

NAFCO

2022

SUSTAINABILITY  
REPORT



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## Letter from the NAFCO ESG Committee Chairperson

2022 was a year of continuous challenges and growth for NAFCO. With the global COVID-19 pandemic casting its shadow over the world for over two years, we faced the recurring challenges posed by the pandemic. We held firm to our corporate culture and human-centric values of "honesty, integrity, trust, and simplicity." We actively worked on process optimization and automation, accelerated advanced technology development for vertical integration, and moved towards smart manufacturing and technology-rooted solutions. We fearlessly confronted the changes in the aerospace industry's supply chain ecology in the post-pandemic era.

We continued our pursuit of profit growth, sustainable operation, and value innovation. Consequently, as borders reopened and travel restrictions eased globally in 2022, the global aviation passenger load rebounded. This led to a sustained increase in overall customer demand, with market demand recovering to approximately 75% to 80% of pre-pandemic levels. Thanks to the efforts of all our colleagues at NAFCO and our management team, the company achieved consolidated revenue of TWD 2.192 billion in the fiscal year 2022, a year-on-year increase of 53.76%. We remain committed to creating maximum value for our stakeholders.





In response to the changing landscape of the aerospace industry's supply chain ecology in the post-pandemic era and the challenging global trends, such as the sharp rise in raw material and energy prices due to the Ukraine-Russia war, we have taken several strategic measures.

Apart from continuing our efforts in production technology towards vertical integration and AI-driven automation, we have also expanded our capabilities in digital transformation, introduced new products, and enhanced collaborative custom services. Additionally, in alignment with the international ESG development trend, we have responded to initiatives like "Corporate Governance 3.0 - Sustainable Development Blueprint" and actively addressed corporate social responsibility and sustainable development issues.

This includes improving information disclosure transparency, strengthening corporate governance operations, enhancing ISO 27001 information security protection, prioritizing environmental friendliness, energy efficiency, and waste reduction, and conducting ISO 14064-1 greenhouse gas inventory, among other sustainability topics. We continuously enhance our one-stop solution customer service capabilities and work collaboratively with stakeholders such as employees, customers, shareholders, and business partners for mutual growth. Our goal is to move forward towards sustained profitability and sustainable business operation.

*Alvin Lin*

President and ESG Committee Chairperson

## Editorial Policy

### ESG Information Disclosure

In our pursuit of sustainable business operations and enhanced information transparency, NAFCO has issued its 2022 Sustainability Report (referred to as "this report"). Through this report, we aim to provide stakeholders with an overview of the measures and performance we have undertaken and achieved under the goals of sustainable operations. This includes our efforts in building integrity in governance, implementing environmental and occupational safety measures, and enhancing employee compensation and benefits.

The reporting period covered in this report spans from January to December 2022, and the scope of disclosure encompasses all NAFCO operations, including our headquarters in Taiwan and the NSP Suzhou Plant. We hope that stakeholders will continue to follow our progress and provide valuable insights, allowing the company to advance further on the path of sustainable business operations.

### Writing Basis and Information Verification Methods

- The structure of this report is based on the Global Reporting Initiative (GRI) Sustainability Reporting Standards 2021. It also complies with the requirements of the "Operating Procedures for Listed (OTC) Companies to Prepare and Declare Sustainability Reports." A GRI Content Index is provided in the appendix of this report for reference by stakeholders.
- The financial data disclosed in this report has been audited and verified by an accounting firm in accordance with International Financial Reporting Standards (IFRS). Environmental, employee, and occupational safety data are compiled and confirmed by the respective responsible departments, and they are presented using internationally accepted calculation methods.
- NAFCO has established the "Operation Procedure for the Preparation and Verification of Sustainability Reports," which involves an internal review by responsible departments to ensure the accuracy of ESG report disclosures.

### Publication Frequency

This is NAFCO's first voluntary release of an ESG report. In the future, we will publish a report annually to enhance the transparency and accessibility of report information. The complete electronic version of the report can be downloaded from the NAFCO official website.

- Current Release Date: November 2023.
- Next Release Date: June 2024.

### Feedback

If you have any comments or suggestions regarding the content of this report, please feel free to contact us.

#### NAFCO ESG Sustainable Development Committee

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## Sustainability Performance



### Economic Aspect

- ✓ **Smart Manufacturing:** We continue to develop towards vertical integration and intelligent automation. We have gradually introduced AI smart manufacturing technologies in key production processes. This includes applications for monitoring defects, anomalies, tool lifespan, and product quality. Currently, we have three intelligent production lines.
- ✓ **Aerospace Market:** Despite the impact of the pandemic, we maintain the introduction of 500-800 new products annually.
- ✓ **Automotive Industry Market:** We collaborate with automobile manufacturers and Tier 1 suppliers to design customized parts tailored to unique application requirements.
- ✓ Embracing **Industry 4.0**, we are committed to the development of automation equipment and AI integration. We strive to become a leader in Industry 4.0, continuously improving our self-sufficiency, enhancing our vertical integration capabilities, and excelling in efficiency, talent development, and other aspects.



### Environmental Aspect

- ✓ High Concentration Waste Acid-Alkali Low-Temperature Vacuum Treatment Facility: Decomposes compressed sludge after distillation, reducing outsourced waste acid-alkali treatment by 80 to 100 tons.
- ✓ Employee Education and Training: Each employee receives a minimum of 4 hours or more of training annually in areas such as human factors, product safety, counterfeit prevention, and FOD (Foreign Object Debris).
- ✓ PDC (Process Data Collection) System Implementation and Maintenance: We continue to drive quality improvement, and in 2022, no major customer complaints occurred.
- ✓ Rigorous Supplier Management: All raw material sources are traceable, and materials come with certification and inspection proof.
- ✓ Maintenance of Effective Quality Management Systems.



### Social Aspect

- ✓ Optimization of Education and Training Platforms: Expenditure of NT\$850,000.
- ✓ Team Win-Win and Talent Development Plan: Expenditure of NT\$640,000. No violations of labor laws were recorded.
- ✓ Increased sharing and promotion of occupational safety and health case studies.
- ✓ Occupational safety is included as a regular topic in quarterly safety meetings.
- ✓ Road Traffic Safety Awareness.
- ✓ Security personnel at the company entrance direct traffic.
- ✓ In response to the COVID-19 pandemic, we reduced the frequency of customer visits, adopted online meeting platforms, and installed hardware for trial runs in meeting rooms. We regularly hold online meetings with customers to understand their needs, track project progress, and discuss technical issues.
- ✓ Despite the pandemic, there was no reduction in our commitment to quality and innovation. We upgraded our smart systems to optimize productivity and quality control. Through big data, real-time monitoring, and an optimized quality management system, we continuously refine manufacturing standards and reduce cost losses.
- ✓ Due to longer material lead times, we introduced Quickview for material turnover rate control, accounts receivable progress management, and weekly customer demand change management.
- ✓ Through CRM systems and international business B2B conventions, we integrated quoting and managed new business opportunities.

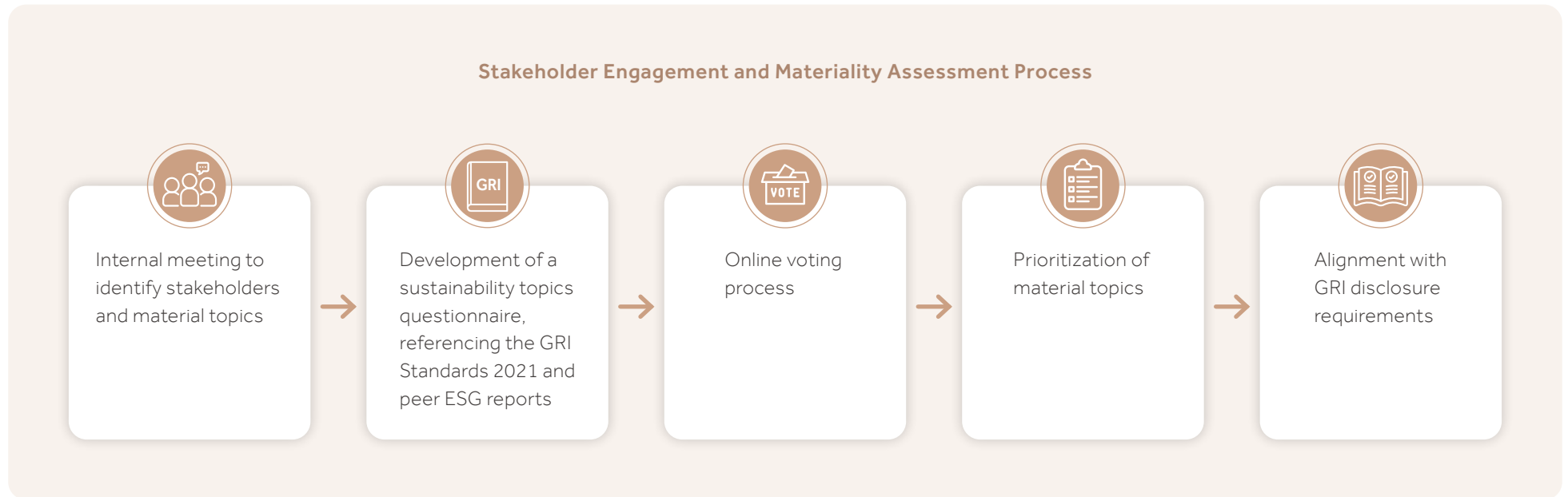
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## Stakeholder Engagement

- 1.1 Sustainable Development Committee
- 1.2 Confirmation of Stakeholders
- 1.3 Communication Channels & Concern Topics
- 1.4 Identification of Material Topics



### Stakeholder Engagement and Materiality Assessment Process



## 1.1 Sustainable Development Committee

In 2023, in order to promote sustainability initiatives, NAFCO authorized the establishment of the ESG Sustainable Development Committee (referred to as the ESG Committee). The President serves as the Chairperson of the ESG Committee, and various functional teams are formed under the committee, with department heads serving as team leaders. The ESG Committee formulates corporate sustainability development policies, oversees their implementation within the company, and gradually integrates the principles of sustainable operation into NAFCO's corporate culture.

