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Professional Segregation for Risk Management



4.1 Risk Management Framework

Hon Hai owns diverse businesses and operations all over the globe. The operational risks faced by different businesses and operational locations vary greatly. In order to effectively reduce the impacts of various risks on Hon Hai operations, we have established a hierarchical risk management process based on risk levels and unit functions, as well as built complete climate risk management processes at the Group, business/entity, and factory levels according to different management hierarchies and impacts from risk issues.

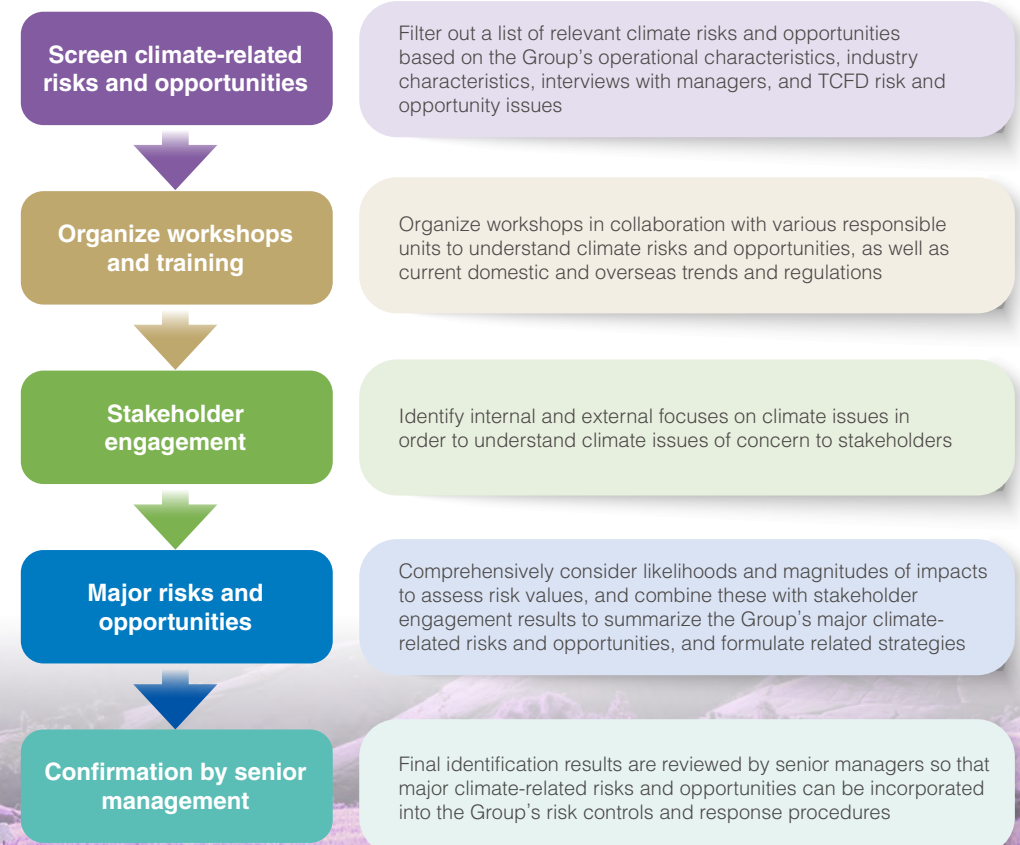
Hon Hai management processes for climate-related risks



4.2 Identifying and Assessing Climate-Related Risks and Opportunities

The TCFD Core Working Group are coordinating units for climate risk management, and are responsible for organizing and coordinating relevant units and departments in conducting risk identification and assessments, as well as compiling climate-related risks and opportunities for the Group so that the Sustainability Committee can convene training sessions and identification meetings. The TCFD Core Working Groups distribute questionnaires to stakeholders (investors and clients) and conduct composite analyses to summarize the Group's major climate risks and opportunities, existing achievements, and countermeasures.

Process for identifying and evaluating climate-related risks and opportunities at Hon Hai



4.2.1 Setting Assessment Benchmarks

The Group determined the likelihood and magnitude of impact based on its internal operations and used these to assess material risks.

