

# Corporate Sustainability Report

**www.phison.com**



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PHISON

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## About This Report

### Reporting Period and Publication

Welcome to read the "Phison Electronics Corp. 2016 Corporate Sustainability Report". This report is to be published by Phison Electronics Corp. ( "Phison" ) . Disclosure period is from January 1, 2016 to December 31, 2016. If anything falls outside of this period then it is noted as such as in the report. In the future, this corporate sustainability report will be published every year as a key component in the fulfillment of the company's corporate social responsibility. This report is released in both Chinese and English. For the accessibility and readability of all stakeholders, this report can be downloaded from the Phison corporate website ( Website address: [www.phison.com](http://www.phison.com) ) .

### Report Basis and Scope

The compilation of this report is based on the GRI 4 guidelines issued by the Global Reporting Initiative. This report encompasses sustainability issues and performance in six main aspects of economy, environment, labor practices and dignity of work, human rights, society and product responsibility. The scope of this report covers all business footholds in Taiwan however domestic or overseas affiliated enterprises of re-investment are not included.

### Global Guidelines and Frameworks Reference

To ensure that this report conforms to global guidelines and frameworks, Phison is referred to "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", "ISO 26000 Social Responsibility Standards Guide" and "UN Global Compact" for the reporting structure and basis of disclosure. A reference table in the Appendix is also provided for all stakeholders to use.

### Reporting Principles

This report conforms to the reporting and quality principles of GRI G4 as well as three major principles, materiality, completeness and responsiveness, of the AA1000 AccountAbility Principles Standards. The GRI G4 content index is also provided in the Appendix for reference.

All of the information and data in this report were provided by the relevant administrative, sales, finance and R&D departments. The financial report and accounting information are all publicly available information certified by chartered accountants, wherein the unit of account in the report is NTD (New Taiwan Dollar). Some of the data is obtained from public information released by government agencies or non-profit organizations. The more specialized accounting units were converted to common accounting units to improve the readability and comparability of this report.

### Feedback

If you have any questions regarding the Phison Corporate Sustainability Report, please do not hesitate to contact us with your valuable feedback so we can keep progressing!

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## From the Chairman

"Making society and the environment a better place" is the sustainable development responsibility of Phison. This responsibility is based on the sustainable management of an enterprise, from which an enterprise is able to continuously develop, innovate and make profits. We have always been willing to share the innovation value of our company with stakeholders. So what is this innovation value that drives our sustainable development and profits? I believe that it is the business philosophy of "treating people honestly". This can also be considered the sustainable business model of our corporate culture.



### Core Values: Caring, Trust, Honesty and Concern

In Phison's 17 years history, we have weathered many challenges while maintaining high profits. Apart from looking after to our roots, what really matters is the business model of "Trust and Cooperation" we chose in running the company. No matter how we treat employees or how we deal with suppliers and customers, we believe in the principle "doing business is about doing right by people". If doing business requires engaging in subterfuge then it will not last long. But if you can find your own core values and acquire the ability to innovate and interact with all stakeholders with four main principles, caring, trust, honesty and concern then once the trust is already there then the relationship won't stop at just one or two transactions. It will be a friendship for lifelong.



### Future Development

We have always worked with others in a spirit of mutual cooperation. With Toshiba onboard as a shareholder, we have found many trustworthy customers and suppliers that we can form long-term partnerships with. This is a positive feedback cycle. After all, a business must be profitable so that to make sustainable management possible. In the future, Phison will not only continue to build up integrated circuit (IC) capabilities but also expand technological dimensions to broaden product lines. At the same time, in terms of stakeholders, we will give top priority to our employees, followed by suppliers. When the company is profitable, investors will be rewarded as well. This is what we have always done and this will not change in the future!



### Truly Caring for Employees

The most important stakeholders are our employees. Phison has a management unit for assisting employees and may even draw on company resources to do so. I believe that employees should treat the company as a source of long-term development and loyalty. The company, in turn, should treat employees like family. There was once an employee who had just given birth but her family was in southern Taiwan. With no one to help her look after the child, she suffered a breakdown. In the end, Phison paid for a nurse from Mackay Hospital to go and help the employee look after her child until suitable child-caring arrangements could be made for her. Nevertheless, we are not a charity. For employees who are lazy and don't make a contribution, or those that break company regulations, take kickbacks, pay bribes in the company's name, indulge in gambling, loan sharking and other improper activities, they will be dealt with accordingly in order to protect the rights and interests of other hard-working employees.



### Taking Care of Small and Medium Suppliers

We work with our suppliers on an equal footing. We do our best to ensure their benefits and we do not put the squeeze on suppliers in order to increase our profits. We feel that we should take care of suppliers, especially small and medium suppliers. Our own survival and profitability depends on the continued existence of them. This is embodied by our four principles "Caring, Trust, Honesty and Concern".



### Guarantee Total Transparency and Honesty to Investors

We are a publicly listed company and investors choose to invest us because we are a profitable company with excellent prospects. Where do the profits come from? This is what transparency in corporate governance is intended for. We do not publish any erroneous information that may mislead investors and cause them to lose money by making bad buys. At Phison, we believe in long-term development and this means we look for stakeholders willing to invest for the long-term, not short-term speculators or vultures.

I am writing to describe the judicial authority's investigation against Phison Electronics Corp. ("Phison") in 2016 associated with its financial reports that, my previous business arrangements may have negligently involved in misdemeanor. Said business arrangements were made to improve Phison's long-term competition, and the company's outstanding achievements in recent years is the proof. I have actively participated to cooperation with the investigation, and confessed to the judicial authority. It is sad to hear from the market that, someone guesses the case may into in felony such as embezzlement or breach of trust. I hereby state that said speculation is not the truth, and the judicial authority's investigation result will be the best proof.

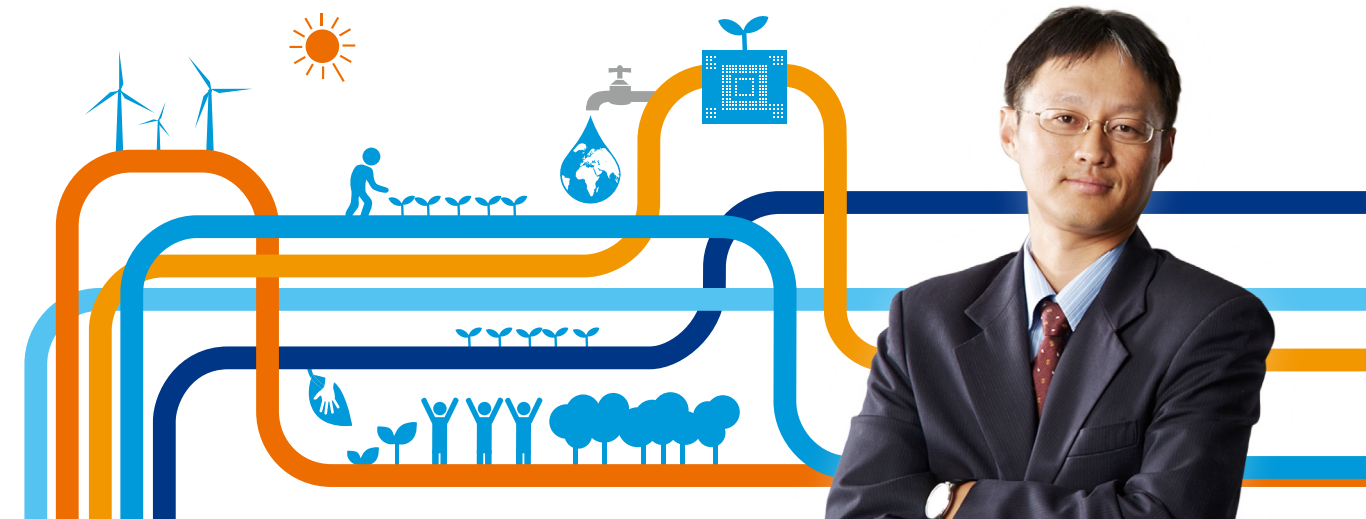


### Protect the Living Environment of Our Future Generations

We believe that a company should not sacrifice the rights to life of future generations and engage in such behavior as polluting environment which is harmful to the environment for the sake of increasing profit margins by one or two percentage points. Recently, a certain company in Taiwan was discharging hazardous effluent, we sent out letters to more than 100 suppliers and asked them to sign a statement declaring that they did not discharge untreated hazardous effluent from their manufacturing operations. If they did, they would be blacklisted by us. Some

Phison Chairman Pua Khein Seng

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suppliers complained that this increased their processing costs, but Taiwan, in our opinion, is already such a small island so we should not harm the environment just for a few extra performance points on the profit margin. This was something that we could not tolerate. Suppliers that did not return a signed statement were immediately dropped.

### Assisting Local Community and Charity Groups

On giving back to society and charitable activities, we prefer to provide tangible assistance to little-known orphanages, hospitals and retirement homes in our local community. These include funding purchases of milk powder or daily necessities for charities ( orphanages, retirement homes ) in Miaoli and Hsinchu County/City; spending more than \$20 million to help hospitals overhaul their energy-saving fluorescent lights to reduce power consumption; and helping hospitals purchase medical equipment for looking after premature infants. This provided premature babies in the Hsinchu-Miaoli regions with better medical care.

### Sustaining the Phison Culture

Sustainable business development requires the sound transmission of culture. If you want to know what kind of person a company's owner is, you can tell a lot from the performance of the company's employees. People and culture are inextricably linked. Employee characteristics are, in most cases, shaped by their boss. That's why we choose our employees carefully. No matter how talented someone is, if they don't fit into our corporate culture then we have no choice but to let them go because the passing down of corporate culture depends on finding the right people first.