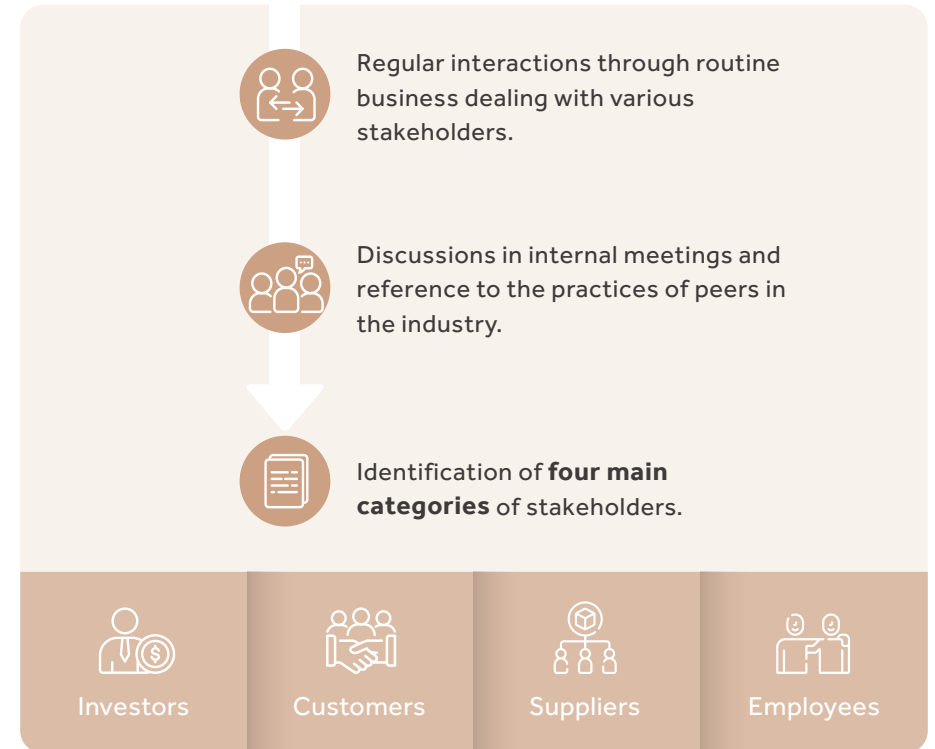
In response to the comprehensive aspects of sustainability development, encompassing environmental, social, and corporate governance, specialized subcommittees are established under the ESG Committee. These subcommittees gather stakeholder input on issues related to environmental protection, occupational safety, supply chain management, labor rights, operational performance, and corporate governance. In accordance with respect for stakeholder interests, NAFCO also maintains a stakeholder section on its website to appropriately address sustainable topics.



NAFCO ESG Committee Organizational Chart



## 1.2 Conformation of Stakeholders





Stakeholders are groups directly or indirectly impacted by or having an impact on NAFCO. Each department at NAFCO has identified and listed stakeholders with whom they have significant business interactions or who have influence. Through the assessment process by the ESG committee, "Investors, Customers, Suppliers, and Employees" were determined as the four main categories of key stakeholders.

## 1.3 Communication Channels & Concern Topics

NAFCO's key stakeholders come from diverse industry backgrounds, therefore, their concerns and interests vary. NAFCO proactively engages with stakeholders through various channels to maintain a strong mutual interaction. NAFCO keeps stakeholders informed about the company's operational status while responds promptly to their requests and expectations.

NAFCO reported in accordance with the principles of GRI Standards 2021 and ESG reports from peers, and identified 16 sustainability issues that cover economic, environmental, and social aspects. This ensures the sustainable information disclosed meeting GRI standard of completeness and diversity.

Key Stakeholder	Importance to the Company	Topics of Concerns	Communication Channels/Frequency	Execution Status
 <b>Investors</b>	<p>Investors, are long-term stakeholders who share the operational risks of the company. The company's operational performance is closely linked to shareholders. Company should safeguard shareholders' rights, and treat all of them fairly. Furthermore, company should ensure whether shareholders fully knowing company's material information, and their right of participation and decision.</p>	<ul style="list-style-type: none"> <li>• Economic performance</li> <li>• Corporate governance</li> <li>• Risk management</li> <li>• Regulatory compliance</li> <li>• Information security protection</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contact Channels:</b> Spokesperson and proxy spokesperson/03-4508868 /EMAIL: <a href="mailto:IR@nafco.com.tw">IR@nafco.com.tw</a></li> <li>• Shareholders' Meetings/ Annually</li> <li>• Stakeholder engagement section on the official website/ Monthly</li> <li>• Market Observation Post System/ Irregularly</li> <li>• Investor-Conference/ Annually</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders' attendance at Shareholders' Meeting: 56.75% (2022)</li> <li>• Held 1 Investor-Conference</li> <li>• In time update on Market Observation Post System</li> </ul>
 <b>Customers</b>	<p>Customers are the primary source of the company's revenue. The company considers product quality, safety, and after-sales service as the highest commitments to its customers. Maintaining a high level of customer satisfaction contributes to the company's ongoing efforts to earn customer recognition.</p>	<ul style="list-style-type: none"> <li>• Corporate governance</li> <li>• Regulatory compliance</li> <li>• Operational performance</li> <li>• Innovative research and development</li> <li>• Green products</li> <li>• Product responsibility</li> <li>• Customer relations</li> <li>• Information Security protection</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contact Channels:</b> Sales Department /EMAIL: <a href="mailto:sales@nafco.com.tw">sales@nafco.com.tw</a></li> <li>• Customer meetings/ Monthly, Irregularly</li> <li>• Business visits/ Every quarter, Irregularly</li> <li>• Customer satisfaction surveys/ Annually</li> <li>• Phone, E-MAIL/ Irregularly</li> </ul>	<ul style="list-style-type: none"> <li>• Acceptance of 300-500 customer feedback messages.</li> <li>• 40% email response rate for customer satisfaction surveys.</li> </ul>

Key Stakeholder	Importance to the Company	Topics of Concerns	Communication Channels/Frequency	Execution Status
 <p><b>Suppliers</b></p>	<p>The company maintains long-term and mutually beneficial interactions with its supplier partners. Our products and services rely on a multitude of suppliers to consistently provide raw materials and components. Furthermore, we leverage the company's influence of the industry, and commit to prevent environmental pollution and violations of labor rights along with our suppliers.</p>	<ul style="list-style-type: none"> <li>• Sustainable supply chain (environmental protection &amp; human rights)</li> <li>• Green procurement</li> <li>• Energy-saving and carbon reduction</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contact Channels:</b> Procurement Department /03-4508868</li> <li>• <b>Supplier audits:</b> Document audits annually; on-site audits irregularly</li> <li>• <b>Supplier meetings:</b> Before the COVID-19 epidemic, supplier conferences were held every two years. After the COVID-19 epidemic, notifications and feedback from suppliers are sent individually via email.</li> </ul>	<ul style="list-style-type: none"> <li>• All raw material suppliers have provided commitments regarding non-use of conflict minerals.</li> <li>• All suppliers of raw materials, chemicals, and oil products have provided valid REACH/ROHS reports.</li> <li>• In 2022, the annual supplier audit documents promoted the execution of carbon footprint data and carbon reduction concepts.</li> </ul>
 <p><b>Employees</b></p>	<p>Employees are the essential foundation of the company's operations. The company pledges to provide a workplace that supports the physical and mental well-being of its employees, ensuring peace of mind for all team members.</p>	<ul style="list-style-type: none"> <li>• Ethical integrity</li> <li>• Business performance</li> <li>• Compensation and benefits</li> <li>• Labor relations</li> <li>• Occupational health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contact Channels:</b> Human Resources Department/ EMAIL: <a href="mailto:speakout@nafco.com.tw">speakout@nafco.com.tw</a></li> <li>• Telephone, EMAIL: Irregularly</li> <li>• Employee complaint channel: Irregularly</li> </ul>	<ul style="list-style-type: none"> <li>• In 2022, due to the COVID-19 epidemic, internal employee meetings were canceled.</li> <li>• In 2022, we held 26 conference to discuss the ways which can prevent COVID-19 epidemic with approximately 520 participants.</li> <li>• No emails were received in the employee mailbox.</li> <li>• No cases were established in the complaint channel.</li> </ul>



## Stakeholder Complaint Channels

As part of NAFCO commitment to achieving sustainable business development, we value the thoughts and opinions of all stakeholders. We have established appropriate communication channels and aspire to maintain excellent interactions with all stakeholders. This interaction serves as a reference for formulating company policies and showcasing NAFCO's Each department engages in real-time communication and responses in accordance with its responsibilities, ensuring that the channels for sharing opinions remain smooth. Stakeholders can formally communicate with the company through our spokespersons ' Email: [IR@nafco.com.tw](mailto:IR@nafco.com.tw); Our company's website includes a "Stakeholder Engagement" at <http://zh.nafco.com.tw/>. In the "Stakeholder Engagement," we provide appropriate responses to important corporate social responsibility issues that concern our stakeholders.



### Investor Relations

**Spokesperson:** Peter Li, Vice President  
**Deputy Spokesperson:** Chris Lee, Vice President  
**Address:** No. 5, Taiping East Road, Pingzhen District, Taoyuan City  
**Phone:** 886-3-450-8868



### Supplier Relations

**Contact Person:** Vicki Chen, Deputy Manager  
**Address:** No. 5, Taiping East Road, Pingzhen District, Taoyuan City  
**Phone:** 886-3-450-8868



### Customer Relations

**Contact Person:** Lily Chang, Vice President  
**Address:** No. 5, Taiping East Road, Pingzhen District, Taoyuan City  
**Phone:** 886-3-450-8868

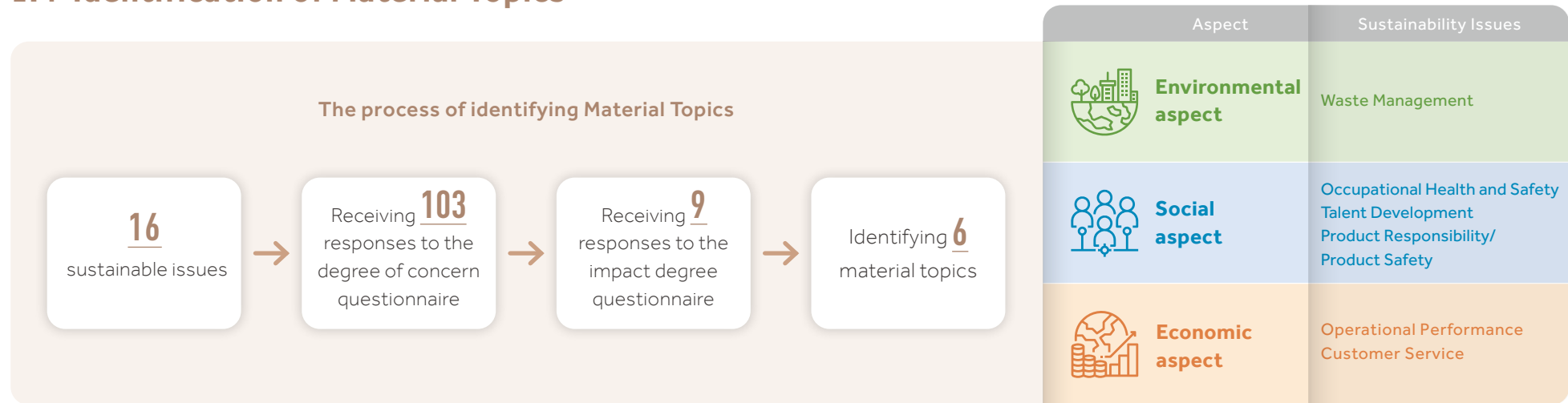


### Employee Relations

**Contact Person:** Nikita Hsing, Manager  
**Address:** No. 5, Taiping East Road, Pingzhen District, Taoyuan City  
**Phone:** 886-3-450-8868