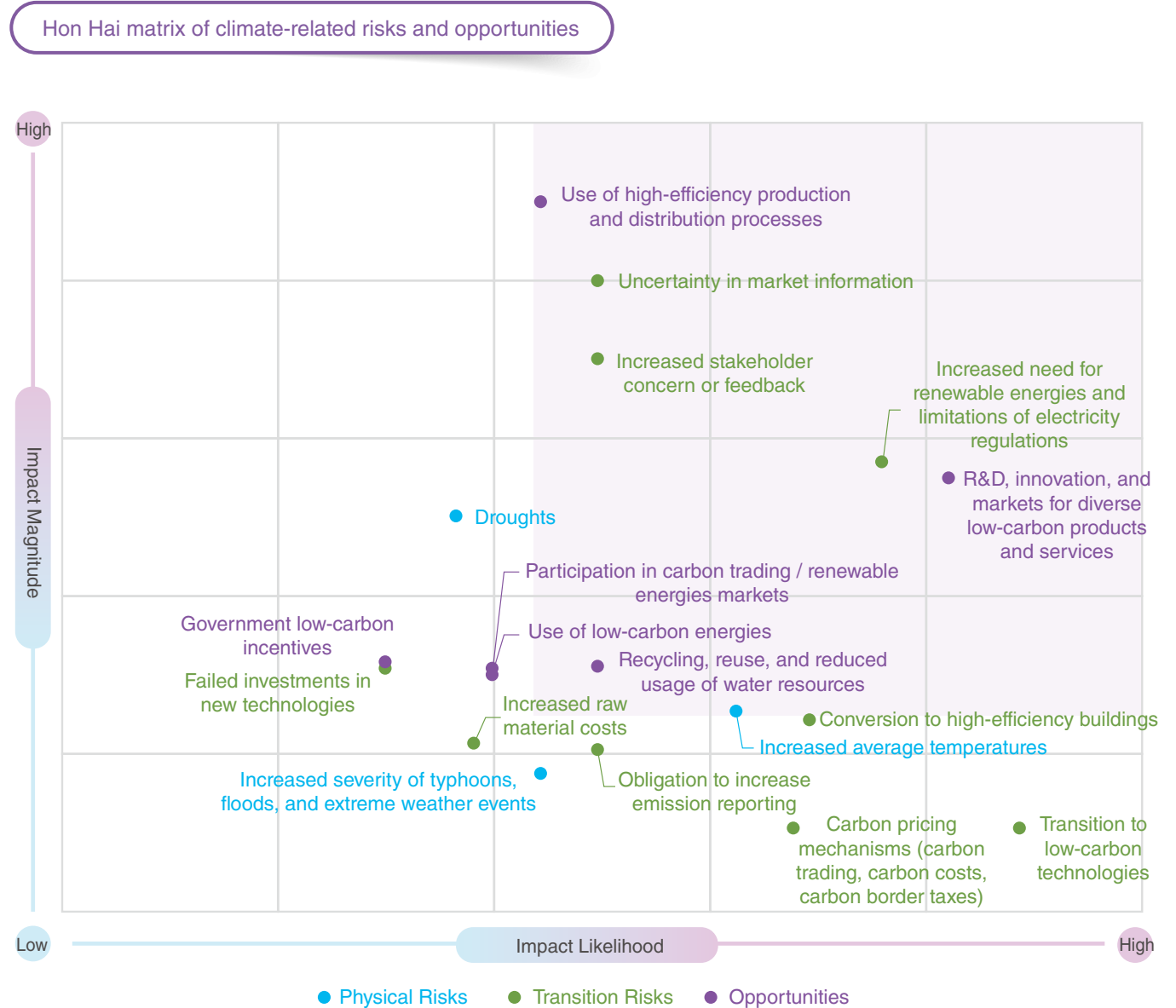
Likelihood of impact is based on the likelihood of occurrence for various issues/incidents, and is divided into five levels, while magnitude of impact is divided into five levels based on the four aspects of finance, production/products (and services), personnel injury, and reputation and image.

