2. Risk Management

Enterprise Risk Management

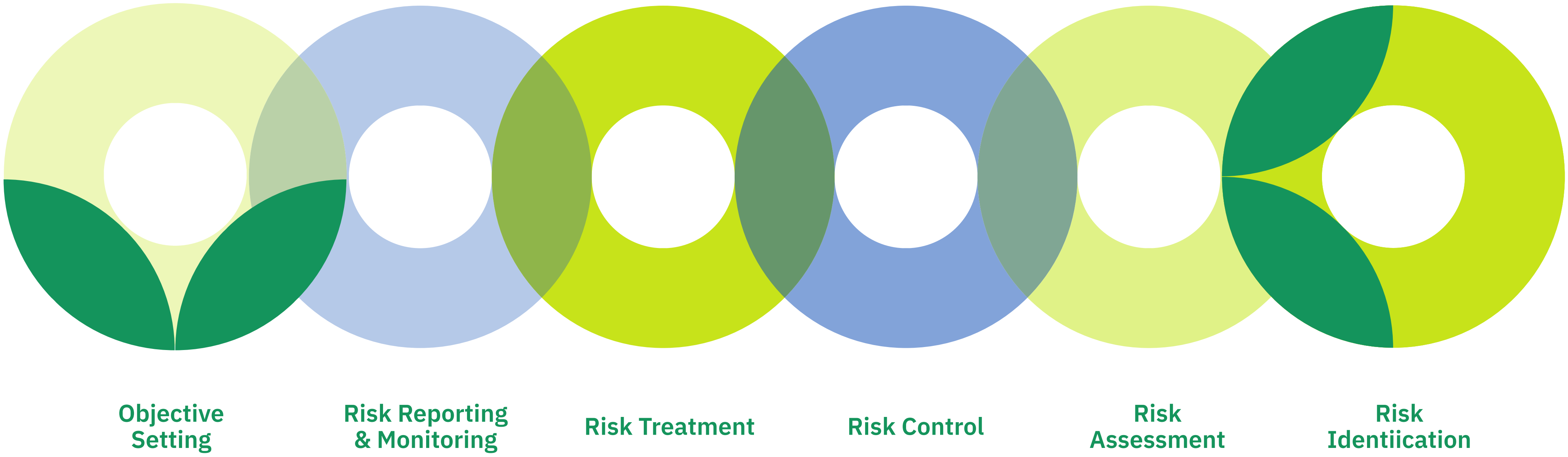
Stars Microelectronics (Thailand) Public Company Limited realizes the importance of the company's risk management and adopts the international standard of principle of risk management from The Committee of Sponsoring Organization of The Treadway Commission (COSO-2017 ERM Integrated Framework). The company's Board of Directors appointed the Risk Management Committee (RMC) under good corporate governance, who, every year reviews and sets risk management policies and then assigns each related department to implement. Thus, the company's risk management is systematic and moving in the same direction. The RMC sets rules, regulations and procedures for the company's risk management and sets auditing, evaluating, and reporting to the Board of Directors and reveals the important information to related parties on a regular basis.

The company designs the framework for identifying incidents that are likely to occur and make an impact throughout the organization, and lower them into risk appetite. It also sets up risk management framework with good governance for estimating risk through opportunity assessment including implication, business environment analysis, identifying and evaluating risk, risk management, communication for risks, risk and company's performance report, and follow-up in order to improve company's efficiency. The company aims to drive the organization and improve risk management continuously to increase the company's efficiency by considering internal and external risk factors which change simultaneously.

In 2024, the RMC meeting held 4 times and reported the progress and obstacles to the Audit Committee meetings and the Board of Directors' meetings. The company divides risks into four categories following COSO's framework is that:

1. Strategic Risk Management
2. Operational Risk Management
3. Financial Risk Management
4. Compliance Risk Management
5. Emerging Risk Management

Risk management procedure begin with identifying policies and objectives from the management team, and comply with risk management procedure which created by the company's members. The procedure can be categorized into 6 steps as the picture is below.



The important factors affecting the company's performance in 2024 are concluded as follows.

1) Strategic Risk Management

The company has established a process for strategic risk management. The process is starting from risk identification, analysis, evaluation, treatment, and monitoring plans. In setting of the company strategic plan and annual budget, the company takes into consideration all risk factors both internal and external factors in order to gain confidence that the strategic plan reflects the company's true potential operations plan correctly to targets. The strategic plan is prepared transparently within the framework of good governance and can be audited.