## 1.4 Identification of Material Topics

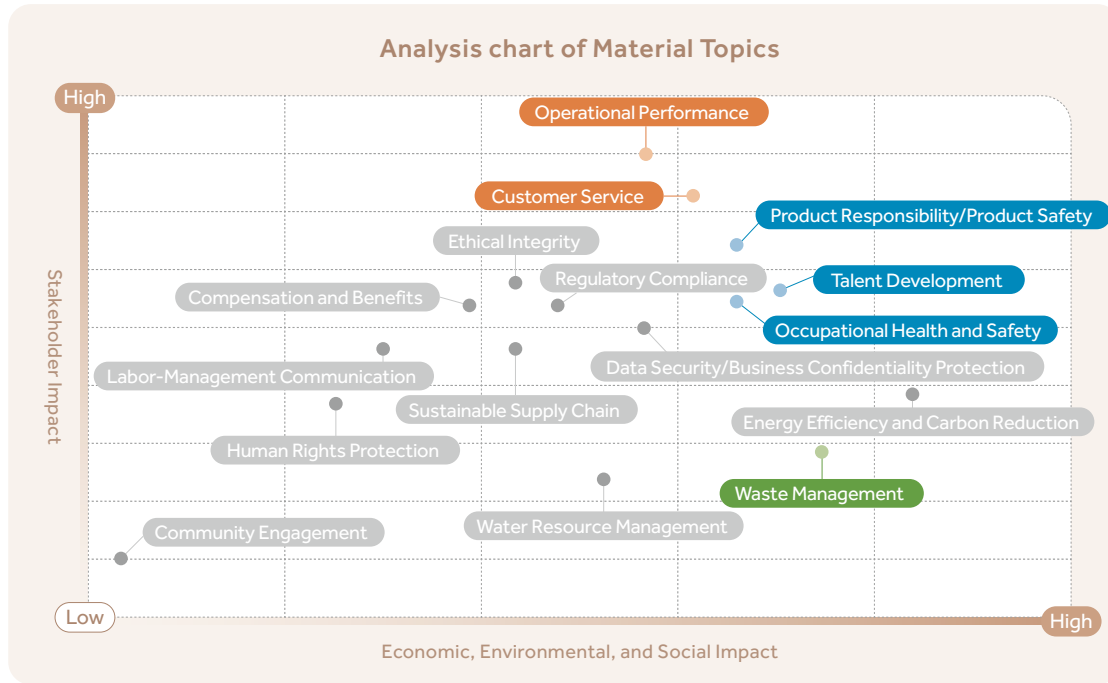


Note: Corporate Governance, Risk Management, and Ethical Integrity fall within the required disclosure scope of the GRI Sustainability Reporting Standards 2021. Although they are not listed as material topics for this year, this report will still disclose relevant content related to these aspects.

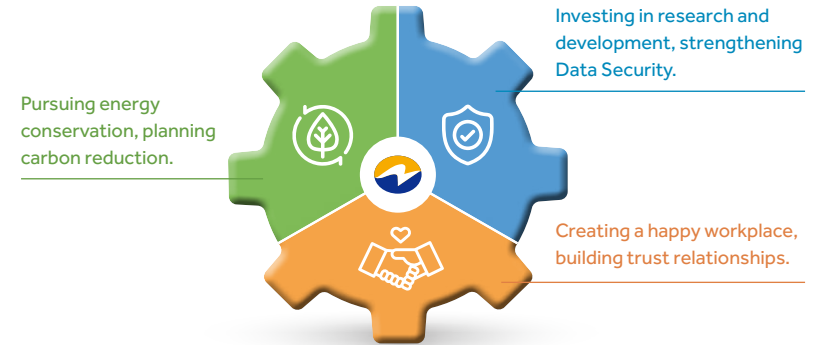
NAFCO ESG Committee identified 16 sustainability issues. A total of 103 valid questionnaires were collected from major stakeholders, including 18 from shareholders/investors, 52 from employees, 6 from customers, and 27 from suppliers. These questionnaires were used to assess the stakeholders' level of concern regarding each sustainability issue. Additionally, an online questionnaire was distributed to 9 company executives to evaluate the impact of each sustainability issue on NAFCO. After consolidating the results, a major theme matrix was created. Following discussions within the ESG Committee, the top three sustainability issues from each of the environmental, social, and economic dimensions were selected as the major themes for the current year. However, considering that NAFCO's data collection for waste management was more complete compared to energy conservation and carbon reduction, the ESG Committee decided to prioritize the disclosure of six major themes in the environmental, social, and economic dimensions. These themes are Waste Management, Occupational Health and Safety, Talent Development, Product Responsibility/Product Safety, Operational Performance, and Customer Service.

These six material topics identified for the current year hold both risks and opportunities for the company. As NAFCO faces the challenges of the business environment, particularly in pursuing operational performance and gaining shareholder and customer trust, it cannot compromise the quality of the local living environment and the well-being of its employees. In the event of legal violations, the company's hard-earned reputation would be severely damaged. Conversely, if the company can transform risks into opportunities by finding the balance between economic performance, sustainable environmental practices, and societal well-being, it will continue to grow and thrive on the path of sustainability.

In this report, NAFCO will explain the management policies and related disclosure items for each material topics. Additionally, to maintain the balance of information in the sustainability report, the report will supplement disclosures of NAFCO's contributions to charitable activities.



NAFCO has summarized its ESG strategy for the current year based on the six material topics: Continuously Investing in Research and Development, Generating Greater Profits, and Strengthening Data Security to Ensure Business Secrets. Internally creating a healthy and safe workplace for employees, and externally building long-lasting trust relationships with customers. Inviting supply partners to collaborate on energy efficiency and carbon reduction, and implement comprehensive environmental controls to avoid excessive environmental impact.



The principles of GRI reporting followed by NAFCO in compiling the ESG report are as follows:

**Sustainability Context:** Transparently disclose how the company takes measures to improve or reduce negative impacts on the economic, environmental, and social conditions in its local and surrounding areas.

**Completeness:** Ensure that the disclosed information in the report adequately reflects the significant impact areas of the company in the economic, environmental, and social aspects.

**Accuracy:** Provide information in the report that is sufficiently accurate and detailed, allowing stakeholders to assess the company's ESG performance.

**Balance:** Present information in the report that fairly reflects both positive and negative performances, enabling stakeholders to make reasonable assessments of NAFCO's ESG performance.

**Clarity:** Present information in a way that is easily understandable and accessible to stakeholders.

**Comparability:** Disclose ESG information in accordance with internationally recognized standards and in a manner that allows stakeholders to analyze the company's long-term performance.

**Timeliness:** Regularly issue ESG reports, providing timely access to important ESG information for stakeholders to make informed decisions.

**Verifiability:** Compile the ESG report in a manner that is verifiable by both internal and external parties to ensure the accuracy of the disclosed information.

### Principles of Report Writing

#### Principles of Report


- Accuracy
- Balance
- Clarity
- Comparability
- Completeness
- Sustainability Context
- Timeliness
- Verifiability



Comprehensive ESG report

### Determining Material Topics and Aspect Boundaries

Aspect	Material Topics	Importance to NAFCO Positive Impact/Negative Impact	Internal Boundaries	External Boundaries				Corresponding GRI Guidelines	Reporting Disclosure
			Company	Investors	Suppliers	Customers	Employees		
<p>Environment</p>	<p><b>Waste Management</b></p>	<p>Waste management is a significant expenditure in the production process, stemming from the handling of generated waste. To reduce material waste, the company collects manufacturing surplus and returns it to the original manufacturer for recycling.</p> <p><b>⊖ Negative Impact</b> There is a negative impact when waste generation increased by rising order demands and revenue growth.</p>	●	●		●		<p>GRI 3-3: Management of Material Topics; Custom Material Topic</p> <p>GRI 306: Waste</p>	<p>4.1 Waste Management</p>
<p>Social</p>	<p><b>Occupational Health and Safety</b></p>	<p>Both employees and contractors are essential human assets for the company. Ensuring a safe and healthy working environment for personnel can reduce operational costs and maintain process efficiency</p> <p><b>⊕ Positive Impact</b> There is a positive impact as regular announcements are made about workplace accidents at the Occupational Health and Safety Committee, effectively reducing the occupational injury</p>	●			●	●	<p>GRI 3-3: Management of Material Topics; Custom Material Topic</p> <p>GRI 403: Occupational Health and Safety</p>	<p>4.3 Occupational Health and Safety</p>

Aspect	Material Topics	Importance to NAFCO Positive Impact/Negative Impact	Internal Boundaries	External Boundaries				Corresponding GRI Guidelines	Reporting Disclosure
			Company	Investors	Suppliers	Customers	Employees		
 Social	<b>Talent Development</b>  NAFCO firmly believes that sustainable talent is a crucial element of the company's future core competitiveness. We are committed to developing high-quality and diverse educational training, enhancing employees' continuous professional growth, and adhering to an internationally aligned direction. We combine organizational strategic development with career development blueprints designed according to employee needs.  + Positive Impact There is a positive impact as the number and types of educational training are comprehensive, and necessary in-house and external training is regularly provided to relevant personnel.	●					●	GRI 3-3: Management of Material Topics; Custom Material Topic  GRI 404: Training and Education  5.2.2 Talent Development	
	<b>Product Responsibility/ Product Safety</b>  The development and implementation of a quality management system are customer-oriented and utilize process methods as tools. Customer requirements are integrated into the product introduction and production processes, interlinked with management and support processes. This ensures that the products offered by the company have no product safety concerns and can meet customer requirements and expectations. Through monitoring, measurement, and performance analysis, continuous improvement is achieved to enhance quality, delivery time, and cost competitiveness.  + Positive Impact There is a positive impact as the development and implementation of the quality management system effectively link customer requirements with the management system, thereby improving product quality.	●	●			●		GRI 3-3: Management of Material Topics; Custom Material Topic  3.8 Product Responsibility/ Product Safety	



Aspect	Material Topics	Importance to NAFCO Positive Impact/Negative Impact	Internal Boundaries	External Boundaries				Corresponding GRI Guidelines	Reporting Disclosure
			Company	Investors	Suppliers	Customers	Employees		
 Economic	<b>Operational Performance</b>	<p>The entire manufacturing process, from product design, processing, special processes, assembly, to mold making, can all be completed within our own factory. The strategic direction of our operation is to continuously improve automation and actively build our capabilities, aiming to become a world-class leader in smart machinery and intelligent automated production lines to meet market demands.</p> <p><b>+ Positive Impact</b> There is a positive impact as continuous vertical and horizontal technological deepening and integration, along with the enhancement of automated production technology, sustain revenue growth momentum.</p>	●	●	●	●	●	GRI 3-3: Management of Material Topics; Custom Material Topic  GRI 201: Economic Performance	3.5 operational Performance
	<b>Customer Service</b>	<p>Through service and communication, we establish strong partnerships with customers, prioritize and actively address any complaints, and aim to secure more orders and business opportunities with excellent quality service to create maximum value for our customers.</p> <p><b>- Negative Impact</b> There is a negative impact as customer satisfaction decreases due to extended lead times for raw materials, resulting in delayed product shipments.</p>	●			●		GRI 3-3: Management of Material Topics ; Custom Material Topic	3.6 Customer Service