4.2.2 Major Climate-Related Risks and Opportunities



In order to understand stakeholder needs, we conducted due diligence investigations targeted to investors and clients, and also distributed surveys to important external stakeholders to identify their levels of concern on climate-related risks and opportunities associated with Hon Hai's operational characteristics, industry characteristics, and "Recommendations of the Task Force on Climate-related Financial Disclosures" risks and opportunities. We collected a total of 10 responses from corporations and investment institutes, and also compiled data on historical Group events. Following statistical analysis, we screened out a list of climate risks and opportunities most relevant to the Group.

We organized workshops to discuss transition risks, physical risks, and opportunities with responsible units at Hon Hai, and also conducted composite analyses to determine materiality risks based on the likelihoods and magnitudes of impacts, then combined these with stakeholder engagement results to summarize the Group's major climate-related risks and opportunities, generating a total of 3 material risks and 3 material opportunities.



Hon Hai's matrix of climate-related risks and opportunities shows that material climate risks most relevant to the Group are "uncertainty in market information," "increased stakeholder concern or feedback," and "increased need for renewable energies and limitations of electricity regulations"; climate opportunities included "R&D, innovation, and markets for diverse low-carbon products and services," "use of high-efficiency production and distribution processes," and "reduced usage, recycling, and reuse of water resources." Please refer to the following table for relevant management strategies and impacts.





Analysis of major climate-related risks and opportunities for Hon Hai

Climate Risks and Opportunities	Description of Climate Risks and Opportunities	Length of Impact	Potential Financial Impacts	Current Achievements	Response Strategies
Risks					
 <p>Increased need for renewable energies and limitations of electricity regulations</p>	<ul style="list-style-type: none"> Hon Hai operates in the Taiwan and China regions, which have consecutively issued green electricity policies requiring the Group to continually expand usage of renewable energies Hon Hai voluntarily became a SBTi supporter and pledged to reduce carbon emissions by 42% before 2030 and achieve net zero emissions by 2050, while also increasing procurement of renewable energies 	Long-term (more than 3 years)	<ul style="list-style-type: none"> Increased investment costs for procurement of renewable energies Increased costs for procurement of green electricity 	<ul style="list-style-type: none"> Our two factories in Taiwan (Huyue and Minsheng) have established solar photovoltaic equipment with a total installed capacity of 254.46kW Our factories in China have established solar photovoltaic equipment with a total installed capacity of 260.02MW; in some factories, solar photovoltaic power accounts for 4% of electricity usage 	<ul style="list-style-type: none"> The Group plans to raise the proportion of green energy usage to more than 50% by 2030 In addition to overall Group goals, Fii has also pledged to raise the proportion of renewable energy usage to more than 80% by 2030 The Group mainly plans to build and purchase solar photovoltaic power stations as well as purchase green electricity. All factories purchase green electricity based on client needs and carbon reduction requirements. Our factories in Taiwan work with Foxwell to purchase green electricity
 <p>Uncertainty in market information</p>	<ul style="list-style-type: none"> The chip shortage caused by climate change (including droughts, rising average temperatures, and heavy rainfall) remains unresolved, leading to fluctuations in raw material costs and increased uncertainty in market information, which may affect automobile production. If these conditions continue into 2023, this may also affect future shipments of Hon Hai electric vehicles (EVs) 	Mid-term (1-3 years)	<ul style="list-style-type: none"> Fluctuations in raw material prices may affect production volumes and result in decreased potential revenues 	<p>from being affected by climate-related issues and other impacts, the Group has adjusted production lines and automated production to reduce impacts on production volumes. Examples of actions we have taken include the following:</p> <ul style="list-style-type: none"> Our factories in China (3 in Guangdong, 3 in Zhengzhou, and 1 in both Shanghai and Nanning) have begun incorporating automation and digitalization in production lines and processes, and we are also adjusting and planning one-stop shop services for EVs One-stop shop services can reduce carbon emissions and prevent materials from being affected by transportation problems. The Group is currently converging factories needed for one-stop shop services (including wafer and packaging/testing factories) at operating sites located in the same region 	<ul style="list-style-type: none"> Our strategy is to self-produce and develop our own products. Our main production target is to self-produce LFP lithium iron phosphate batteries to integrate battery materials within the Group while also avoiding material shortages and use of unclear mineral sources Promote one-stop shop services for our self-produced EVs to enhance efficiency and overall control of production capacity