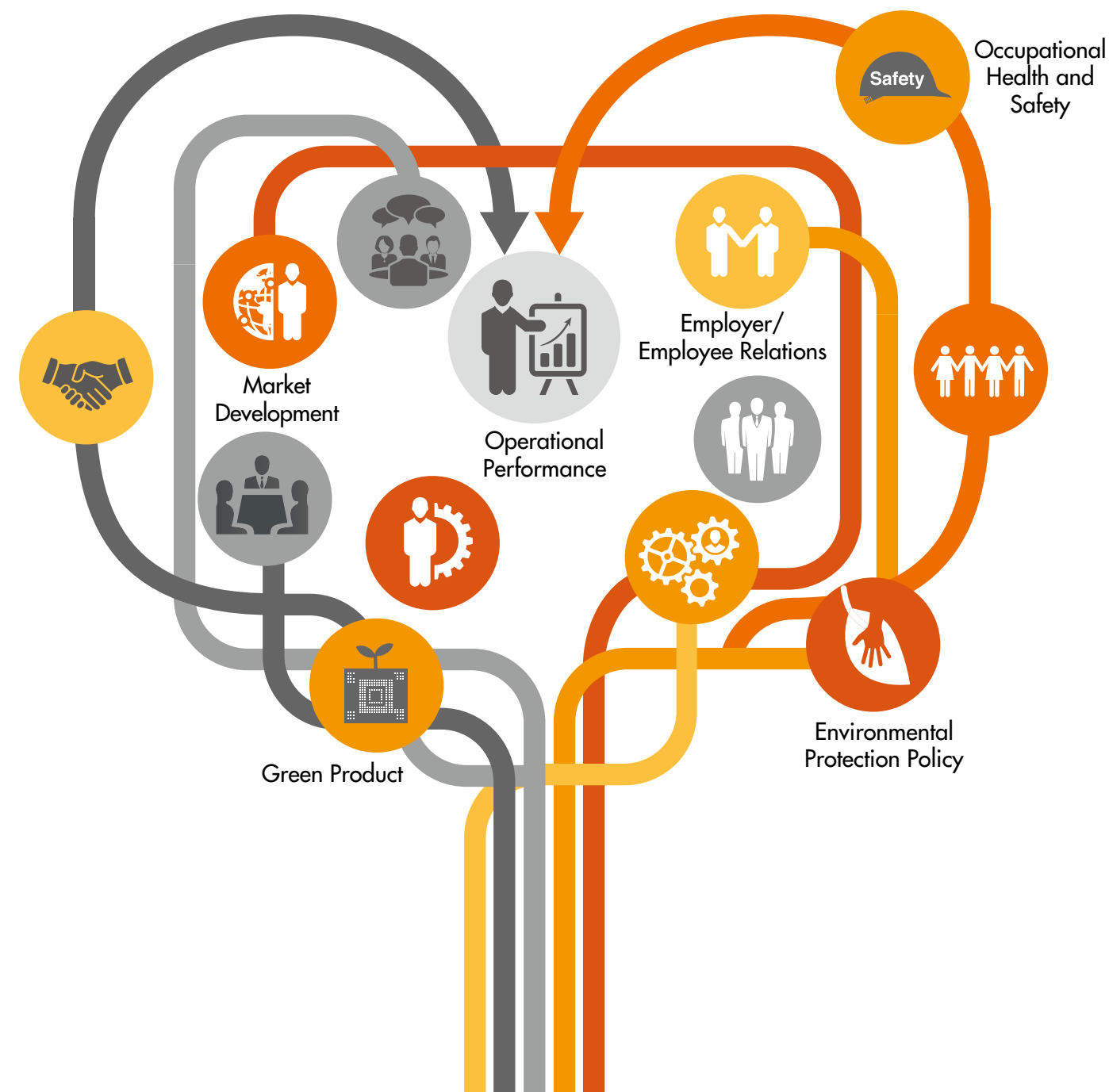
Phison employees know that they must uphold our corporate culture by not indulging in red tape, avoiding excess, rejecting kickbacks, curbing power and money games, working hard, and understand the meaning of gratitude. We often tell our employees that the only relationship in the world where there is no give-and-take is between parents and their children. For everything else, there is a price. If we want other people to support us then we must create the kind of value that makes people willing to support you. If the relationship is always lopsided, the friendship might be easily broken. Mutual assistance in business is about supporting each other in times of need. If one day the other party is in trouble and you help them out to return your gratitude then this is the kind of relationship that will endure.

In all these years, no matter how many times we falling in dire straits due to lawsuits, Flash memory shortages, or the financial crisis, we have always remained grateful to all of our stakeholders including employees, suppliers, customers, investors, the local community, the central government for their support behind the scenes, and especially Toshiba, our best partner, always stand behind us. That's why if Toshiba needs our help, we will never say No!

Finally, it is my pleasure to share the Corporate Sustainability Report with everyone. It is slightly different from the financial reports that everyone is familiar with as the report sets out Phison's sustainability vision, corporate culture, business strategy, environmental protection and social responsibilities in a systematic manner. It also reveals the potential value of Phison's intangible assets, especially for the environment and society. This is something that everyone has neglected in the past.

In the future, we will continue to fulfill the sustainable development responsibilities of Phison through our corporate culture of "treating people honestly" and our business model of "innovation value" to make society and the environment a better place.

## 3 Communication with Stakeholders



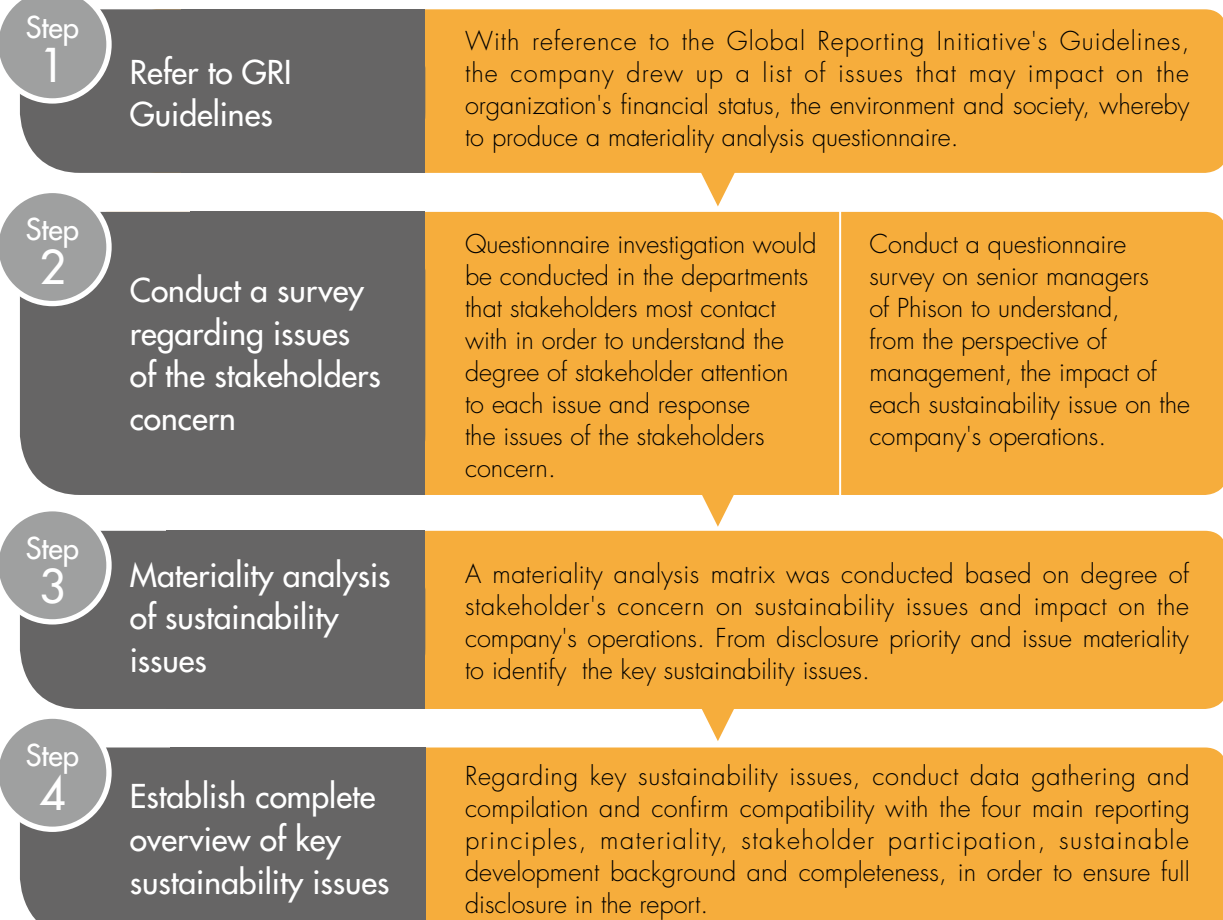










## Communication with Stakeholders

Phison hopes that this sustainability report will become a channel for effective communication with stakeholders and establish a basis for mutual trust. The method to identify Stakeholders is mainly based on to find the stakeholders that each department in Phison has the most contact with in daily operations first, and the sustainability report editorial team divides stakeholders into six main groups: employees, customers, suppliers, investors, government agencies and the local community. Each relevant departments and then represent corresponding stakeholders to conducted a materiality analysis to understand the degree of concern among stakeholders on each sustainability issue as well as the impact on business operations.

The priority of each issue for disclosure and response were defined, and important sustainability issues are given full disclosure in the report. By ensuring that disclosure satisfies stakeholder requirements and expectations, the objective of effective communication and building of mutual trust can be realized.



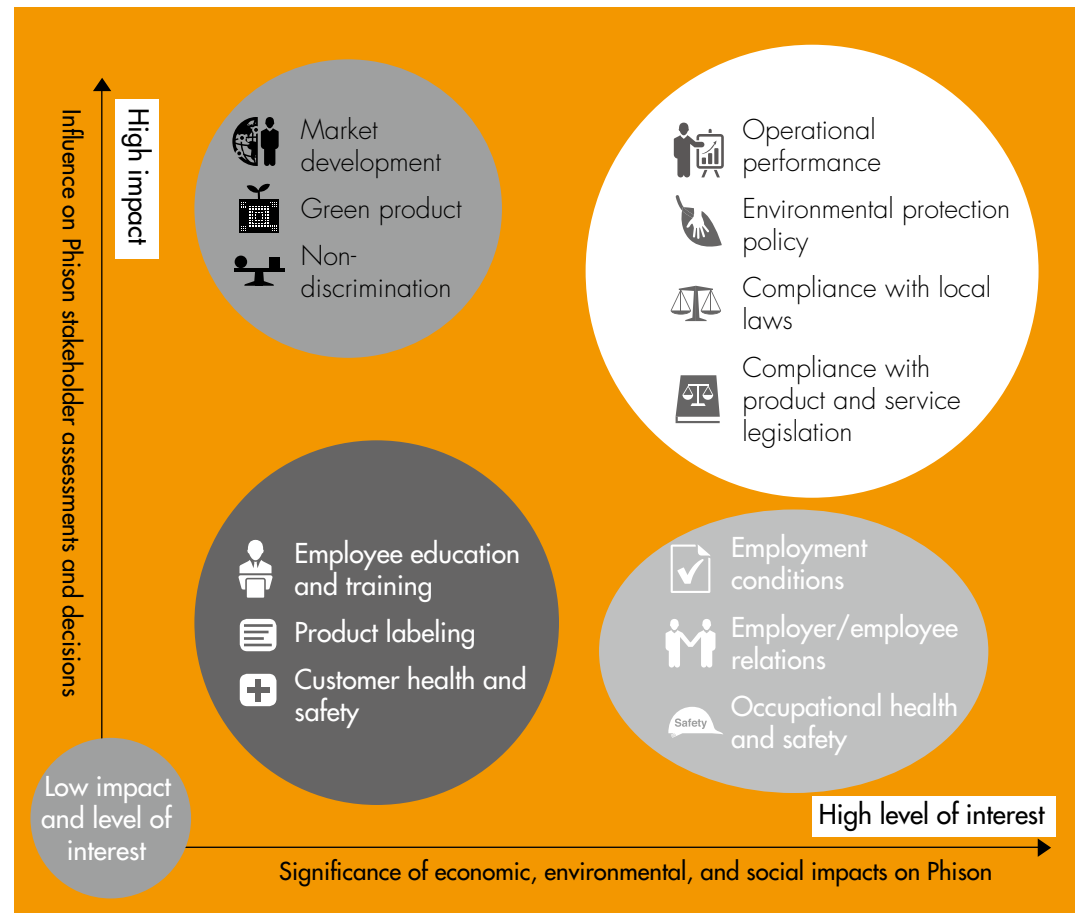
## Communications and Relevance between Departments and Stakeholders