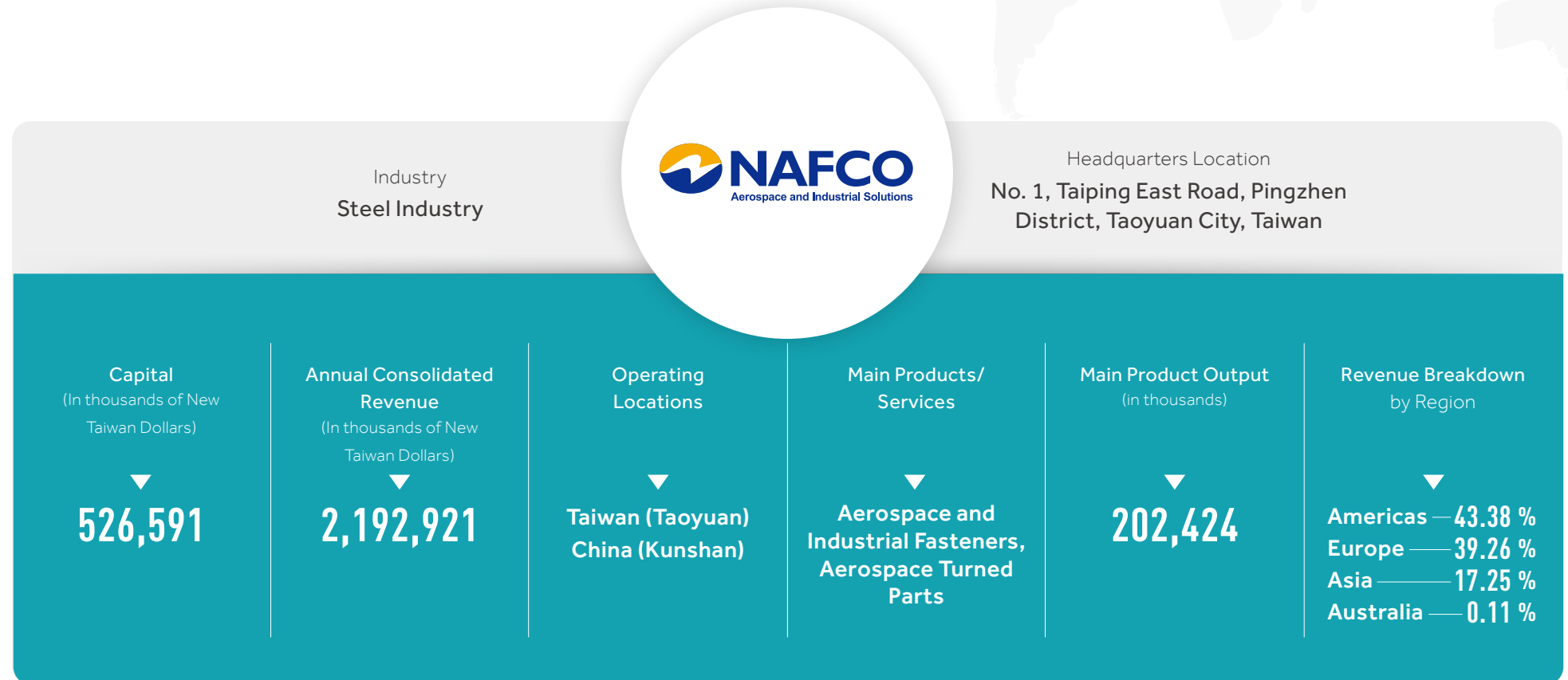
# 02

## About NAFCO

- 2.1 Company Profile
- 2.2 Business Philosophy
- 2.3 Management Systems & Awarded Honors
- 2.4 Participation in External Organization

## 2.1 Company Profile

NAFCO was established in October 1997, with manufacturing facilities in Taiwan and Suzhou (Kunshan), China. The primary product lines are various fasteners and aerospace precision machined components produced under aerospace quality systems (AS9100) and automotive quality systems (TS16949). NAFCO is one of the very few aerospace engine fastener manufacturers in the Asia-Pacific region certified by engine manufacturers. In addition to supplying aerospace fasteners, NAFCO also collaborates with automotive Tier 1 manufacturers to develop customized automotive fasteners, mainly used in vehicle bodies and chassis. NAFCO is also the only aerospace forging supplier in Taiwan with NADCAP MMM forging certification, providing customers with more efficient and convenient one-stop service solutions.



Note: Data is as of the end of 2022.

## Company History

**October** This company is jointly established by an American technical team specializing in the aerospace fastener manufacturing and a local enterprise group. The initially registered capital fund is NT\$800 million and the paid-in capital is a sum of NT\$200 million in total. This Company is mainly engaging in the manufacturing of fastener products for aerospace, electronic and high-level industrial sectors. In the same year, we purchase the plant house located in Ping Zhen City, Taoyuan for use as the manufacturing base.

**December** Collected a further NT\$120 million fund through cash capital increase and the paid-in capital is therefore increased to NT\$420 million in which, 7% of equity is invested by Groupe Dassault, France (the Mirage 2000 fighter jet manufacturer). The increased fund is mainly used for purchasing the land, erecting the plant houses and buying new machines and equipment, etc.

**April** Attained "GE Aircraft Engine" certification in serving as the only aerospace fastener manufacturer being recognized by GEAE in the Asian-Pacific Region.

**May** New plant was completed.

**June** Collected further NT\$180 million fund through cash capital increase and the paid-in capital is therefore increased to NT\$600 million through which, the government fund and important strategic partner are introduced.

**September** The stock market listing application case was approved by Securities and Futures Institute.

**June** Attained IHI and French Snecma aerospace certification.

**November** Attained AS9100 aerospace quality system certification.

1997

1998

1999

2000

2001

2002

2003

**September**

Completed the factory erection.

**April**

Awarded the "Comments for Distribution of Stocks by Technological Industry and Success in Product Development and Marketability" issued by Industrial Development Bureau (IDB), Ministry of Economic Affairs, which has permitted that this Company is applicable for the technological business for distributing the stocks publicly with the qualification of technological industry.

**June**

Secured a land lot located at Sub-section Dongshi of Section Dongshi in Ping Zhen City, Taoyuan County for the purpose of expanding the plant.

**February**

Launched the official stock market listing in Taiwan Stock Exchange.

**August** Attained ISO/TS-16949 certification.

**March** Honored with the GE Excellent Supplier Award.

**June** Attained Nadcap Nondestructive Testing certification.

**January** Included AS9100 aerospace certification in Plant #2 of this Company.

**February** Established Suzhou Nafco Precision Limited (NSP).

**July** Passed ISO 14001:2015 certification for environmental management systems.

2005

2006

2007

2008

2010

2011

2012

2013

**April** Attained Nadcap Heat Treating certification for aerospace special processes.

**October** Attained Nadcap Chemical Processing certification.

**March** Honored with the Snecma Excellent Supplier Award

**October** Honored with the GE Delivery Award.

**November** Changed the company name to "National Aerospace Fasteners Corporation".

**October** Honored with the "Remarkable Enterprise Social Responsibility Award" in Taiwan Merger Jing Shin Award.

**December** Honored with the Snecma Excellent Supplier Award.

**May** To uphold the public service purpose, established National Aerospace Social Charity Fund to fulfill the social responsibility pertaining to the enterprise.

**September** Honored with the GE Growth (Systems) Excellence Award.

**September** Honored with the GE Innovation Excellence Award.

**December** Honored as a TEI "Class A' Supplier.

**March** Honored with the Snecma Supplier Performance Award.

**June** Made the debut in Paris Aviation Show.

**August** The laboratory passed the TAF audit and attained ISO/IEC 17025 certification.

**December** Honored with the "Taoyuan City 2017 New Resident Friendly Enterprise Award".

**October** Honored with the Safran Supplier Performance Award.

**October** Attained Nadcap Metallic Materials Manufacturing (MMM) certification.

**July** Attained ISO45001 certification for occupational safety and health management system.

**November** Acquired ISO 14064-1:2018 Greenhouse Gas Verification Statement.

2015

2016

2017

2018

2019

2021

2022

**May** Honored as a Pattonair Best New Supplier.

**May** Honored by Snecma Quality & Delivery.

**July** Acquired Ping Zhen Plant #3 through bidding method for which, the land occupies 7,424.43 pings and the plant house occupies 6,637.17 pings.

**November** Honored with Pattonair Special Recognition.

**July** Attained certification as an aerospace forging supplier from Safran Aircraft Engines, an international aerospace engine manufacturer.

**August** Attained ISO 45001 certification for occupational safety and health management system.

## NAFCO Products

### Aero Products



Bolts



Nuts



CNC Products

### Automotive application



Blind Rivet Nut



Rivet Stud



Brass Insert



Machining Parts



High Temperature Nuts



Customized Nuts

### Special Process

In order to provide the best quality and the OTD, NAFCO devoted in special process and is honored with lots certificates including PRI/Nadcap since 2005.

- 1 Chemical Processing
- 2 Heat Treating
- 3 Nondestructive Testing
- 4 Nonconventional Machining
- 5 Metallic Materials Manufacturing



### Development strategy

The technical service business is mainly based on the research and development, design, manufacturing, testing, system integration and after-sales service of various products derived from the existing aerospace and automobile, confidential industry and other technical energy. By providing in-depth market and client expertise, we will assist in planning and tailoring strategies based on the product level of our clients.

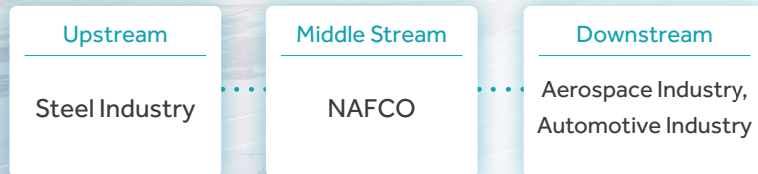
**With the advent of the Industry 4.0**, NAFCO is committed to the research and development of automation equipment and AI connection, moving towards the best integration and manufacturing pioneer of Industry 4.0, continuously improving the self-control rate along the way, strengthening our vertical integration energy, efficiency improvement, talent cultivation and cultivation, and all aspects have good performance.

From product design, processing, special process, assembly, mold making and other manufacturing processes, should be able to complete in their own factory area, the direction of business thinking is also to determine that only continue to improve automation and actively reserve our energy, hope to become the world's first-class intelligent machinery and intelligent automatic production line, to meet market customers.



## The overall industry chain

Currently, the global commercial aircraft production and assembly are primarily carried out by Airbus and Boeing. Regarding the engine components, the major suppliers are primarily Rolls-Royce, Pratt & Whitney, CFM, and Safran Group. Our company mainly manufactures and produces related components and fasteners for aircraft engines, airframe structures, braking systems, and landing gear systems. In addition to supplying aerospace fasteners, our company also collaborates with Tier 1 automotive manufacturers to develop customized automotive fasteners, mainly used in vehicle bodies and automotive chassis.

