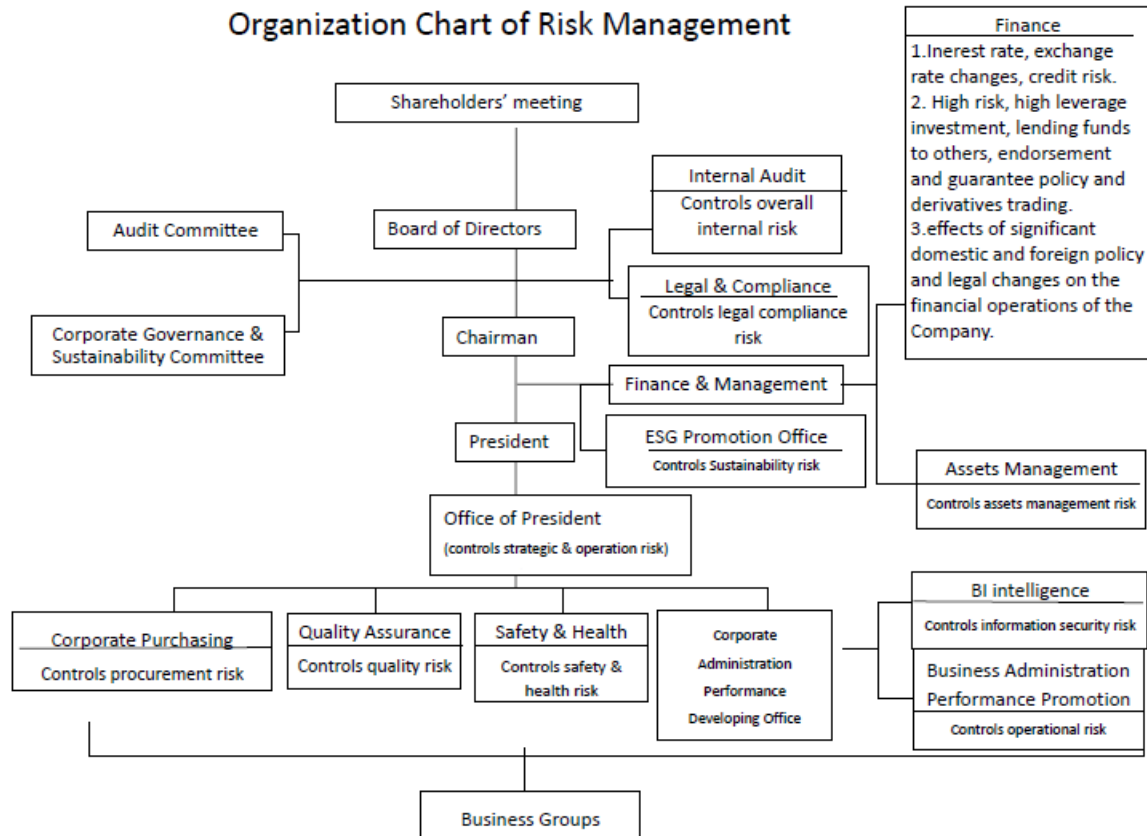
Each business unit of the Company shall clearly identify the significant risks faced by itself, conduct risk planning in response to variables such as changes of the internal and external environment and statute amendments, perform necessary risk assessment, and provide risk management reports periodically to the auditing unit. In addition, for each significant risk under Article 3 of this policy and procedures, the unit below shall individually propose, execute, and track the risk management of the business under their charge, including assessing the relevant bearing capacity of the Company, the current status of the risk undertaken and proposing response measures. Each risk management unit of the Company shall submit risk management reports to the responsible supervisor periodically, and Internal Audit shall monitor and control the overall internal control risks and regularly report to the Audit Committee and Board of Directors respectively about the implementation of risk management and raise suggestions for necessary improvement:

- a. Internal Control Risk: Internal Audit, Board of Director.
- b. Financial Risk: Finance and Management.
- c. Strategic and Operation Risk: Corporate Administration Performance Developing

Office, Office of President.

- d. Legal Compliance Risk: Legal & Compliance Division, Board of Directors.
- e. Information Security Risk: Business Intelligence, Corporate Administration Performance Developing Office, Office of President.
- f. Sustainability Risk: ESG Promotion Office.
- g. Quality Risk: Quality Assurance, Office of President.

(2) Chart of Risk Management Organization Structure:



## 5. Risk Management Process

- (1) Risk Management Procedures of the Company shall include Risk Identification, Risk Analysis, Risk Assessment, Containment, Treatment, Monitoring, Information Communication, and Report of each risk.
- (2) “Risk Identification” refers to the identification of the risks involved in each business administration or operating procedure.
- (3) “Risk Analysis and Assessment” refers to targeting the identified factors of the risk, analyzing the nature and the degree of impact of risk, setting the appropriate quantitative or qualitative measurement indicators, and assessing the risk level, risk appetite, and tolerance.
- (4) “Risk Control and Process” means that, in response to the results of Risk Analysis and

Assessment, the cost-effectiveness of the Company to allocate resources also included, prioritize each risk to be treated, set the standards of control, the measures of process, restrictions, and exceptions, implement risk prevention and defense action to get a hold of the situation of abnormality in time and treated it properly.

- (5) “Risk Control Treatment” refers to the establishment of a risk control mechanism and performance evaluation indicators in order to ensure the efficiency and effectiveness of risk management operations, and to make appropriate adjustments and continuous improvements in time.
- (6) “Risk Information Communication and Report” refers to communicating and negotiating with the stakeholders about the risk management policy of the Company, should report charts of relevant risk information management to the Authorized Directors, convening relevant meetings on risk management to attain the effects of submitting, reflecting monitoring and supervising. Determined by the nature of the risk and the degree of impact, the significant risk incidents should be reported to the Board of Directors and relevant information should be publicly disclosed in accordance with the applicable regulations.
- (7) The risk management unit and other departments of the Company shall manage the significant risks they might face in daily operations according to this Policy and Procedures, hope to avoid the possible risk endangered the steady business operation administration of the Company and to create substantial value from Risk Management.
- (8) Matters not covered by this Policy and Procedures shall be handled in accordance with other chapters of the internal control system of the Company and relevant laws and regulations.

## **6. Supplementary Provisions**

The Policy and Procedures shall be promulgated after approvals by the Audit Committee and Board of Directors, amended as well.

The Policy and Procedures shall be effective from the date of publication.

Published on March 20, 2012.

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