Stakeholders	Response unit	Communication channel and frequency	Relevance of unit to stakeholders
Employee 	Human Resources Dept.	<ul style="list-style-type: none"> <li>Employee suggestion box ( any time )</li> <li>Forum ( ad hoc )</li> <li>New Employee satisfaction survey ( quarterly )</li> <li>Public notice ( any time )</li> <li>Chairman's mail box ( on demand )</li> <li>Inter-department communication meetings ( on demand )</li> <li>Company events ( ad hoc )</li> </ul>	Define the relevant HR policies and management activities. Learn about issues important to Phison employees and their expectations through policy formulation and management.
Customer 	Sales Division	<ul style="list-style-type: none"> <li>Telephone and e-mail ( daily )</li> <li>Customer satisfaction survey ( annual )</li> <li>Customer service hotline ( on demand )</li> </ul>	The main customer contact window. Learn about issues important to Phison customers and their expectations through long-term communication and interaction with the customer.
Supplier 	Quality Assurance Division Plant Management Dept. Production Division	<ul style="list-style-type: none"> <li>Supplier online platform ( any time )</li> <li>Supplier evaluation ( every 6 months )</li> </ul>	Formulate supplier-related policies and guidelines. Learn about the nature of supplier products and services through two-way communications.
Investor 	Shareholders Service Dept. Finance & Accounts Dept.	<ul style="list-style-type: none"> <li>General shareholders' meeting ( annual )</li> <li>Extraordinary shareholders' meeting ( ad hoc )</li> <li>Institutional investor conference ( ad hoc )</li> <li>Investor mailbox ( any time )</li> </ul>	To learn what's more important to general shareholders in the future development of Phison via periodical/ irregular shareholders' meeting, publication of annual reports, the investors' mailboxes, and information disclosure with transparency
Government agencies 	IP/Legal Office Administration Division	<ul style="list-style-type: none"> <li>Law, regulation and public hearings ( ad hoc )</li> <li>Official correspondence ( ad hoc )</li> </ul>	Comply with regulations and guidelines issued by government agencies. Also engage in ad hoc communication with government agencies to learn about the direction of regulations amendment.
Local community 	Administration Division	<ul style="list-style-type: none"> <li>Local community complaints ( any time )</li> <li>Participation in community events ( ad hoc )</li> <li>Hosting of charity events ( ad hoc )</li> </ul>	The main contact window for communicating with local people, learn what issues at Phison the local community concern about by communication and discussion.





## Materiality Analysis Matrix



The materiality analysis matrix identified the top 10 sustainability issues stakeholders concerned about and have a high level of impact on Phison. This report will explain our management policy, planning and execution, performance and future commitments on these 10 sustainability issues. Full disclosure will be provided on material issues. For other issues, disclosure will summarize the related management methods and performance for the year.







## Response to The Top 10 Sustainability Issues

Sustainability Issue	Inner	Outer	Response Chapter	Description	Stakeholders	Performance
Operational performance	AB	D		Operational performance and investment profit / loss	Employee Investor	Revenue of \$43.8 billion, net profit after tax of \$4.8 billion, total assets of \$32.0 billion, EPS of \$24.67. All operational performance indicators show annual growth.
Market development	AB		4. About Phison 6. Innovative Research & Development	Strategies and methods for increasing market share	Employee Investor	Actively forming upstream and downstream strategic alliances, cooperation with major semiconductor players, e.g. Toshiba and Kingston, to stabilize chip supply, and development of embedded memory technology. \$3 billion to be invested in 2017 in the continued development of core technologies as well as expansion into Flash memory-related application system products.
Compliance with local laws	AB	C	5. Corporate Governance	Compliance with laws and regulations, and any violations	Government	Detail of this item is disclosed in "5.3 Ethical Management".
Non-discrimination	AB	D		Policies and measures for preventing all kinds of discrimination	Employee	All forms of discrimination are explicitly banned in our labor policy and "Prevention and grievance handling guidelines for sexual harassment and gender-based discrimination" have been drawn up.
Employment conditions	AB	D	7. Truly Caring for Employees	Describe labor policy, type of employment and labor statistics	Employee	Labor policy and work rules defined. Employees' type of employment and manpower statistics are also presented in "7.1 Employee Overview".
Employer/employee relations	AB			Labor protection policy and practices	Employee	Human rights and employee rights declaration drawn up for occasional review and supervision by authorized units are also disclosed in "7.2 Employee Policy".

● Inner: A Headquarter, B Subsidiary ; Outer: C Local community, D Supplier, E Customer, F Consumer



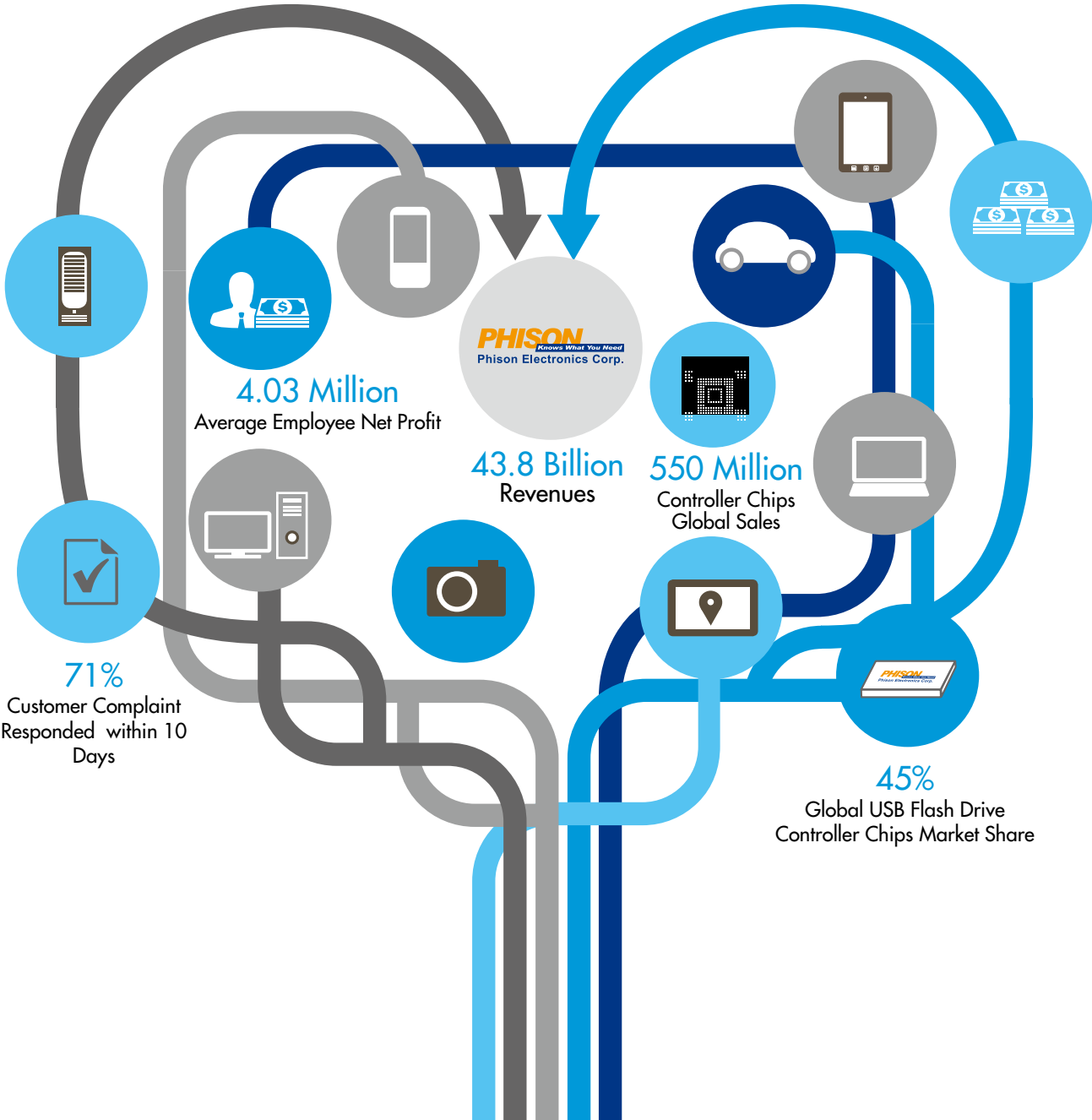
Sustainability Issue	Inner	Outer	Response Chapter	Description	Stakeholders	Performance
Occupational health and safety 	AB	E	7. Truly Caring for Employees	Prevention and management of accidents, disasters and occupational disease	Employee	The OHSAS 18001 occupational health and safety management system was introduced to effectively manage potential environmental risks in the workplace and to ensure that employees can enjoy a safe, healthy working environment.
Environmental protection policy 	AB	CEF	8. Environmental Responsibility	Describe environmental protection-related policies or management practices	Supplier Government	Phison has set up an ISO Committee to implement environmental protection policies and measures, including EHS policy, ISO 14001 environmental management system, greenhouse gas inventory, green products and green supply chain management.
Green product 	AB	DEF		Environmental impact of products and services	Customer Supplier	Phison provides clients with complete customization solutions including green design, green purchasing, green manufacturing, green logistics, recycling and audit evaluation. Phison does comprehensive environmental impact evaluation of products and services.
Compliance with related product and service regulations 	AB	EF		Have there been any violations of environmental regulations which products and services should comply with previously?	Customer Supplier Government	Phison complies with international environmental regulations such as WEEE, RoHS and REACH, and has also received SONY GP&OEM GP certification. No violations of products and services related to regulations in 2016.

● Inner: A Headquarter, B Subsidiary ; Outer: C Local community, D Supplier, E Customer, F Consumer

Phison was investigated and analyzed a materiality of issues concerned by stakeholders, and the results of the analysis were further used to decide the disclosure framework and core issues of the 2016 Phison Sustainability Report. These will be re-examined to carry out issue adjustment and performance reviews in the next sustainability report. This will help drive corporate self-inspection and improvements, and makes Phison meet stakeholders' expectations.

# 4 About Phison

- 4.1 Business Model
- 4.2 Global Operations
- 4.3 Management Challenges
- 4.4 Cooperation Based on Mutual Trust
- 4.5 Customer Relationship Management
- 4.6 Honors and Awards





# About Phison



Company Name	Phison Electronics Corp. ( Stock code: TW8299 )
Head Office Address	No.1 and 1-1, Qun Yi Rd.,Jhunan, Miaoli, Taiwan 350, R.O.C.
Date Established	November 8, 2000
Industry Category	Electronics parts manufacturing industry
Core Technologies	Flash memory controller IC design/Firmware integration technology
Key Products	Flash memory controller IC/ USB flash drive/ Memory card/ Solid state disk
Operating Revenue	NT\$43,782,512,000
Number of Employees	1,189

Phison has specialized in the development and design of flash memory controller ICs since it was established in 2000. Starting with the world's first Single-chip USB flash drive controller, Phison has continued to develop its core technologies while expanding flash memory-related application system products. The vertical and horizontal developments of core technologies are aimed at delivering the best, most innovative and most comprehensive flash memory solutions and making the most of Phison's core competencies.

In 2016, our controller chips global sales exceeded 550 million pieces and revenue reached NT\$43.8billion dollars. This meant that on average, each employee created 4.03 million in net profit. Phison is now the leader in controller ICs for USB flash drives, SD ( Secure Digital ) memory cards, eMMC ( Embedded Multimedia Card ) , PATA ( Parallel Advanced Technology Attachment ) , SATA ( Serial Advanced Technology Attachment ) , SSDs ( Solid State Disk ) and PCIe ( Peripheral Component Interconnect Express ) .