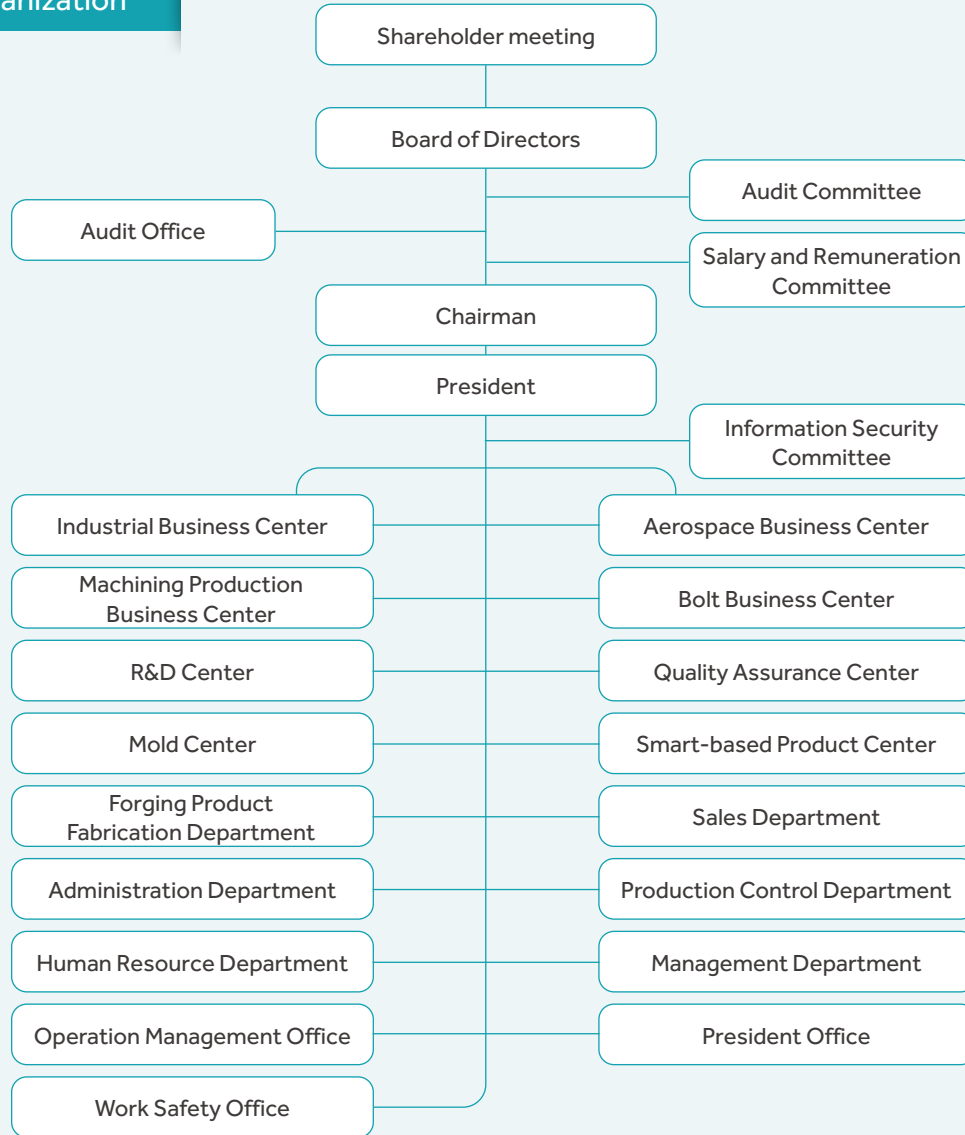


The position of NAFCO in the overall industry chain diagram





Organization



## 2.2 Business Philosophy

Corporate culture ▶

- Sincerity** | Honesty, integrity, enthusiasm
- Integrity** | Fair and just, for the company, for others, for the industry
- Faith** | Believe and mutual trust
- Simplicity** | Real, rustic, supreme

Humanistic management principles ▶

- Gratitude** | **Respect**
- Ownership** | **Self-improvement**

The Policy of Working Attitude ▶


- Innovation, enthusiasm, teamwork, mutual help**
- Diligence, thriftiness, hardship, difficulty**

## 2.3 Management Systems & Awarded Honors

NAFCO continuously improves and innovates its processes, products, and services, providing customers with the highest value and most competitive solutions. NAFCO Technology has successively obtained various certifications, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System, AS 9100 Aerospace Quality Management System, ISO 45001 Occupational Health and Safety Management System, ISO 27001 Information Security Management System, IATF 16949 Automotive Quality Management System, ISO 14064-1 Greenhouse Gas Inventory Standard, and ISO 17025 Laboratory Quality Management System.


### NAFCO's International Management System Certifications

Management System	ISO 9001:2015	ISO 14001:2015	ISO 14064-1:2018	IATF16949:2016
Certification Body	AFNOR	UCS	AFNOR	TUVNORD
Management System	ISO 45001:2018	ISO 27001:2013	AS9100:2016	ISO 17025:2017
Certification Body	AFNOR	AFNOR	AFNOR	TAF



Award

Recognition of Excellent Supplier Awards from Major Customers Over the Years



Client Authentication

## 2.4 Participation in External Organizations

In addition to enhancing its own product competitiveness, NAFCO actively engages with stakeholders from various sectors. By participating in industry-related associations, the company fosters positive interactions with association members, gaining insights into the latest industry trends. NAFCO also actively takes part in events and specialized seminars organized by industrial associations.

- Taiwan Industrial Fasteners Institute / Member
- Taiwan Aerospace Industry Association / Member
- Taiwan Society for Precision Engineering/ Member
- Taiwan Forging Association / Member
- Taoyuan City Industrial Association / Member
- National Accreditation Foundation / Member

# 03

## Ethical Corporate Governance

- 3.1 Board of Directors
  - 3.1.1 Director's Continuing Education and Performance Evaluation
  - 3.1.2 Functional Committee
  - 3.1.3 Internal Audits
  - 3.1.4 Ethics & Integrity
- 3.2 Risk Management
- 3.3 Policy Commitment
- 3.4 Legal Compliance
- 3.5 Operational Performance
- 3.6 Customer Services
- 3.7 Information Security Management
- 3.8 Product Liability and Safety

## 3.1 Board of Directors

The nomination and the selection of the members of the Board of Directors of NAFCO are established according to the company rules for which, the candidate nomination system is adopted. In addition to evaluating the qualifications of nominated individuals and their compliance with the requirements listed in Article 30 of the Company Law, the nomination and appointment of board members is conducted in accordance with Article 192-1 of the Company Law, they are also required to comply with the requirements specified in "Director Appointment Procedure" and "Corporate Governance Best Practice Principles" to ensure the diversity and the independency of the director members. To enhance oversight functions and strengthen management capabilities, the Board of Directors of NAFCO may consider the company's scale, nature of business, and the number of board members to establish various functional committees, such as Audit, Compensation and Remuneration, Nomination, Risk Management, or others, and clearly define their roles and responsibilities in the company's articles of incorporation.

The Audit Committee shall be composed of all independent directors, with a minimum of three members, one of whom shall serve as the convener, and at least one member shall possess expertise in accounting or finance. The exercise of powers and related matters of the Audit Committee and its independent director members shall be conducted in accordance with the Securities and Exchange Act, the Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, or regulations stipulated by the competent authority.

The Salary and Remuneration Committee is composed solely of independent directors. The qualifications, exercise of authority, establishment of organizational regulations, and related matters of its members are conducted in accordance with the 'Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange'.

### Explanation of the Diversity and Independence of Director Nominations

In terms of the structure of the Board of Directors, over 5 persons shall be appointed to serve as the directors according to the scale of the company's operation development, the share-owning status of main shareholders, and practical business operation.



The diversity will be considered when appointing the members of the Board of Directors. Except that the directors serving as the company manager at the same time shall not be over 1/3 of the director positions, appropriate diversity approaches shall be determined according to the company’s operation status, operation pattern and development requirements. It shall include but is not limited to the standard established for the following two aspects:

**1 Basic conditions and value**  
 Gender, age, nationality and culture for which, the ratio of female directors shall account for one-third of the director positions.

**2 Professional knowledge and skills**  
 Professional background (e.g. legal, accounting, industry, finance, marketing or technology), know-how and industrial experiences, etc.

The members of the Board of Director shall possess the knowledge, skills and proficiency required for executing the duties. To achieve the ideal target for the company operation, provided below is the ability that should be possessed by the Board of Directors:

- 1 Operation judgment ability
- 2 Accounting and financial analysis ability
- 3 Operation management ability
- 4 Crisis responding ability
- 5 Industrial knowledge
- 6 International market prospect
- 7 Leadership
- 8 Decision making ability

**Independence of the Board of Directors:** As of December 31, 2022, the Board of Directors of this Company is composed of 6 directors and 3 independent directors (33%), and the relative relationship specified in Item 3 and Item 4 under Article 26-3 of “Securities and Exchange Act” does not exist between. In the meantime, the Audit Committee had been organized to exercise their duties independently.

Board of Directors			
Position	Name	Actual attendance rate (%)	Industry and ESG-related background/ experience possessed
Chairman	TSAI, Feng-Tzu	100%	Industry
Director	MIAO, Hua-Pin	100%	Industry
Director	ZHU, Song-Chu	83%	Industry
Director	LIN, Wei-Tsun	100%	Industry
Director	HSIEH, Feng-Jen	100%	Industry
Director	ZHOU, Te-Chien	100%	Industry
Independent Director	CHAO, Hsin-Che	100%	Finance
Independent Director	LI, Li-Hang	100%	Finance
Independent Director	WEN, Wang-Shou	100%	Industry

Diversity Statistics		2020年		2021年		2022年	
		Number of people	Percentage	Number of people	Percentage	Number of people	Percentage
Gender	Male	9	100%	9	100%	9	100%
	Female	0	0%	0	0%	0	0%
Age	Under 50	2	22%	0	0%	0	0%
	50~60	0	0%	2	22%	2	22%
	60 above	7	78%	7	78%	7	78%
Education	Master's degree	6	67%	6	67%	6	67%
	Bachelor's degree	3	33%	3	33%	3	33%
	Others	0	0%	0	0%	0	0%

### Directors and Officers Liability Insurance

The company has purchased Directors and Officers Liability Insurance for all directors and executives. The insurance is provided by Fubon Insurance Co., Ltd., with a coverage amount of USD 8 million. The policy is effective from September 2, 2022, to September 2, 2023, with retroactive coverage starting from September 2, 2012.

### 3.1.1 Director's Continuing Education and Performance Evaluation

In response to the rapidly changing global market, and to enhance the functions and decision-making quality of the Board of Directors, NAFCO arranges annual training courses for its directors. Additionally, in line with the rising concept of sustainability, the company also includes courses related to Environmental, Social, and



Governance (ESG) topics to improve the board's understanding of ESG. This ensures that NAFCO can formulate sustainable development strategies that align with the company's current status and future trends.

All directors of this company possess the professional industrial background and the duration of advanced study in 2022 has been executed as required. In the meantime, we also disclosed the advanced study details in the "Corporate Governance" field of Public Information Observatory for reference by the investors.

Total continuing education hours for the entire Board of Directors in 2022

**75** hours

Proportion of ESG-related courses for directors (Note)

**68** %

Note: (Total hours of ESG-related courses / Total hours of director training) x 100%

In order to enhance corporate governance and improve the functioning of our Board of Directors, the company has established performance objectives to enhance the efficiency of the Board's operations. We have developed the "Board of Directors Performance Evaluation Method," and an internal evaluation of the Board's performance is conducted annually based on the evaluation procedure and criteria. The results of the evaluation should be completed by the end of the first quarter of the following year. In this respect, we have reported the "2022 Board of Directors self-evaluation" and the director self-evaluation result in the Board of Directors Meeting held on February 22, 2023. In the meantime, we also posted the evaluation result in the "Corporate Governance" field of our website for checking.