2) Operational Risk Management

The company has the procedure to manage the operational risk that it might happen during working process every time and could be identified to categories and severities together with the guideline for improving process as listed below.

2.1 Risk from material shortage and price fluctuation

The cost of materials is a large part of the overall production costs. Therefore, a great material sourcing management and price control are a crucial part to the company's operations. Prices of some raw materials are fluctuating overtime, along with evolving trends in the world market. In some cases, there may be such a shortage of materials that the company cannot produce and deliver finished goods on time. In this regard, the company manages to have strict control over raw material sourcing processes by closely tracking delivery procedures of each vendor (or customer's in the case of raw material consignment). This is to ensure that there should not be any obstacles to company production processes, and to the plan of finished goods delivery.

2.2 Labor Risk

An increase of labor cost, labor shortage, and category of labor generation is the key factors that the company is always aware of. To minimize the risks, The Company decrease procedure of workflow by using automated machine and advance technology which manage to control product quality and reduce labor cost in order that the existing employee will work to the best of their ability to achieve the company goals. Moreover, the company is constantly developing labor relationship management programs with the ambition to strengthen employee loyalty and provide reward both in a valuable item such as money or welfare and non-valuable item such as getting promoted, certification of honor etc. in order to boost the employee's morale.

3) Financial Risk Management

3.1 Customer Credit Risk

The company is exposed to customers' credit risk. If a customer experiences financial difficulties, it could make an impact on the company's financial performance, liquidity, and ability to pay debt. In this regard, the company closely monitors the credit quality of its customers and also puts focus on customer credit risk reviewing. In addition, the company has a policy to expand business targeting by acquiring new various customer groups in order to diversify revenue sources and also customer credit risks. The company also makes an insurance for account receivable to protect loss which occur from customer default.

3.2 Foreign Exchange Fluctuation Risk

The company is an exporter which uses US dollars in a major currency for selling goods. The US dollars is the proportion of sales. Nevertheless, the company sources raw materials and imports numbers of machine & equipment in US dollars. This makes collection and payment in US dollars match each other and allow the company to do natural hedging to reduce risk of currency exchange fluctuation. The company has opened FCD accounts for oversea debt collection and oversea payments to reduce risk exposure of currency exchange rate fluctuation. In addition, the company's finance department adopt a policy to use financial tools e.g. forward contract, financial derivative instruments, to hedge against short-term currency fluctuation.

4) Compliance Risk Management

The company strongly desires to be acknowledged for high compliance with regulations. The company recognizes the risk that may arise as a result of evolution in modern and covering laws, rules and regulations including those for environment safety and health of employees. Therefore, the company simultaneously keeps up-to-date to the changes of those regulations. The company evaluates both the immediate and future impact, that may arise and adapts strategies to reduce any damage that may arise.

5) Emerging Risk Management

5.1 Climate Change Risk

Climate change presents operational risks. Climate change heats up the greenhouse environment resulting in severe weather conditions that may affect the company's business operations, loss of customers, energy cost pressures, carbon tax impacts, and government regulations. The company focuses on managing and controlling risks to climate change in the short-term, medium and long-term, as well as monitoring emerging climate risks. In preparation and management of climate change, the Company has changed its practices to reduce consumption and increase resource utilization. The company has invested in automation technology change for more efficient production. The company supports investment in renewable energy projects and investments to reduce greenhouse gas emissions.

5.2 Pandemic Risks

Effect to the global economy and businesses of the company, COVID-19 crisis and the future pandemic crisis. The company has learned from experience and prepared a contingency plan to prepare for future crisis. The management of the disease is to monitor news and government policies. The Ministry of Public Health's guidelines, disease control measures, corporate communication with customers and partners to establish measures to deal with business operations that strictly adhere to policies and measures, including preventing safety and well-being of employees, to avoid business interruption or to minimize impact.

5.3 Geopolitical Risk

The Geopolitical conflict between the United States and China will lead to the separation of supply chains for electronics around the world. As the United States and China seek to reduce mutual dependence throughout the supply chain, Russia-Ukraine and the Middle East political risks increase the cost of the global supply chain and affect global trade structure. The company has implemented strategies to diversify its raw materials procurement and diversify its customer base across several continents.

5.4 Development of Technology and Cybercrime Risk

The advancement of technology that enables machines to quickly connect to other devices has brought about a more automated change in production. Technology innovation also gives cybercriminals the opportunity to discover vulnerabilities and commit crimes. Cyber threats and attacks tend to escalate. The company continually upgrades security software and security protocols to reduce cybercrime risks.