At the same time, Phison is willing to share with all stakeholders the value created in accordance with its business philosophy of "Sharing,Integrity,Efficiency, Innovation". The building of a partnership based on mutual trust enables both parties to collaborate in the most efficient manner and to deliver the most innovative total solution. Through professional and innovative R&D team which based on Phison's core values, we can provide total solutions that support all capacities and specifications while also exceeding the requirements and expectations of all business partners.

## Phison Core Value

Core Values:  
Providing All-in-1 Flash Memrnry Solutions

R & D

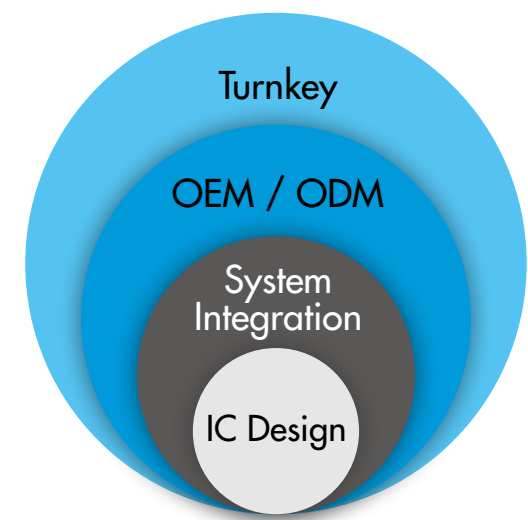
Flash Memory Controller ICs

Design

NAND Flash Memory System Products

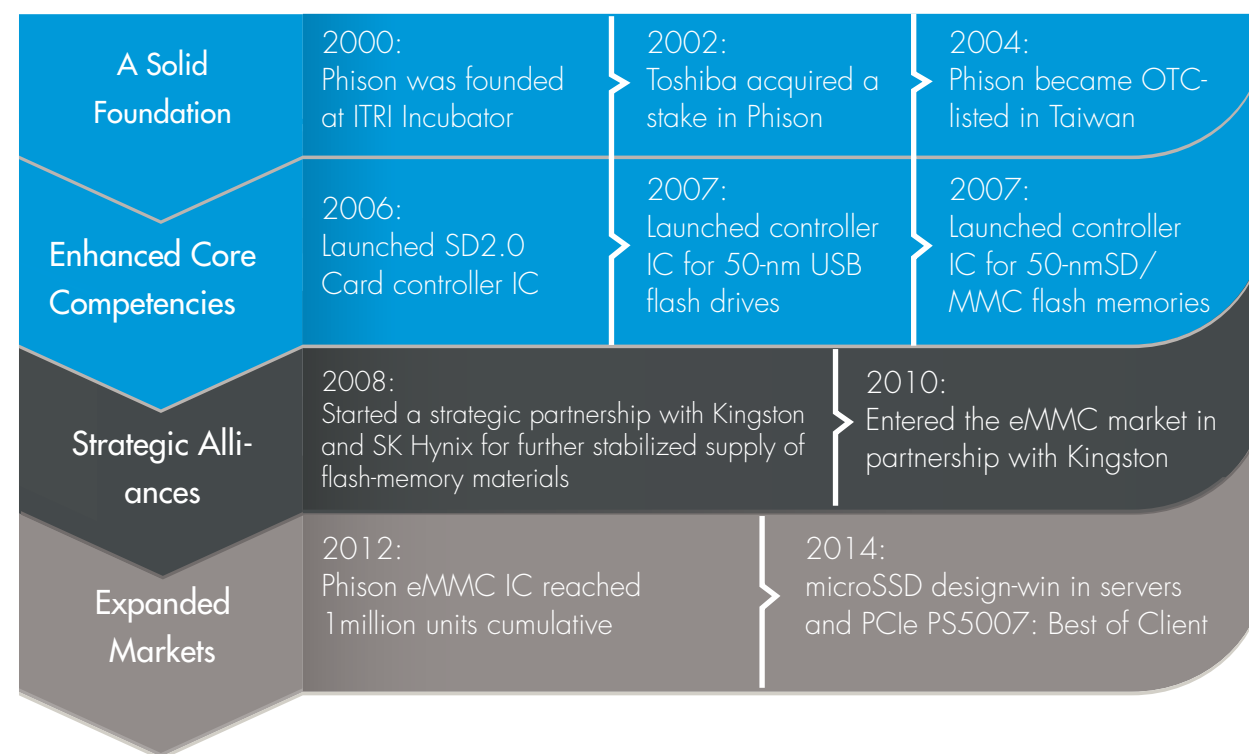
Integration

NAND Flash Solution

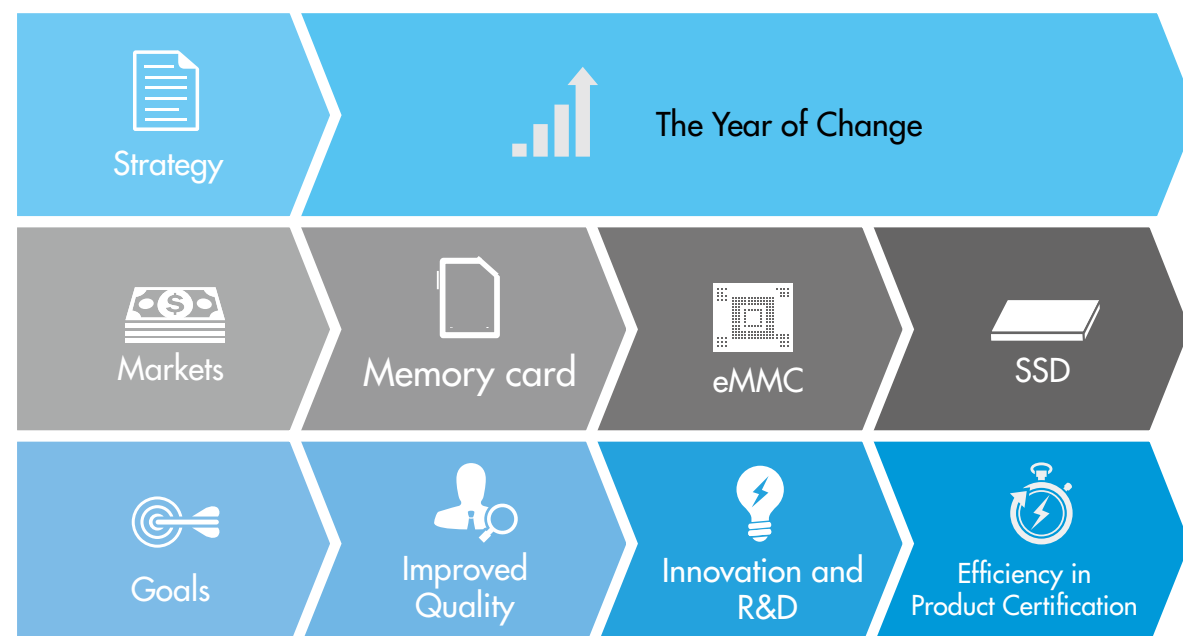




### Phison Milestones



### 2017 Strategic Objective - The Year of Change



Phison has aggressively invested in Research and Development. This involves acquiring more engineering resources and focusing on core technologies in the area of managed NAND solutions (eMMC & UFS) and SSD. These efforts have earned us key design wins in the channel and PC OEM business.

In the near future, Phison's strategy will focus on these key areas: continuing the R&D investment expansion, building key strategic alliances, supporting value-added vertical integration, and maintaining our product competitiveness by leveraging the ecosystem and supply chain partners.

— Chairman Pua Khein Seng

### 4.1 Business Model



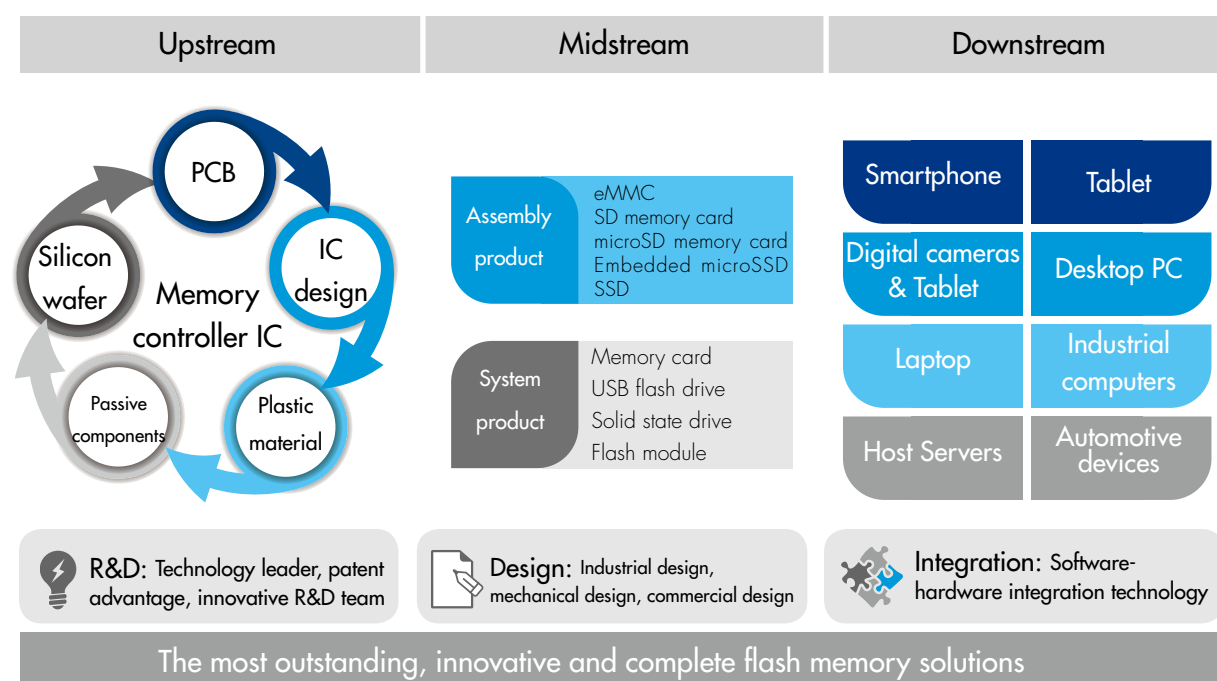
Item	2013	2014	2015	2016
Revenue	31,396,516	32,819,532	37,409,177	43,782,512
Operating cost	25,062,064	27,450,298	29,781,713	34,518,774
Gross profit	6,334,452	5,369,234	7,627,464	9,263,738
Income tax expense	654,802	541,355	576,571	675,083
Employee compensation and welfare	1,725,911	1,897,591	2,501,858	3,231,849
Total Assets	22,457,612	23,697,791	28,418,787	31,975,639

Unit: Thousands of NTD , Except Earnings Per Share.

Note 1. Consolidated financial performance for the table

Note 2. Please refer to Phison corporate website or consolidated financial performance on MOPS.