MOPS - Summary Table of Director and Supervisor Attendance at Board Meetings and Training:



Official Website of NAFCO - Company Management Section:

## Avoidance of Conflict of Interest

The directors of NAFCO adhere to a high level of self-discipline. In order to maintain the effective operation and oversight functions of the Board of Directors and to ensure the integrity of its decision-making processes, any director who has a material interest in any matter being considered at a Board meeting, whether for themselves or on behalf of a legal entity they represent, shall disclose the material particulars of such interest at the relevant meeting. If the director's interest is likely to be prejudicial to the interests of the company, they shall not participate in discussions or voting on the matter, and shall recuse themselves from the discussion and voting process. Furthermore, they shall not act as a proxy for other directors in exercising their voting rights to ensure the avoidance of conflicts of interest.

In our 2022 annual report, the company disclosed information related to conflicts of interest with stakeholders, which includes the following:

1. The extent to which directors abstained from voting on matters involving conflicts of interest is detailed in our annual report on page 23.
2. Information regarding directors holding positions in other companies can be found on pages 8 to 10 of the annual report.
3. Details about relationships among the top ten shareholders, including relationships between them as related parties or relatives within the second degree of kinship, are provided on page 66 of the annual report."

## The company's corporate governance evaluation ranking falls within the top 51% to 65% among listed enterprises

The company's corporate governance evaluation serves as an indicator of corporate governance performance among domestic listed enterprises. Through ongoing efforts, NAFCO has achieved a corporate governance evaluation ranking among the top 51-65% of listed companies in 2022. Furthermore, continuous improvement measures have been implemented in areas such as transparency, timeliness of information disclosure, and the strengthening of governance structures, including:

### Meeting statutory requirements for information disclosure

- ✓ Holding the annual shareholders' meeting by the end of May (statutory deadline is by the end of June).
- ✓ Publishing annual financial reports within two months after the end of the fiscal year (statutory deadline is within three months).

### Strengthening governance structures

- ✓ Ensuring that over one-third of the board of directors (including at least one independent director) attends the annual shareholders' meeting, with attendance records disclosed in the meeting minutes.
- ✓ Establishing an 'Information Security Committee' and implementing the ISO 27001 Information Security Management System standard, with third-party verification.
- ✓ Providing specific disclosure of the dividend policy in the annual report.

### Sustainable Performance Disclosure

- ✓ Disclosure of workplace diversity and equality within the company.
- ✓ Disclosure of the adoption of ISO 14064-1 for greenhouse gas inventory and verification.
- ✓ Disclosure of greenhouse gas emissions, water consumption, and total waste weight over the past two years.

## 3.1.2 Functional Committee

The Board of Directors has established the Audit Committee and Compensation Committee to strengthen its supervisory and management functions. Functional committees, apart from those required by law to exercise independent authority, are accountable to the Board of Directors and submit their proposed resolutions for approval by the Board of Directors.

### Audit Committee

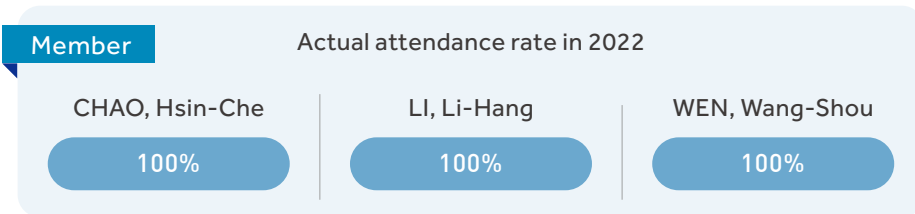
The company had established an audit committee, and shall be composed of the three independent directors. The committee holds meetings at least four times a year and exercises the following authorities in a professional and objective manner. The matters shall be submitted to the board of directors for a resolution.

The main function of the Audit Committee is to supervise the following matters:

- 1 Fair presentation of the financial reports of this Corporation.
- 2 The hiring (and dismissal), independence, and performance of certificated public accountants of this Corporation.
- 3 The effective implementation of the internal control system of this Corporation.
- 4 Compliance with relevant laws and regulations by this Corporation.
- 5 Management of the existing or potential risks of this Corporation.

In 2022, the independent directors held separate meetings as follows: one meeting with the internal audit supervisor and one meeting with the auditor. The communication between the independent directors, internal audit supervisor, and accountant was smooth.

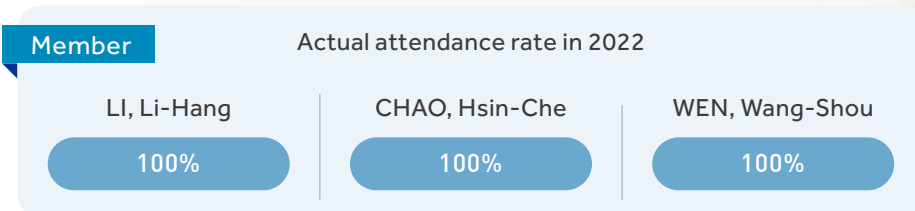




### Compensation Committee

This Company established a Compensation Committee composed of 3 outside experts who satisfied criteria of professionalism and independence. The committee holds meetings at least twice a year and exercises the following authorities in a professional and objective manner; its suggestions are raised for discussion in board meetings:

1. Periodically reviewing "Compensation Committee Charter" of the Corporation and making recommendations for amendments.
2. Establishing and periodically reviewing the performance assessment standards, annual and long-term performance goals, and the policies, systems, standards, and structure for the compensation of the directors and managerial officers of the Corporation.
3. Periodically assessing the degree to which performance goals for the directors and managerial officers of the Corporation have been achieved, setting the types and amounts of their individual compensation based on the results of the reviews conducted in accordance with the performance assessment standards



Please refer to the official website for details: <https://www.nafco.com.tw/society-tw/corporate-governance-tw/committee/>

### 3.1.3 Internal Audits

NAFCO's internal audit unit is under the jurisdiction of the Board of Directors. The appointment and removal of the head of the internal audit unit require approval from the Audit Committee and Board of Directors. The internal audit unit conducts an annual review of the internal control systems of various departments and subsidiaries, and assesses the results independently to measure the effectiveness of the internal control systems.

The internal audit unit develops an annual audit plan in accordance with regulatory requirements and risk considerations. After approval by the Board of Directors, audit operations are conducted, resulting in audit reports. In case of any audit anomalies, continuous monitoring and follow-up actions are carried out until the issues are resolved, and corresponding audit follow-up reports are generated. The head of the internal audit unit submits the audit reports and audit follow-up reports to the independent directors for review by the end of the following month. They also regularly attend the meetings of the Audit Committee and the Board of Directors to report on audit activities. The audit plan for the year 2022 has been executed as required, and audit results and improvement progress have been reported to the Audit Committee and the Board of Directors.



### 3.1.4 Ethics & Integrity

Integrity and honesty have always been the cornerstone of NAFCO's sustainable business. A culture of integrity must start from day-to-day actions, be implemented in internal management, and enhance employees' professional ethics, incorporating honesty and integrity into their work, gradually integrating it into the company's culture and employee behavior.

To establish robust integrity management and corporate culture, NAFCO adheres to external regulations and establishes internal mechanisms to regulate all members' engagement in business activities with the highest ethical standards. The company strictly prohibits the provision of illegal political contributions to gain business benefits or trading advantages. From a regulatory perspective, NAFCO complies with the "Practical Company Management Rules" becoming a law-abiding corporate citizen. NAFCO has enacted the "Honest Operation Rules" and the "Codes of Ethical Conducts" to serve as the guidelines for corporate ethics and integrity management. All directors and staff are required to faithfully adhere to these principles.

To effectively implement and uphold the principles of integrity management, the company entrusts the Human Resources department with the task of formulating integrity management policies, preventative measures, promoting and coordinating integrity policy advocacy and training, and planning whistleblower systems to ensure their effectiveness. Internally, we have established the "Employee Code of Conduct," which encompasses provisions for preventing conflicts of interest, avoiding opportunities for personal gain, safeguarding confidentiality, ensuring fair dealings, protecting and appropriately utilizing company assets, and encouraging the reporting of any illegal or unethical behavior. This code is signed by new employees upon their appointment. Externally, we require that all dealings with agents, suppliers, or other business partners be accompanied by the signing of a "Purity Pledge" and a "Clean Investigation and Relationship Declaration Form." This strengthens our commitment to integrity and transparency in all our external business transactions.

To enhance our anti-corruption advocacy, in addition to providing channels for reporting and whistleblowing on corrupt practices, NAFCO conducts regular awareness campaigns through monthly and quarterly employee communication meetings. These awareness initiatives cover topics such as compliance with integrity

and ethics regulations, the prohibition of insider trading, and education on related laws and regulations. Moreover, our Code of Ethics and Corporate Social Responsibility policies are posted on the company's intranet and in various factory areas, emphasizing our commitment to ethical conduct and integrity. These efforts ensure that employees are aware of the importance we place on moral values, and we strive to instill these principles into our daily work routines. The company has also made anti-corruption training a mandatory part of the onboarding process for new employees. In 2022, a total of 121 individuals received anti-corruption training, accumulating approximately 41.14 hours of training in this subject.

NAFCO periodically provides current directors with education and awareness on relevant laws and regulations. New directors receive a Director's Regulations Handbook upon assuming their positions, which includes guidance on the management regulations for current insider shareholding, prohibition of short-term trading, and insider trading, along with other relevant legal provisions. Each quarter, the company conducts awareness campaigns regarding the prohibition of insider trading. It reminds directors not to trade their shares during the closed periods, 30 days before the annual financial report announcement and 15 days before the quarterly financial report announcement, to ensure compliance with these regulations. In 2022, our directors participated in relevant courses offered by educational institutions. The course topics encompassed subjects like financial fraud and corporate governance. Presentation materials for these courses were provided by the educational institutions for the directors' reference.

### Reported Cases Received in 2022

NAFCO has established specific complaint channels that are accessible to both internal and external individuals. These channels are managed by dedicated units responsible for receiving and investigating reported cases.

#### Complaint / Report Channels

Audit mailbox  
 HR mailbox  
 Stakeholder communication mailbox


#### Number of cases accepted during the fiscal year / Solved / Closed


0

## 3.2 Risk Management


The risk management mechanism includes identification, analysis, evaluation and other processes, which consider the frequency of occurrence, the degree of impact and the degree of control for quantitative assessment, covering strategic considerations, operational considerations, financial considerations and hazard event considerations, etc., to manage risk prioritization.

### Risk Items and Response Plans in 2022

Aspect	Risk Item	Response Plans
 Sustainable Environment	Increased Greenhouse Gas Emissions	<ol style="list-style-type: none"> <li>1. Installed solar panels on the factory rooftop, producing clean energy for self-use. In 2022, obtained 60 renewable energy certificates, registered with the National Renewable Energy Certificate Center.</li> <li>2. Planned to establish a real-time power monitoring and management platform to align with international decarbonization trends.</li> </ol>
	Increased Waste Generation/ Lower Recycling Rates	Implemented waste reduction equipment and source-separated waste sorting to enhance recycling and reutilization.
	Water Shortage	In case of emergencies, the company has underground valves and well water sources available for water supply.
	Typhoons and Flooding	The company is equipped with flood prevention systems, including real-time digital monitoring and water pumps to respond to disasters.