Climate Risks and Opportunities	Description of Climate Risks and Opportunities	Length of Impact	Potential Financial Impacts	Current Achievements	Response Strategies
 <p>Increased stakeholder concern or feedback</p>	<ul style="list-style-type: none"> Inability to achieve climate goals and adopt active mitigation actions may cause our international ESG ratings to decline and investors to lose confidence in Hon Hai Inability to use green electricity or achieve carbon reduction targets according to schedule may affect the Group's corporate image and cause external interest groups to exert pressure on Hon Hai 	Mid-term (1-3 years)	<ul style="list-style-type: none"> Inability to satisfy stakeholder expectations will affect the Group's reputation, which may cause our market value to decline or investors to decrease their investments 	<ul style="list-style-type: none"> In 2022, Hon Hai formulated 6 major ESG strategies (Green Solutions, Circular Economy, Employee Satisfaction, Win-Win Strategy, Business Sustainability, and Corporate Governance) which also encompass 8 long-term environmental targets Continued promotion of "Sustainable operations=EPS+ESG" to incorporate ESG and sustainable development in our DNA 	<ul style="list-style-type: none"> Actively engage with stakeholders to understand investor expectations and suggestions for Hon Hai regarding climate issues Regularly provide stakeholder feedback to the Sustainability Committee so they can effectively grasp external expectations Actively participate in ESG forums and other environmental sustainability activities to share the Group's practical experiences in operations, production, and manufacturing
Opportunities					
 <p>R&D, innovation, and markets for diverse low-carbon products and services ^{Note 3}</p>	<ul style="list-style-type: none"> Various countries have proposed regulations and schedules for banning use of gasoline cars, meaning EVs will become the mainstay for countries around the world from 2025 to 2040. Hon Hai's 3+3 strategy of developing EVs and components, lithium batteries, energy storage equipment, and other low-carbon products and technologies aligns with global trends, environmental protection laws, and subsidy policies, enabling us to increase our influence on the EV and energy storage industries while giving back to society 	Long-term (more than 3 years)	<ul style="list-style-type: none"> Increased client demand for low-carbon products and increased revenues Entry into emerging markets and increased revenues Increases in electricity usage and operational costs due to new products, processes, technologies, and production lines 	<ul style="list-style-type: none"> In 2021, we obtained 431 patents related to low-carbon cleansing technologies, including energy conservation and energy management, industrial automation, process optimization, pollution prevention, and environmental protection We are currently planning to establish a 4MW/d-Reg grid-connected energy storage system at our Kaohsiung Hofa Factory and beginning to build our expertise in energy storage system operations for 2024 Hon Hai is currently planning to invest in battery cell factories and expects to launch energy storage systems which utilize self-produced battery cells after 2024 Grid-connected systems align with Taiwan Power Company's plans to enhance power grid resilience where corporations are able to connect to the grid and facilitate adjustments. Hon Hai has participated in this project and expects Kaohsiung to begin serving as a demonstration site participating in grid adjustment services starting in the first quarter of 2024 	<ul style="list-style-type: none"> Entry into renewable energy markets <ol style="list-style-type: none"> Utilize relationships with collaborating partners to expand pilot projects for solar photovoltaic and wind power, while also using energy sales platforms to identify energy storage opportunities from industrial clients Integrate key processes from energy storage suppliers of collaborating partners to reduce our learning curve for self-produced energy storage equipment and products Active developments in the EV market <ol style="list-style-type: none"> Our global EV strategy includes use of BOL business models and collaborations with local governments to realize local construction projects, local operations, and localized industries; we also plan to expand the number of EV factories Promote control measures for battery production processes (such as shortening drying time for pole pieces, reducing liquid content in electrode slurry, recycling and reusing batteries following discharge testing, reducing energy consumption during material preparation) to enhance production quality and efficiency Jointly build green supply chains with suppliers