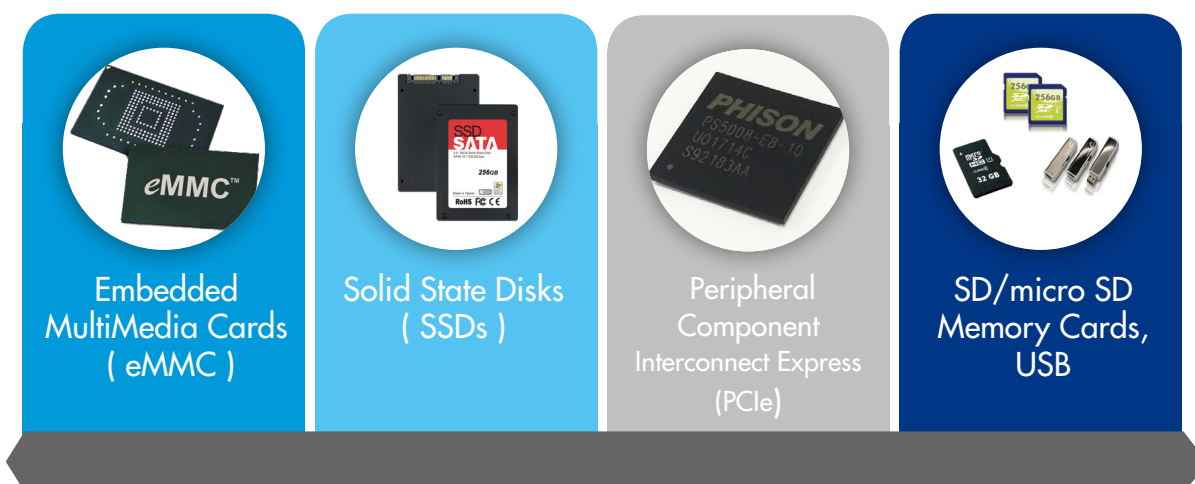
## Phison Value Chain



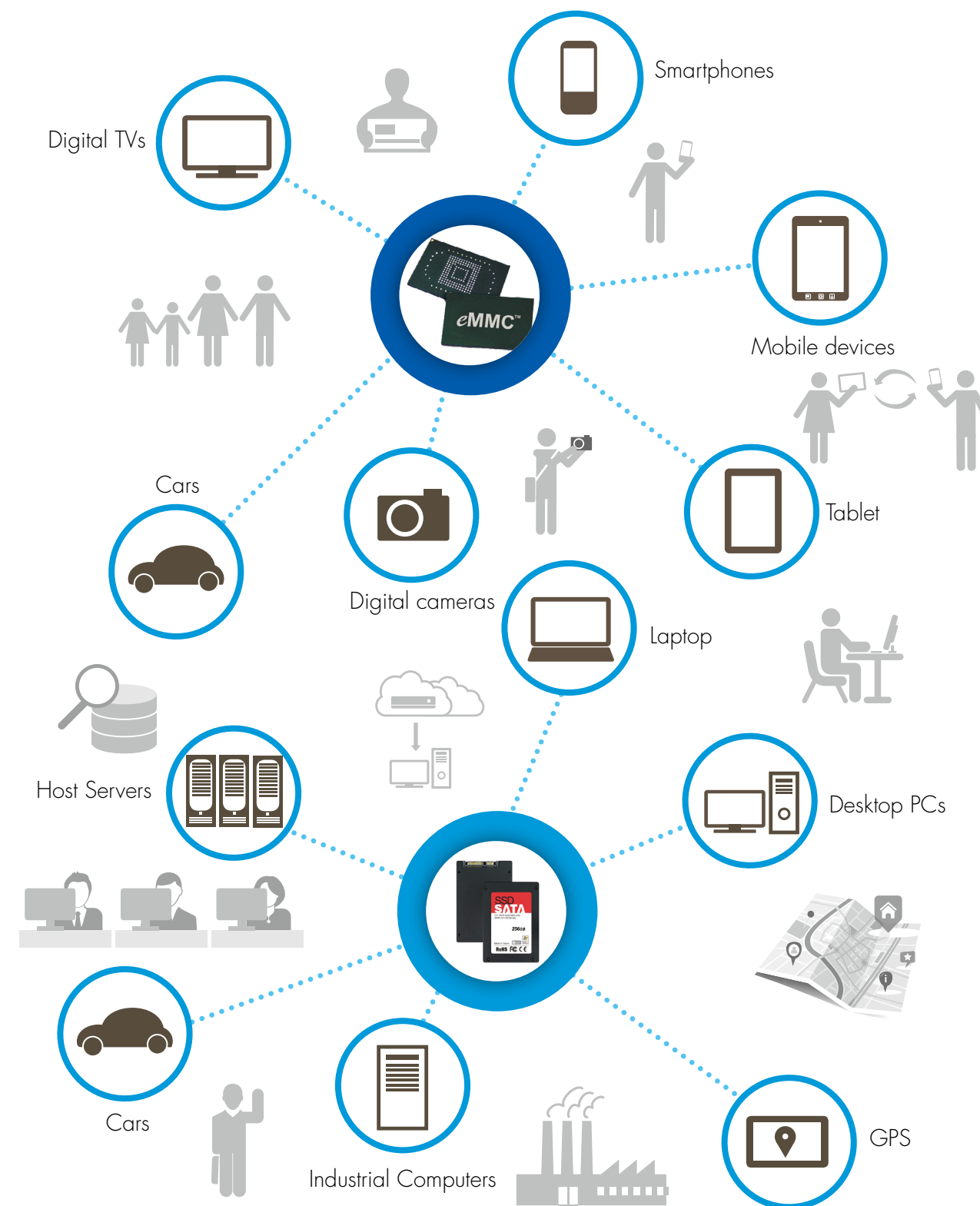
## Business Overview

R&D, design and integration of flash memory controller ICs and application systems by Phison enhances the value added of flash memory and provides total solutions that meet the needs of our business partners. Phison's main products include eMMC, SSD, PCIe, USB3.1 (Gen1) flash drive and SD, microSD memory card.

## Phison Products



## Phison Products in Everyday Life





## SSD

### SSD (Solid State Disk, Solid State Drive, SSD)

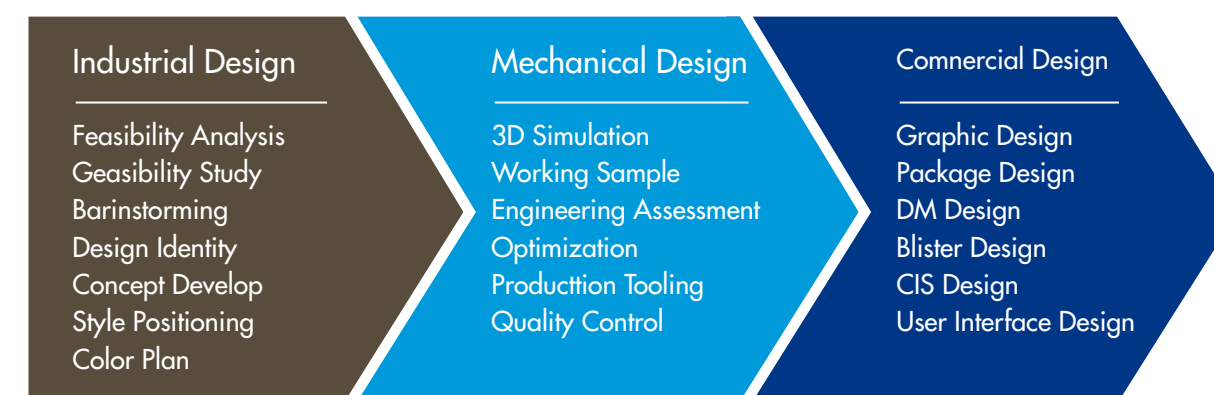
The demand of consumer PCIe SSD has been growing stronger since 2015 and this year Phison is launching a brand new PCIe controller – PS5008. With Gen 3x2 and 4 channels, PS5008 offers excellent sequential read (1600MB/s) and sequential write (1100MB/s) performance, as well as random read (260K IOPS) and random write (210K IOPS) performance. The dual-core design also provides a steady sustained performance. In addition, PS5008 supports both external DRAM and DRAM-less structures – meaning that PS5008 offers more board design flexibility and better BOM cost. PS5008 is designed for various applications including PCs, tablets, and gaming. Since 3D NAND flash is becoming mainstream now, PS5008 embraces such transition with major flash vendors and offer different form factors including M.2 (2280/2242) and BGA SSD. Our goal with PS5008 is to enable different PCIe solutions for consumer applications, and provide better service and support to customers.

### Privacy Protection Software Applications

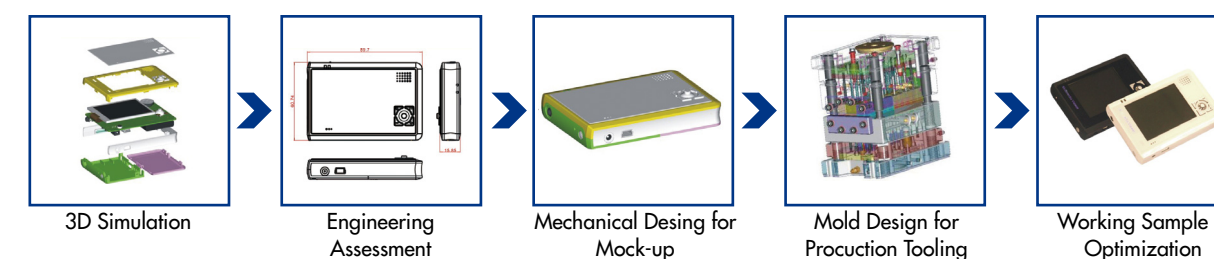


## Total Solutions of Industrial Design

In today's competitive marketplace, the success or failure of a product's design depends not only on design quality but also on its ability to respond different trends. This phenomenon is particularly obvious when it comes to USB flash drives. The greatest advantage of Phison products is the integration of talented professionals from different fields such as industrial design, mechanical design and commercial design to provide our customers with the most comprehensive design services. Each designer adheres professional skills and knowledge to ensure every design project can enjoy optimal planning and management.



The primary mission of Phison is to help customers introduce creative processes and to achieve the best design solutions. At the same time, we also continue to innovate and enhance our professional skills to help customers realize their ultimate design concepts. For international markets where design quality is at a premium, the Phison design team offers world-class design capabilities. Through computer-assisted industrial design and our experience in manufacturing and mass production, we can help designers turn original concepts into a fully realized product.



Commercial design serves as the bridge between the product designer and consumer. Visual design can present the product in a more complete manner to the consumer and also plays an important role in bringing the product to the mass market. It not only enables the end product to be presented with the best visual quality but also guarantees the best design and quality in each phase of mass production.





### The Foundation of Phison Choose and Stay True to the Correct Business Model

Phison began building system products, or complete products, from the very beginning. We not only made controller ICs for sale to system builders but also made system products that competed against these same companies. This meant that Phison was competing against its own customers. This led to customer dissatisfaction and accusations of being "both the players and the referee". In the beginning, nobody else was making these ICs so they had no choice but to buy from us. But when other IC companies appeared, they switched suppliers immediately.

Phison had to make a decision on whether to continue making system products. I thought about having Phison focus on IC design and abandoning the system market, but Aw Yong Chee Kong insisted that we stay with a business model of operating in both and not abandoning systems.

If we only made ICs, it might be profitable in the short term and would keep customers from defecting. But that would have not lasted long and would have made it hard to make money in the long term. Our theory was proved right in the end. Many IC customers that pay one dollar per unit today will only offer 80 cents tomorrow. They will then drop to 70 cents, and then 60 cents. How are you supposed to keep up with that? The price of controller ICs dropped very quickly and the average unit price are too low to be profitable.