Aspect	Risk Item	Response Plans
 Employee	Impact of the COVID-19	<p><b>Response measures to the COVID-19 :</b></p> <ol style="list-style-type: none"> <li>1. Established a group epidemic prevention team and regularly implemented epidemic prevention policies.</li> <li>2. Provided all employees with epidemic prevention and vaccine insurance.</li> <li>3. Encouraged all employees to receive the COVID-19 vaccine, achieving a 100% vaccination rate.</li> <li>4. Increased cleaning and disinfection in company environmental areas.</li> <li>5. Implemented temperature checks and alcohol disinfection for all employees before entering the facility.</li> <li>6. Daily health check questionnaires to monitor employees' health.</li> <li>7. Introduced individual workstations and work-from-home (WFH) during the pandemic.</li> <li>8. Regularly provided COVID-19 rapid tests, vaccines, and protective equipment to employees.</li> <li>9. Replaced physical meetings with remote online meetings and e-learning for training.</li> <li>10. Controlled logistics and visitor access to the company.</li> <li>11. Maintained safe social distancing within the company.</li> <li>12. Suspended business travel during the pandemic.</li> <li>13. Ensured adequate stock of epidemic prevention supplies for employees.</li> <li>14. Enhanced awareness of epidemic prevention among staff.</li> </ol>



Aspect	Risk Item	Response Plans
 <b>Operational Performance</b>	Decline in Market Competitiveness	<ol style="list-style-type: none"> <li>1. Through business evaluation meetings and customer feedback, assessed market competitiveness, strengths, and weaknesses.</li> <li>2. Increased research and development investment.</li> <li>3. Deepened the existing manufacturing capacity and expanded the product line or extended the product portfolio strategy.</li> <li>4. Utilized AI and automation technology to enhance product quality and utilization rate to flexibly use capacity to address market fluctuations.</li> </ol>
	Cybersecurity Incidents	<ol style="list-style-type: none"> <li>1. Established a cybersecurity management committee, led by the Vice General Manager, with assistance from the IT department to execute instructions and hold regular information security and management review meetings to review the company's cybersecurity status.</li> <li>2. Introduced an information security management system in 2022 and obtained ISO 27001 certification.</li> <li>3. Conducted risk management for various information assets, including personnel, information, software, hardware, services, and the environment. Performed regular risk assessments and made improvements for high-risk information security projects.</li> <li>4. Carried out annual cybersecurity incident reporting and drills.</li> </ol>
	Product Liability (Facing Recalls/Withdrawals)	<ol style="list-style-type: none"> <li>1. Conducted regular in-service training for employees (including human factors, product safety, counterfeit prevention, and FOD-related education) to raise employee awareness of product safety and understand the impact of product safety issues, which can lead to significant losses and harm to people and property.</li> <li>2. Established and maintained a complete PDC (8D) system database for experiential learning to reduce human-related problems and continuously improve product quality.</li> <li>3. Followed the latest laws and regulations and customer requirements to eliminate gaps to meet the demands and expectations of relevant stakeholders.</li> <li>4. Developed fair, objective, and competent internal auditors. Audit programs were planned, and the audit frequency was adjusted based on the risk level, performance trends, and process criticality.</li> </ol>
	Supply Chain Disruptions	<ol style="list-style-type: none"> <li>1. Short-term Risk: Delayed delivery due to transportation. Countermeasures: Weekly tracking of transportation delivery information and immediate feedback to production lines for scheduling arrangements.</li> <li>2. Medium-term Risk: Delayed shipment times or shortages from suppliers. Countermeasures: Weekly tracking of vendor shipment progress. In case of delays or shortages, immediate feedback to production lines for resource scheduling to minimize potential impacts.</li> <li>3. Long-term Risk: Rapid increase in demand for aerospace materials, leading to tightening supply of nickel alloy materials. Countermeasures: Regularly monitor delivery schedules and inventory change trends. Prepare raw materials ahead of time to adapt to potential material shortage risks with a rolling time axis mode.</li> </ol>

## 3.3 Policy Commitment

### Human Right Policy

NAFCO believes that respecting human rights and promoting a decent work environment are important throughout the Company and its supply chain. NAFCO abides by local laws and regulations in all countries and regions where we operate, and upholds the human rights of all workers, including regular, contract and temporary employees, and interns. We also require our suppliers to act in the same fashion, as addressing human rights issue in complex supply chains is a shared responsibility. NAFCO support the UN Universal Declaration of Human Rights (UDHR), and are committed to treating all workers with dignity and respect as understood by international human rights standards, including The International Bill of Human Rights, The International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, The UN Guiding Principles on Business and Human Rights (UNGPs), The OECD Guidelines for Multinational Enterprises and The Ten Principles of The United Nations Global Compact (UNGC). We also align our actions with the Responsible Business Alliance (RBA) Code of Conduct. The guiding principles for NAFCO's Human Right Policy are as follows, and NAFCO's Supplier Code of Conduct requires all of our suppliers to follow the same standards.



Company Profile  
and Human Right  
Policy - NAFCO  
(nafco.com.tw)

#### ✓ Guiding Principles

- Embed respect for economic, social, cultural, civil, and political rights, as well as the right to development, in the way we operate.
- Provide a safe work environment and zero tolerance in all kinds of harassment.
- Eliminate unlawful discrimination and ensure equality in the workplace.
- Strict prohibition of child labor.
- Forbid forced labor.
- Commit to responsible sourcing of minerals.
- Protect labor rights of vulnerable groups or marginalized groups such as indigenous peoples, women, migrant workers, contracted labor and persons with disabilities.
- Comply with all applicable wage laws and regulations, and legal limits to working hours.
- Provide fair living wage and pay in full and on time with pay slips to state legitimate deductions.
- Support the physical and psychological well-being of employees, and the work and life balance.
- Enable a communication-friendly environment and maintain an open management system.
- Make diverse open dialogue channels available for stakeholders such as suppliers, business partners, and others to report concerns or suspected violations to the Company, including ways to report anonymously.
- Monitor and assess relevant risks, practices, and impacts regularly to respond to evolving situations and stakeholders' needs.

This Human Rights Policy is also available on the Company's Corporate Social Responsibility webpages and publicly disclosed in the relevant reports.

### 3.4 Legal Compliance

Legal compliance is fundamental to business operations and constitutes a company's social responsibility. NAFCO Technology is committed to legal compliance, with internal legal personnel continuously monitoring updates to regulations. Draft law amendments or key regulatory changes are periodically communicated to relevant colleagues via email, ensuring that all are aware and compliant. Consequently, in the year 2022, there were no records of legal violations.

NAFCO Technology adheres to relevant laws governing corporate governance, ethical operations, environmental protection, and labor rights as set forth by supervisory authorities. We actively promote regulatory education and training within our organization. Any legal breaches within the company would have a significant impact on both finances and corporate image. As one of the very few aerospace fastener suppliers certified by engine manufacturers in the Asia-Pacific region, adherence to local laws and aerospace-related standards is a key aspect of our corporate governance policy.

Compliance with regulations is the cornerstone of sustainable business development. Our corporate culture is built on values such as sincerity, integrity, faith, simplicity. We encourage employees to proactively identify and address issues and uphold these principles in conducting our business.



#### Achievements in the Current Year

1.

#### Corporate Governance



NAFCO Technology is dedicated to good corporate governance, adhering to the "Corporate Governance Best Practice Principles for Listed and OTC Companies" and other relevant regulations set by supervisory authorities. We continuously enhance corporate governance from various perspectives, including safeguarding shareholder rights, strengthening board operation, improving information transparency, and fulfilling corporate social responsibilities. These efforts accumulate the energy needed for the company's sustainable development.

2.

#### Personnel



All employees are required to adhere to the "Code of Business Conduct," "Ethical Conduct Guidelines for Directors and Employees," and the "Corporate Governance Best Practice Principles" regardless of their position, job level, or location. These guidelines encompass a range of topics including workplace conduct, equal opportunities, confidentiality, prohibition of secondary employment, conflict of interest avoidance, gift-giving and business etiquette, respect for employees and customers, whistleblowing, protection and exemptions. These guidelines are intended to gain public trust, enhance the company's image, ensure sustainable business development, and reduce the risks associated with violations of fair competition practices and antitrust regulations.

## Achievements in the Current Year

### 3. Education and Training



To enhance employees' awareness of business ethics and regulatory compliance, the company, in collaboration with the Legal Department and other relevant departments, conducts regular educational campaigns according to regulations and internal rules.

### 4. Environment, Health, and Safety



The company has established management procedures, monitoring and measurement methods for the operation of the company's activities and products, and complies with occupational safety and health and environmental laws and regulations, and other requirements. The environmental management system is effectively controlled, and timely corrective and preventive measures are taken.

### Complaint Mechanism

**Auditing Office:**

[auditing@nafco.com.tw](mailto:auditing@nafco.com.tw)

**Internal Whistleblowing Inbox:**

[speakout@nafco.com.tw](mailto:speakout@nafco.com.tw)





## 3.5 Operational Performance

Material Topics	Operational Performance
<b>Significance to the Company</b>	<p>From product design, processing, special manufacturing processes, assembly, mold making, and other manufacturing processes that can be completed within our own factory, our business direction is determined to continuously enhance automation and actively build up our capabilities. We aspire to become a world-leading provider of smart machinery and intelligent automated production lines to meet market and customer demands.</p>
<b>Policy/Commitment</b>	<p>The technical service business primarily involves the development, design, manufacturing, testing, system integration, and after-sales service of various products derived from existing aerospace, automotive, and confidential industrial technological capabilities. By providing in-depth market insights and client-specific expertise, we collaborate with clients on product-related strategies and tailor-made solutions.</p>
<b>Short-term Goals</b>	<ol style="list-style-type: none"> <li>1. Corresponding to the approaching of post-epidemic era and the border relief of each county, we will take actions to expedite the quality certification for each individual product and production process.</li> <li>2. Active move will be taken to expand the T1 suppliers in the European and American marketplaces for the automotive industry. To achieve this, we will maintain mutual cooperation with the customers in order to solve their problems with the production line assembly. Further, we will also develop our ability in providing the custom-made products.</li> <li>3. It is our plan to maintain higher quality, consolidate relationships with the existing customers and develop new engine customers.</li> <li>4. We will provide efficient custom-made services in order to develop the automotive and industrial fastener customers.</li> </ol>
<b>Long-term Goals</b>	<ol style="list-style-type: none"> <li>1. Expand the production line, ranging from the aircraft engine to the fuselage parts.</li> <li>2. Contact the aircraft parts distributor system proactively in order to expand more types of the company's customer group.</li> <li>3. Transform from the OEM market to the automotive assembly direct supply market. For this purpose, we have taken active moves in cooperating with the Tier 1 Suppliers of the automotive industry.</li> </ol>