Climate Risks and Opportunities	Description of Climate Risks and Opportunities	Length of Impact	Potential Financial Impacts	Current Achievements	Response Strategies
 <p>Use of high-efficiency production and distribution processes</p>	<ul style="list-style-type: none"> Monitor factory production and integrate information on orders and incoming materials to compile production records for automation and IoT, thereby enhancing Group production efficiency and generating positive external impacts 	Long-term (more than 3 years)	<ul style="list-style-type: none"> Reduced operating costs from enhanced efficiency Increased revenues from enhanced production capacity Reduced personnel costs from incorporation of automated management and planning 	<ul style="list-style-type: none"> Our factories in China (3 in Guangdong, 3 in Zhengzhou, and 1 in both Shanghai and Nanning) have begun incorporating automation in production lines and processes. Several business units have implemented MES (Manufacturing Executive Systems) and IIOT integrated platforms for all their products, and some factories in China are utilizing AJP platforms to manage their mechanical processing, chemical surface, mechanical surface, and laser assembly equipment ^{Note 4} In 2021, in response to shortages in technical personnel, our Zhengzhou Factory adopted automation systems to increase direct labor productivity by 102% and reduced quality deficiencies by 38% through use of digital and AI technologies, while also increasing overall equipment efficiency by 27% In 2022, we implemented the technical improvement project "Transformation project for automation of main production lines" to strengthen automated production 	<ul style="list-style-type: none"> Develop alternative delivery methods using tracking tools and autonomous delivery vehicles Install sensors (cameras and lasers) on production lines to judge product quality, effectively reducing manpower and maintenance needs, thereby decreasing material usage and employee contact Use battery-powered AGVs to move equipment when assembling vehicles, which can be tracked using floor paths and programmed using safety vision ^{Note 5}
 <p>Reduce usage, recycling Reuse of water resources ^{Note 6}</p>	<ul style="list-style-type: none"> Reduce use of water resources: Increase recycling of water resources bring positive benefits to the Group, which is demonstrated by the system for reusing reclaimed water at our Shenzhen Factory Recycling and reuse: Use recyclable materials and reuse waste (such as packaging, cardboard boxes, and pallets) to reduce waste disposal costs and increase income; we are actively planning to recycle batteries from scrapped EVs to facilitate recycling of lithium, cobalt, and nickel materials within the batteries 	Long-term (more than 3 years)	<ul style="list-style-type: none"> Recycling and reuse increases investment costs and reduces operating costs Improving processes increases capital investments and reduces operating costs 	<ul style="list-style-type: none"> Based on information from factories where we can estimate the proportion of reused reclaimed water, we currently have 8 factories in China that are reusing reclaimed water for various uses such as production processes, greening, or toilet flushing. The Nanning Factory is reusing 63% of reclaimed water Water-saving measures that have been implemented at all factories include recycling of air-conditioner condensate water, use of water-saving sanitary ware, installation of water-saving faucets, and reuse of first-stage RO concentrate when purifying water The Group holds 10 Platinum level and 2 Gold level UL2799 certifications, and the Longhua and Nanning factories have obtained campus-level certification. Currently there are four factories in both Taiwan and China which are working to obtain certification The Plastic Resource Application Center was established for active recycling of waste plastics 	<ul style="list-style-type: none"> Establish various responsible organizations or departments to be responsible for relevant issues and proposal of related improvement or optimization measures, for example, by forming an environmental protection team to focus on water-related risks, incorporate new technologies, reduce consumption of water resources, and increase reuse of reclaimed water based on regulatory requirements. The ESG-E team and environmental protection units in all factories will focus on new policies and technologies for resource recycling Renewable/biodegradable materials will be incorporated into some production materials to effectively reduce environmental impacts of production processes We have signed memorandums of cooperation with UL Enterprise and aim to build "Zero Waste Pilot Factories" through incorporation of Turbo Waste management systems, digital management of waste using cloud technologies, and quantitative systems that enable waste reduction. Apart from tracking improvements, we have also extended these policies throughout the entire corporation to achieve our goal of building "Zero Waste Factories."

Note 3: It includes "R&D and innovation for diverse low-carbon products and services" and "entering new markets"

Note 4: MES refers to Manufacturing Executive Systems or factory operations management systems; IIOT refers to Industrial Internet of Things; AJP refers to Analysis Judgement Prediction, a type of smart platform that can be used to generate analyses, judgements, and predictions.

Note 5: AGV refers to Automated Guided Vehicle, a type of unmanned material handling vehicle.

Note 6: It includes "reduce use of water resources" and "recycling and reuse"