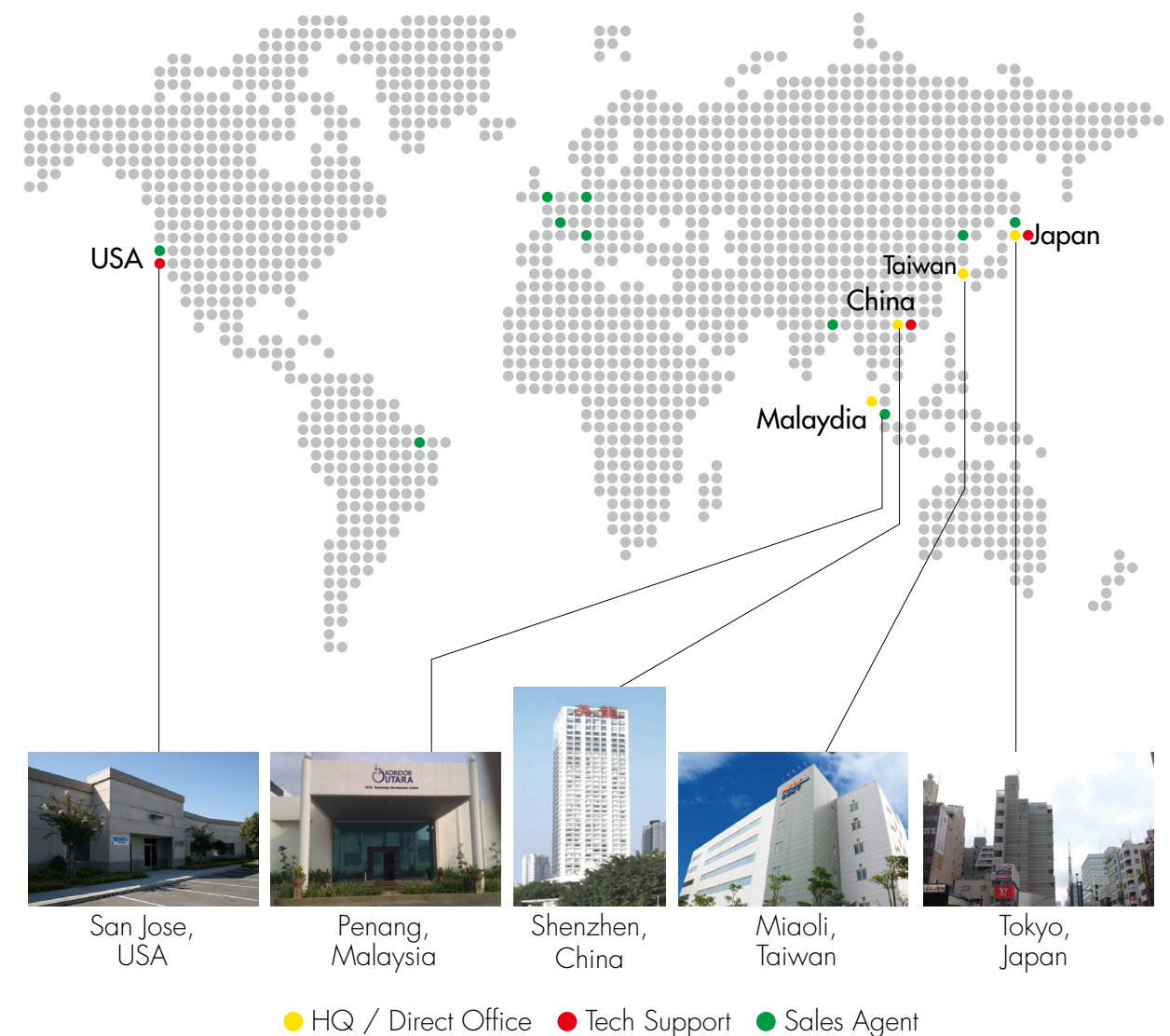
Phison could not concentrate exclusively on systems nor controller ICs. If Phison didn't make controller ICs, why would Toshiba bother backing us? We would have no value. Toshiba backed us because if we can turn a profit then we can continue to develop controller ICs. That means we can then turn around and help them push their Flash products. That's why Phison's controller IC business is essential.

Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"

## 4.2 Global Operations

Phison is headquartered in Miaoli, Taiwan, with subsidiaries in Japan, China, and Malaysia. This facilitates transnational strategic partnerships and the building of a closer working relationship with business partners in each country. Sales locations include Taiwan, North America, Brazil, Italy, France, Germany, U.K., China, India, Japan, South Korea, Malaysia and Russia, where local customers can enjoy timely technical support. When customers have a question or issue with product, they can receive immediate response and solution, which can strengthening partnerships with international customers.

### Global Operations Map





Distribution of major sales regions	
Sales regions	2016
North America	35.18%
Asia	33.59%
Taiwan	17.39%
Europe	12.25%
Central and South America	0.86%
Oceania	0.73%

In 2016, the overall value of SSD-related controller ICs and end product shipments grew by 51% year over year. We hope to continue to increase our products' share of market sales.

Share of the Global Memory Market

Phison's share of global market for USB flash drive controller ICs



Phison's share of global market for flash memory controller ICs

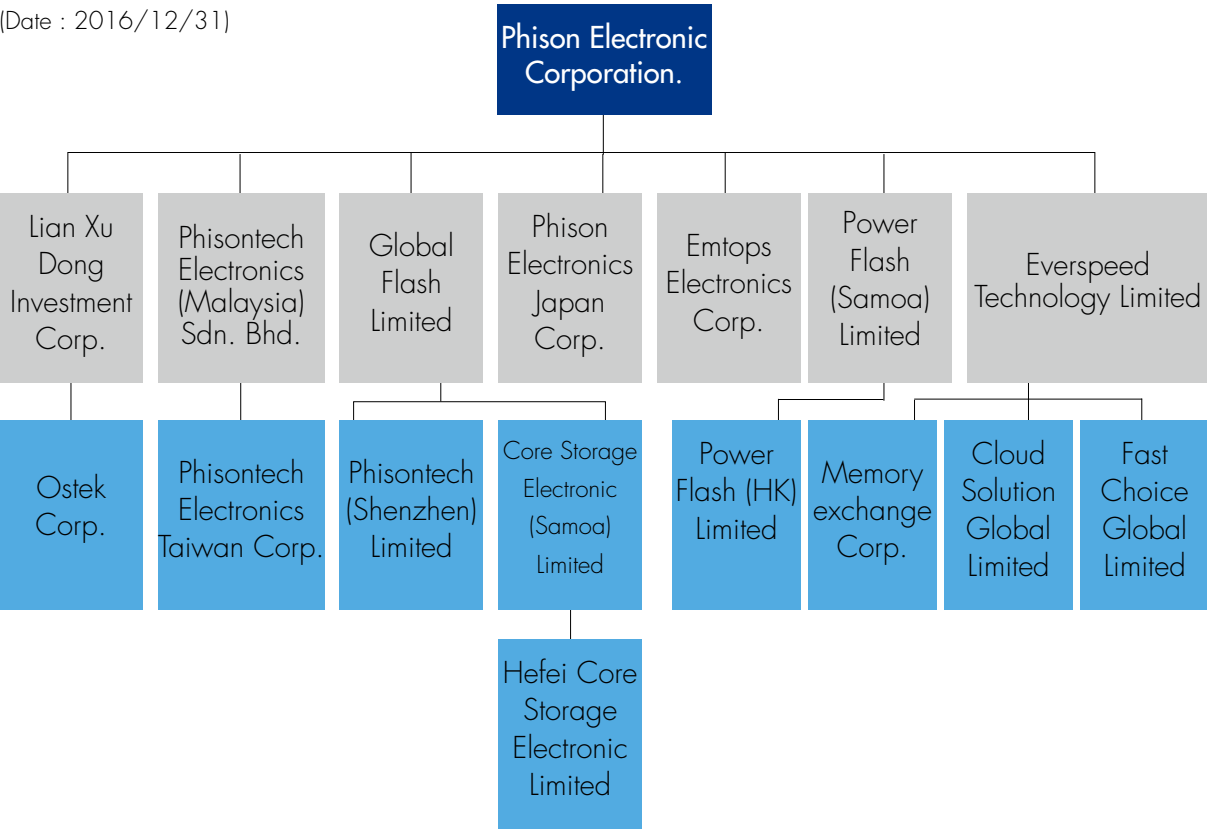
Research by the iSuppli market research firm showed that in 2012, global shipments of flash memory and USB flash drive controller ICs were 1.13 billion pieces and 360 million pieces respectively. Phison's flash memory card controller ICs accounted for 25% of the market while USB flash drive controller ICs accounted for 45%. In 2014, the overall market of SSD and eMMC are growing fast, Phison has become the leading supplier of Controller ICs-related expect foreign manufacturers.



Investments and Affiliates

Phison Affiliate Organizational Chart

(Date : 2016/12/31)



The re-investment policy of Phison focuses on the development of NAND Flash system integration technology. We are continuing to diversify, expand and enhance the quality of products and services, strengthen the development of key technologies, track future market requirements and enhance core competitiveness.

## 4.3 Operation Challenges

### Future Development Strengths



## 4.4 Cooperation Based on Mutual Trust

Honesty in conduct is the business philosophy of Phison and is also the principle of Phison's behavior and business operation. In the past, Phison always had a helping hand at critical moments, the reason is that in addition to Phison owns our own core technology and development capability to strive for self-improvement, mostly important of all, Phison knows to conduct business in honesty just same as to behave truth in life.

**TOSHIBA**  
Shareholding of Phison stock : 10.06%

### Partner - Toshiba

With respect to controller ICs field, it was the inevitable trend that most IC design houses dedicated in the NAND flash controller IC industry at the early stage worked closely with upstream NAND flash manufacturers. Given that Phison was capable of developing, designing and marketing both flash memory controller ICs and related system-level products, Toshiba not only began investing in Phison in 2002 but also continuously cooperated with Phison on various product developments with adoption of Toshiba's specialized Multi-Level Cell ( MLC ) and Triple-Level Cell ( TLC ) flash memory technologies to design and develop high-performance, high-compatibility controller ICs and, thus, related flash memory were also purchased from Toshiba's affiliates or distributors. In addition, the controller IC firmware developed by Phison worked well with Toshiba's flash memory. This, along with the vibrant growth of the flash memory product market and successful launch of Phison's innovative application product of flash memory, meant the business began to expand rapidly and the business relationship between two companies getting closer.

As Toshiba has its own NAND flash wafer factory this meant it could support Phison on flash memory. Toshiba is also the originator of the Secure Digital and xD-Picture formats. Add to this, Phison has cross-licensing agreements for small memory card formats with companies promoting which to obtain controller IC patent protection so that Phison can dedicate to development of flash controller ICs without obstacle. The development of various flash controller IC products along with obtaining the stable flash memory supply is the key point of Phison's rapid growth.

### "Toshiba Chairman - Kiyoshi Kobayashi's Commend"



Ten years ago, Tanaka Motoji San and I visited the Incubation Center of Industrial Technology Research Institute ( ITRI ) to have in-site survey of USB single-chip controller of Phison Electronics Corp., where several Phison R&D staffers were working so hard and practically lived in the lab. One of them is the Chairman Pua who is young at that time. I remember the scene so distinctly just like it was yesterday.