Material Topics	Operational Performance
Resources Invested/ Specific Achievements for the Year	<ol style="list-style-type: none"> <li>1. Smart Manufacturing: We continue to develop towards vertical integration and intelligent automation manufacturing. Based on the foundation of our in-house automated equipment and smart monitoring systems for collecting big data, we have gradually introduced AI smart manufacturing technologies into critical processes. This includes applications for monitoring defects, anomalies, tool lifespan, and product quality control. Currently, we have three intelligent production lines.</li> <li>2. Aerospace Market: Despite the impact of the pandemic, we maintain the introduction of 500 to 800 new products each year.</li> <li>3. Automotive Industry Market: We collaborate with automobile manufacturers and Tier 1 suppliers to design customized parts. We focus on researching and developing customized components to meet unique application requirements.</li> <li>4. With the advent of Industry 4.0, NAFCO is committed to the development of automation equipment and its integration with AI. We are progressing towards becoming a pioneer in Industry 4.0 integration and manufacturing. Along the way, we continuously improve our in-house production rates, enhance our vertical integration capabilities, and excel in efficiency, talent development, and other aspects.</li> </ol>
Responsible Department/Appeal Mechanism	Spokesperson and Deputy Spokesperson/ <a href="mailto:IR@nafco.com.tw">IR@nafco.com.tw</a>
Assessment Mechanism/ Achievements	<ol style="list-style-type: none"> <li>1. Establishment of a R&amp;D Center and the formation of a dedicated Intelligent Development Department focused on forging and smart production.</li> <li>2. <b>53.76% revenue growth</b> in 2022 compared to the previous year.</li> <li>3. <b>255.05% increase</b> in net profit after tax in 2022 compared to the previous year.</li> <li>4. Continued progress towards becoming a key supplier for global aerospace components.</li> </ol>

### Direct Economic Value Generated and Distributed by the Organization

Note: Negative values represent  
income tax benefits.

Items (Unit: NT \$1000)	2020	2021	2022
Revenue	1,704,031	1,426,205	2,192,921
Operating Costs	1,378,064	1,260,117	1,681,287
Employee Salaries and Benefits	484,656	466,399	584,765
Payments to Providers of Capital	166,873	50,429	26,311
Payments to Government (Note)	(8,445)	(8,640)	(4,921)

## 3.6 Customer Services

Material Topic	Customer Service
<b>Significance to the Company</b>	<p>Through service and communication, building a strong partnership with customers, prioritizing and actively addressing every customer complaint, and providing high-quality service to win more orders and business opportunities to create the maximum value for customers.</p>
<b>Policy/Commitments</b>	<p>In-depth understanding of customer needs and issues, seeking possibilities for improvement, and establishing a service-oriented operational model. Applying AI and automation technologies to manage and enhance product quality, increase operational efficiency, and flexibly use production capacity to meet market demands. Becoming a service provider for high-end fasteners and machined components.</p>
<b>Goals</b>	<ol style="list-style-type: none"> <li>1. Set annual sales performance KPIs and achieve them through actual shipments. Review annual performance of customer complaint cases, and assess cost-effectiveness.</li> <li>2. Direct communication with customers and NAFCO through annual Business Review Meetings, continuous improvement according to customer recommendations, and simultaneous understanding of market demands.</li> <li>3. Quarterly/annual customer satisfaction surveys initiated by customers, with their evaluations serving as a reference for assessing customer service satisfaction.</li> <li>4. NAFCO conducts annual customer satisfaction surveys, with priority given to the top 10-15 customers (based on purchase amount). The target score is 85 points.</li> </ol>

Material Topic	Customer Service
<b>Resources Invested/ Specific Achievements for the Year</b>	<ol style="list-style-type: none"> <li>In 2021, in response to the COVID-19 pandemic, the frequency of customer visits was reduced. NAFCO purchased online meeting platform software and installed trial hardware equipment in meeting rooms. This allowed regular online meetings with customers to understand their needs, track the progress of customer projects, and discuss various technical issues.</li> <li>In 2021, in response to the COVID-19 pandemic, the frequency of customer visits was reduced. NAFCO purchased online meeting platform software and installed trial hardware equipment in meeting rooms. This allowed regular online meetings with customers to understand their needs, track the progress of customer projects, and discuss various technical issues.</li> <li>Due to extended material lead times, Quickview was introduced to manage inventory turnover rates, monitor accounts receivable progress, and manage weekly changes in customer demands.</li> <li>Through the CRM system and international B2B conventions, quotes and new business opportunities are integrated and managed.</li> </ol>
<b>Responsible Department/Complaint Mechanism</b>	Sales Department / Complaint Channel <a href="mailto:sales@nafco.com.tw">sales@nafco.com.tw</a>
<b>Assessment Mechanism/ Achievements</b>	<ol style="list-style-type: none"> <li>Customer satisfaction survey scores have <b>averaged above 93</b> points for the past three years.</li> <li>Revenue growth and a KPI achievement rate <b>exceeding 95%</b> for the current year's sales performance.</li> </ol>

NAFCO maintains smooth communication channels with customers, sustaining a stable and positive working relationship. Feedback from customers is immediately addressed by the NAFCO sales department to initiate subsequent improvements, aiming to gain customer trust through high-quality service.



## 3.7 Information Security Management

### Information Security Management System

Corresponding to the rapid change of technological environment and the diversified business development, the Information Security Management System is established to protect the operation-related information for the company and the customer effectively and provide the efficient information security governance. Its purpose is to protect the information assets of the customer, the company and each individual from suffering the deliberate or accidental internal and external sabotage and to fulfill the diligent protection and management responsibilities required for the processed, stored or transmitted information. For the purpose of above, we have acquired the ISO 27001 international certification in July 2022. To connect with the international information safety standard and to deal with the new-rise threat, this Company will review and amend relevant information security policy, management procedure and operation method continuously each year. On an irregular basis, we will allow each unit to understand the information safety policy through education/training and dissemination method. As such, each unit will comply with the required control procedure so that the confidentiality, integrity and availability of all operations required for the information service system will be upgraded continuously. Its goal is to maintain information safety and the sustainable operation concept required for all of the operations in this Company.

### Information security management organization

In February 2022, the company has established the Information Security Committee to elevate the overall information service management performance of the company, to ensure the consistency between information and business requirements, and to execute the information security management effectively.



## Protection against new-rise malicious threats

To enhance employee awareness of cybersecurity and combat malicious emails or business email scams, the company not only provides cybersecurity education and training to new employees but also consistently conducts cybersecurity awareness campaigns through newsletters.

Regarding the protection against system vulnerabilities, systems and equipment are updated to the latest versions before and during their operation to meet basic cybersecurity requirements. Regular vulnerability scans are performed to detect and verify the security status of various systems. The company remains vigilant about cybersecurity information and promptly investigates and formulates remedies or improvements in response to newly disclosed security vulnerabilities.

In the face of emerging threats like new types of viruses and malicious software such as ransomware and mining software, the company has established multiple cybersecurity defense mechanisms. These are in line with cybersecurity management procedures to take timely countermeasures.

## Information Service Continuous Operation Plan

Ensure that correct response measures can be taken when major hazard occurs to the information service so as to minimize its impact to the business operation and to restore the operation within the shortest period of time. This company has developed the Information Service Continuous Management Plan which will be drilled and reviewed each year in order to maintain the responding ability and the company's continuous operation.

## Cybersecurity Incidents

There have been no significant cybersecurity incidents resulting in losses in the past fiscal year.



MARKETING STRATEGIC

## 3.8 Product Liability and Safety

Material Topics	Product Liability and Safety
<b>Significance to the Company</b>	<p>The development and implementation of the quality management system at our company are customer-centric, utilizing a process-oriented approach to ensure customer requirements are embedded in product introduction and main production processes. The system is intertwined with management and support processes, ensuring that the products we provide are free from any safety concerns, meeting customer demands and expectations. By monitoring, measuring, and analyzing process performance, we continually improve our quality, delivery, and cost competitiveness.</p>
<b>Policy/Commitment</b>	<p>Compliance with guidelines is a fundamental commitment to product safety and is a basic ethical principle for all personnel. We strictly adhere to laws, regulations, and customer requirements, and the established procedures and guidelines act as fundamental behavioral guidelines for enhancing product safety.</p>
<b>Short-term Goals</b>	<ol style="list-style-type: none"> <li>1. Employees receive regular product safety awareness training and view human factor awareness videos.</li> <li>2. We follow the latest legal and regulatory requirements.</li> <li>3. No significant product safety incidents have occurred.</li> </ol>
<b>Medium to Long-term Goals</b>	<ol style="list-style-type: none"> <li>1. We consistently strive for "Zero Defect" in our products.</li> <li>2. We maintain customer-designated Authorized Inspection Personnel (DPRV) qualifications and nurture future talents to obtain certificates to ensure quality control.</li> <li>3. We maintain a 0% product safety incident rate.</li> </ol>
<b>Resources Invested/ Specific Achievements for the Year</b>	<ol style="list-style-type: none"> <li>1. Employees undergo a minimum of 4 hours of annual education and training on human factors, product safety, anti-counterfeit measures, and FOD.</li> <li>2. The PDC system is established and maintained to facilitate continuous quality improvement. In 2022, no significant customer complaints occurred.</li> <li>3. We have strict supplier management processes, ensuring all raw materials are traceable, accompanied by material and inspection certificates.</li> <li>4. We maintain the effective operation of our quality management system.</li> </ol>

Material Topics	Product Liability and Safety
<b>Responsible Department/Appeal Mechanism</b>	Sales Department / <a href="mailto:Sales@nafco.com.tw">Sales@nafco.com.tw</a>
<b>Assessment Mechanism/Achievements</b>	Third-party certification organizations (AFNOR, TUV NORD, and Nadcap), Internal audit management procedures

## Product Categories

Design, development, and manufacturing of fasteners and precision machined components for aerospace, vehicles, ships, electronics, and high-end industrial applications.

## Process Description

NAFCO Technology is committed to environmental protection and the management of hazardous substances. We provide information on environmental protection hazardous substances, laws, regulations, and customer requirements to our suppliers and internal procurement, manufacturing, quality assurance, and engineering departments to prevent materials, components, parts, packaging materials, and products containing hazardous substances from entering NAFCO Technology and being used. This is to reduce the impact of hazardous substances on the natural environment and human health. In addition to RoHS, REACH, and POPs requirements, if customers have other legal, regulatory, or contractual requirements, NAFCO Technology will follow customer requirements and update relevant internal procedures and documents according to the latest legal and regulatory requirements. From raw materials, components, parts, and packaging materials to products, each responsible department at NAFCO Technology is responsible for environmental regulations and customer requirements. The Sales Department is responsible for receiving and conveying customer's environmental protection requirements. The Engineering Department includes environmental protection requirements in operation and engineering requirements. The Quality Assurance Department is responsible for collecting product environmental protection regulations and interpreting customer requirements, and testing the products as required by the customer in the internal (external) laboratory. The Procurement/Production Control Department is responsible for conveying environmental protection related management requirements to suppliers and outsourcers and requesting the required proof and test reports.

Since its establishment, NAFCO Technology has complied with the relevant customer and regional regulations for the management of hazardous substances in all products and manufacturing processes, with no incidents violating health and safety regulations related to products and services.