The success of a startup depends not only on its technological prowess, but also on its management's personal qualities and leadership, as well as the excellence of employees, shareholders or business partners. I expect Phison to keep moving forward, adhere to its founding philosophy, and deepen its contribution to the industry as a whole.

Kiyoshi Kobayashi,  
Chairman, Toshiba Corporation Semiconductor & Storage Products Company

### Future Development Challenges and Response Strategies

Blooming industry with numerous new competitors	Coping strategy: Phison uses excellent key-technological capabilities in NAND flash controller IC design and firmware programming to expedite the development of new generation products, endeavors to increase value added and multifunctional integration of products, and offers customers various total solutions so as to enlarge the technical gap ahead to the competitors in the same industry and to increase profits-earning ability effectively.
Global flash memory market dominated by international giants	Coping strategy: Phison works closely with the international leading flash memory suppliers to further seek strategic alliance chance and also monitor specifications changes of flash memory devices, supply-demand situation in market and pricing trends so as to perform flexible stock adjustment to reduce inventory risks.
Diversified product specifications	Coping strategy: Due to the flash memory specifications are constructed by the international giant companies and there are numerous types of small-sized memory cards in the market, it is imperative that Phison keeps track of progress of all flash memory specifications, latest small-sized memory card protocols and the end market, so as to expedite development of new technology and new product, to increase more types of main products, and to enhance versatile functions of products so that Phison will be able to achieve market segmentation, increase value added of products and extend product life cycle, and reduce the impact of specification changes or under performance of end-product development.





Toshiba planted and adopted tree in Phison's farm / Tree category : Prunus campanulata / Adopted Date : 2010.10.08

### The Foundation of Phison - Toshiba Saved Phison Twice

The best decision ever made by Phison was to bring Toshiba on board as an investor.

In the beginning, few people thought Phison would amount to anything. Toshiba was the only corporate shareholder willing to invest in us. When Phison became embroiled in a lawsuit and all of our cash was provisionally seized by the courts, Toshiba chose to believe in us and upped its investment, saving the company.

The court case in 2002 led to the provisional seizure of \$45 million NTD in cash. This was all of the cash that Phison had at the time and our customers' confidence in us was shaken as well. Toshiba was already a shareholder at the time and it chose to inject a further \$100 million NTD. This money saved Phison. It restored the company's cash flow and enabled us to endure the 4-year-long legal battle until both parties agreed to a settlement.

When a global shortage of flash memory occurred in 2003, it was Toshiba that somehow collected the sufficient goods and sold it to Phison for below market price. Chairman Pua Khein Seng was moved beyond words and secretly swore to himself: "We'll never say NO to TOSHIBA!"

The table has turned. In 2007, over-supply in the memory market led to plummeting prices and it was Toshiba's turn to ask Phison to buy its inventory during difficult times. Even though it was a deal that would incur a loss of more than \$1 billion NTD, Pua signed it without hesitation to pay back in consideration of Toshiba's past support. Since then, the friendship between Phison and Toshiba has become something that money can't buy.

Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"



### Strategic Alliance - Kingston

Flash memory is extensively used in 3C product applications, especially in consumer products such as USB flash drives, memory cards and MP3 players. Flash memory is also quickly becoming a standard feature on smartphone and other handhold devices. Embedded memory system products integrate flash memory and controller ICs to make it easier for manufacturers to make use of flash memory and to shorten product design time. This has in turn accelerated the introduction of flash memory in various products.

To break into the supply chain of leading smartphone makers and take a leading market share, Phison has formed a new joint venture to establish a new company with Kingston, the international leader in DRAM ( Dynamic Random Access Memory ) modules to target the market for embedded memory system application products. Kingston leads the new company while Phison focuses on controller IC design. By integrating the purchasing, sales, production, manufacturing and design expertise of both sides, this novel partnership model has carved out a niche in the emerging market of embedded memory applications.

Kingston is not only the largest independent DRAM module maker in the world with a market share of over 40% but is also one of the top players in NAND flash modules as well. This means it an industry leader in terms of brand recognition, channel strategy and purchasing power. Kingston also possesses extensive manufacturing capacity and comprehensive global distribution channels. This has helped to ensure a steady supply of flash memory and also helped to develop product sales channels and business promotion.

The strategic partnership between Phison, Toshiba and Kingston is different to that of other controller IC design houses. In the future, the partnership model will become more diversified as well. Phison will continue to build its position with care in order to establish long-term strategic partnerships, engage in vertical integration of upstream/ downstream resources, create efficient and plentiful production capacity, develop new product lines, expand into new market areas and provide the market with more complete product services.

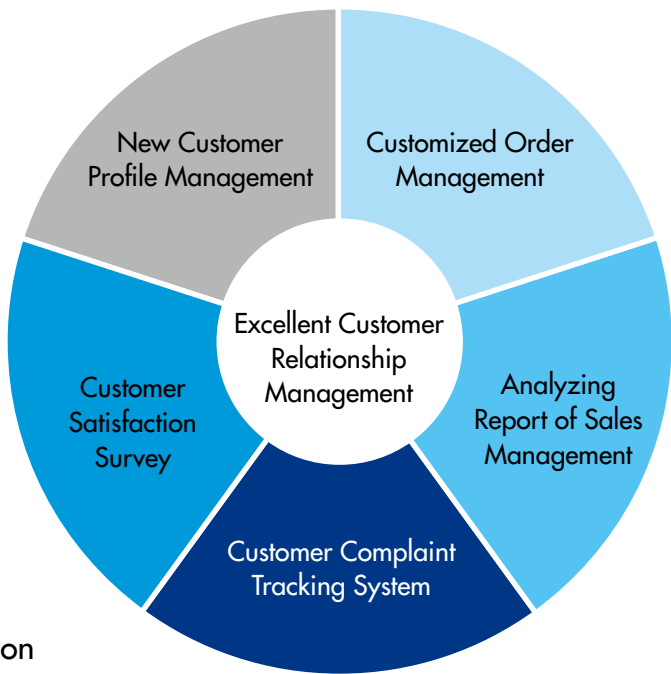
Phison now owns nearly 20% of the controller market but it is stamina that matters. The company must have the capability to develop next-generation application technology. If competitors must purchase controllers from affiliated companies then there is bound to be conflicts of interest. At Phison, all development is conducted in-house. This was why large companies like Kingston and Hynix got interested in Phison and cooperate with Phison.

We are "partners" with our upstream, it is not a "master and servant" relationship. If we didn't have our own controller technology then I might have to get on my knees to beg my suppliers! I have no intention of groveling for the sake of business however. There is nothing wrong with humility but servility is too much for me.

Source: Manager Today @ CEO Lectures - Survival Instinct is More Tenacious than Strategy

4.5 Customer Relationship Management

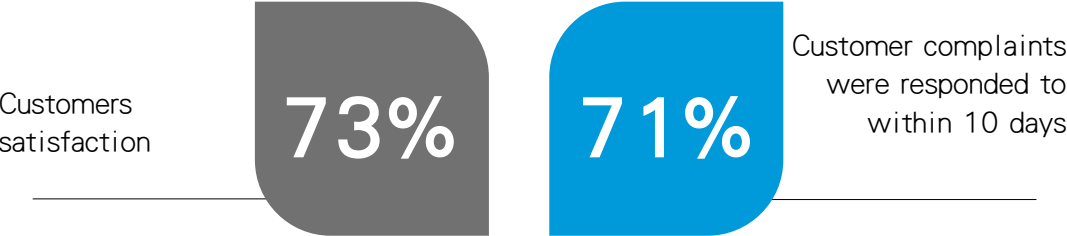
Phison makes satisfying customer requirements its top priority. To achieve excellence in customer relationship management, customer service regulations and processes have been systematized to ensure the consistency of Phison's service quality. This serves as the basis for providing high-quality customer services, helps customers create value and also maximizes profits for Phison as well.



Customer Satisfaction

Phison began conducting annual customer satisfaction surveys among our top 25 customers in 2006. We hope that better understanding of customer requirements and expectations will help drive continuous improvement at Phison in the future. Customers are asked to score Phison in terms of price, delivery, service, technology and quality. The results are also used to review Phison's internal performance evaluations.

Up to the year of 2016, customer satisfaction among the top 25 customers has generally stayed at around 70% to 80%. According to survey results, customers wanted price adjustments. In response, Phison will provide customers with strategic project-specific prices and set/adjust prices based on customers' product and service requirements in order to satisfy customers' expectations on pricing. In the future, we will continue to make raising customer satisfaction our aim by constantly enhancing the quality of Phison products and services.

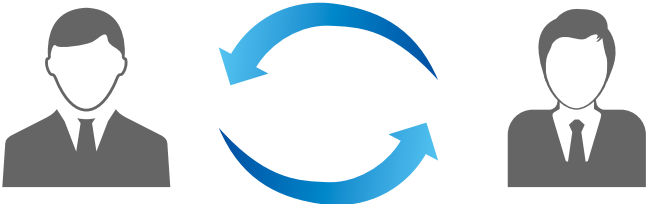


Customer Complaints

To improve efficiency of response process for the customer complaints and increase customer satisfaction, Phison has established a customer complaints management process. When a customer experiences a quality problem or has any questions or complaints, they can communicate with Phison through the customer complaints channel. The customer's problem will be dealt with right away so as to effectively increase bilateral interaction quality and frequency. In 2016, 71% of customer complaints were responded within 10 days after receiving the notice. No case of divulging customer's information or violating customer's privacy.

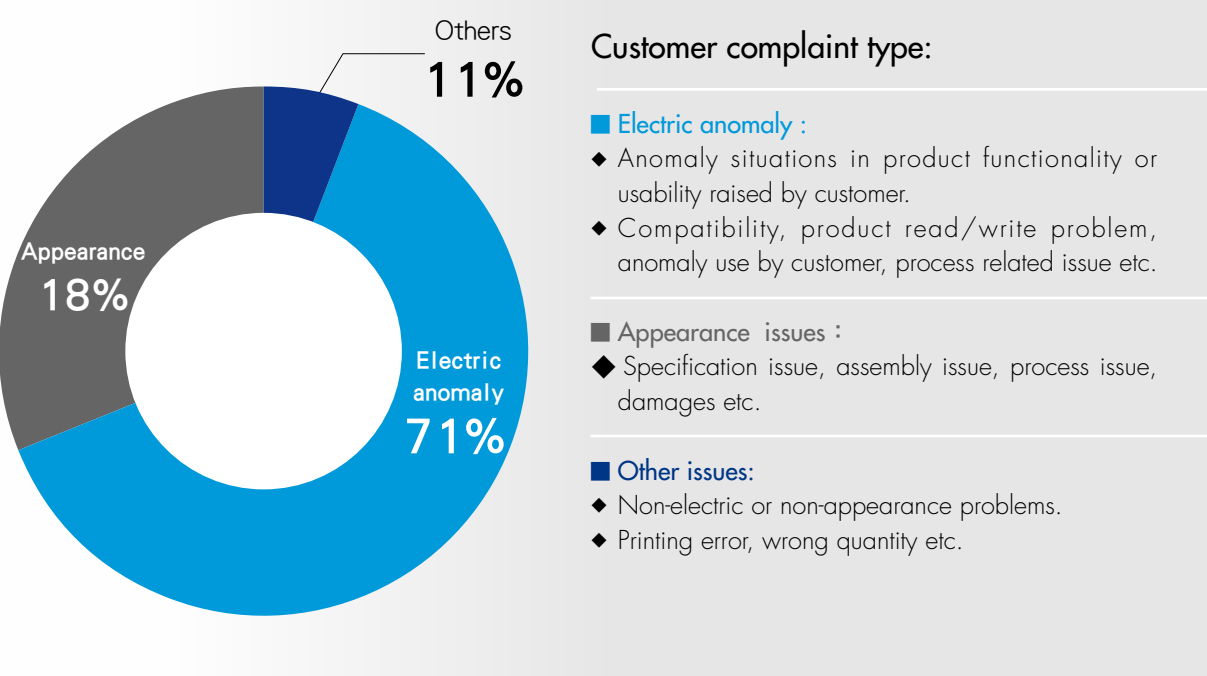
In order to meet customer's request, the time around time for customer complaint definition modified form 7 days(2015) to 10 days(2016).

Customer Complaints Management Process





2016 Customer Complaint Types



4.6 Honors and Awards

2016 Honors



Award	
	TOSHIBA 2016 Best Partner
	Toshiba 2016 Award Greatest Sales Contribution
	Social Welfare
	■ Certificate of Appreciation: Yu An Children's Home
	■ Certificate of Appreciation: Hsinchu TFCF
	■ Certificate of Appreciation: Taipei Medical University, TMU
	■ Certificate of Appreciation: National Hsinchu University of Education
	■ Certificate of Appreciation: Chinese Professional Management Association of Hsinchu
	■ Certificate of Appreciation: Syin-Lu Foundation
	■ Certificate of Appreciation: Hsin Miao Development Center
	■ Certificate of Appreciation: Huashan Foundation
	■ Certificate of Appreciation: Holy Family for Special Education
	■ Certificate of Appreciation: Eden Social Welfare Foundation

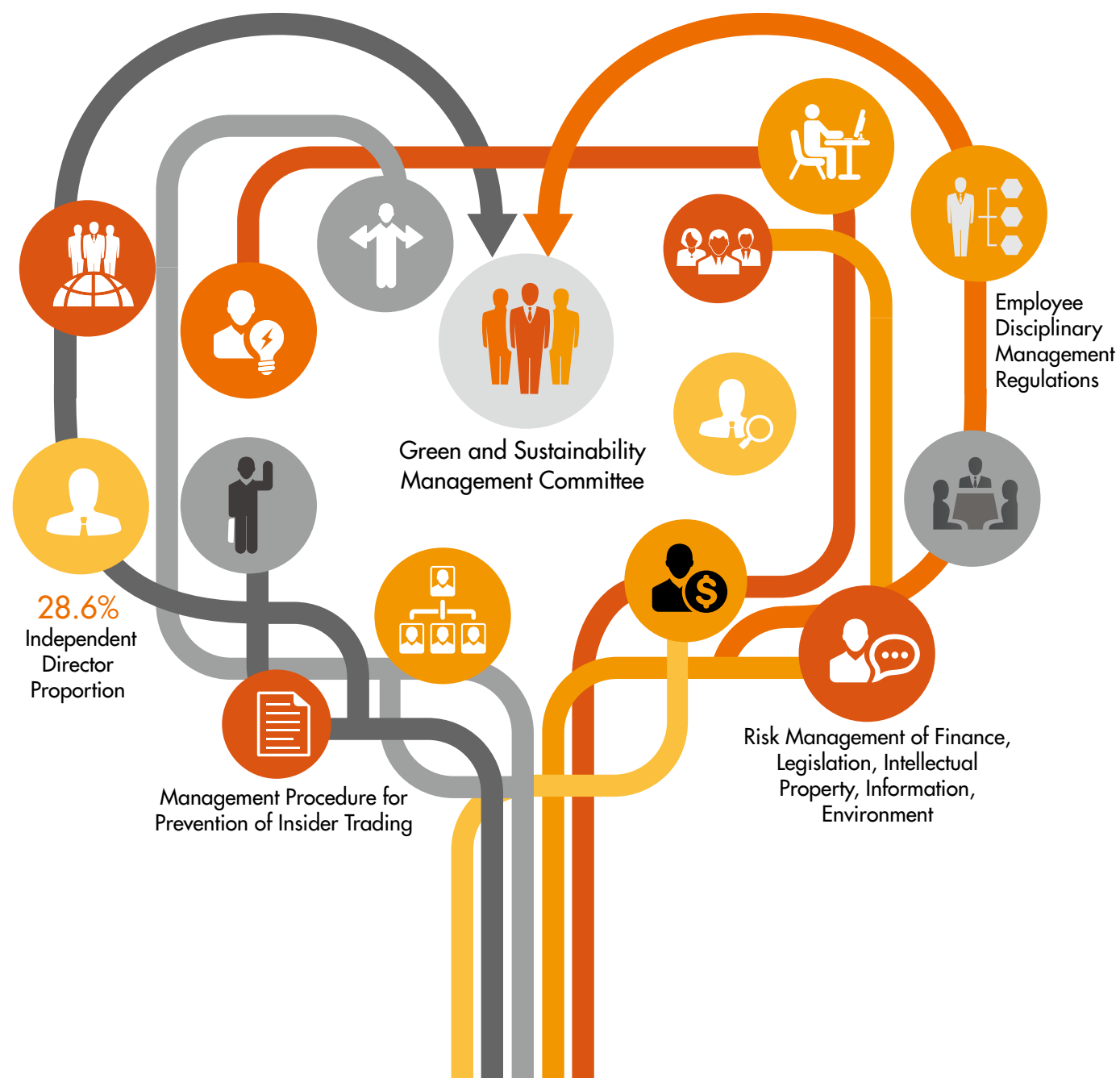
Participation in Industry Associations

Year of Entry	Organization	Membership Type
2012-2016	Mobile Industry Process Interface Alliance	Member
2010-2016	Universal Flash Storage Association	Board member
2009-2016	SD Card Association	Board member
2008-2016	Solid State Drive Alliance	Board member
	The IEEE Standards Association	Corporate Membership
2007-2016	Joint Electron Device Engineering Council JC-42 Solid State Memories JC-64 Embedded/Removable Memory: Storage/ Cards	Member
	Non-Volatile Memory Host Controller Interface	Working group member
2006-2016	Open NAND Flash Interface	Board member
2004-2016	The Peripheral Component Interconnect Special Interest Group	Member
	USB Implementers Forum	Member



# 5 Corporate Governance

- 5.1 Board of Directors and Supervisors
- 5.2 Internal Control System
- 5.3 Ethical Management
- 5.4 Remuneration Committee
- 5.5 Risk Management



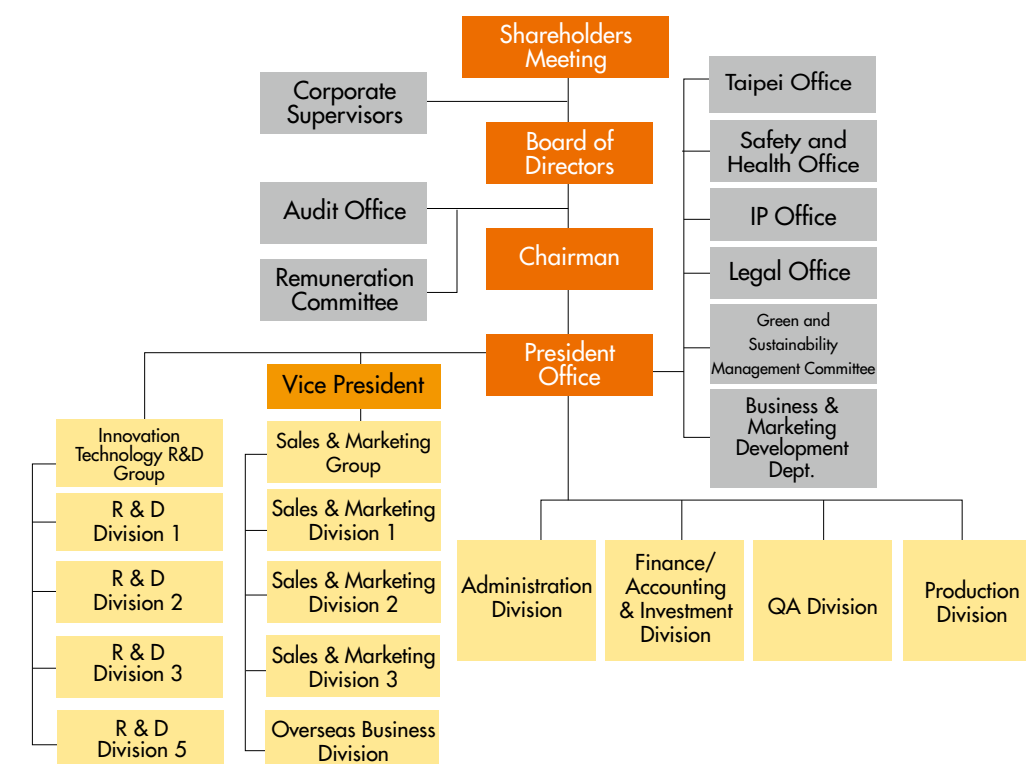
## Corporate Governance

Phison plans to set up a Green and Sustainability Management Committee in 2014 to promote CSR. The publication of this sustainability report and inclusion of CSR into our business philosophy will strengthen our understanding and practice of sustainable development, ethical management, corporate governance, environmental protection and social engagement. In addition to improving our corporate transparency and accountability, it will also ensure that CSR policies and concepts can be incorporated into daily operations, and allow our core values to make a difference in society and the environment.

We aim to create a comprehensive corporate governance scheme and enforce accountable management policies to strengthen stakeholders' trust in Phison. Ethical management serves as the defining principle for corporate governance at Phison. The corporate governance structure was drawn up and implemented in accordance with relevant regulations including without limitation the Company Act and the Securities and Exchange Act. A Remuneration Committee and Audit Office have been set up under the Board of Directors to define and review executive's and directors, supervisors, managerial officer's remuneration and other tangible incentives as well as to provide supervisors and independent directors with reports from internal audits. These strengthen the effectiveness of our corporate governance operations.

### 5.1 Board of Directors and Supervisors

#### Corporate Governance Structure Chart









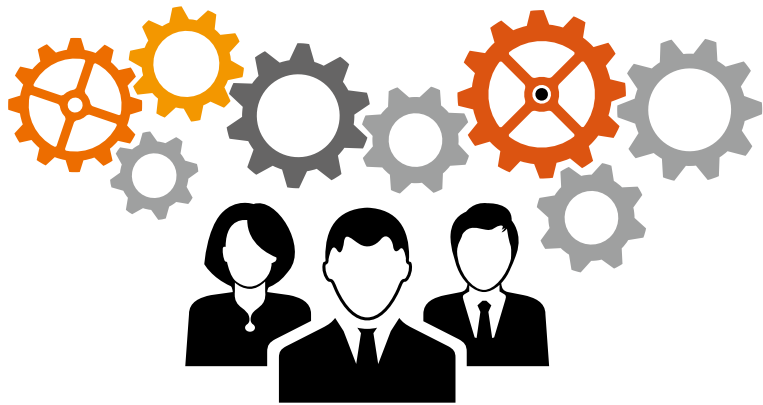
Top 10 Shareholders

2017/04/15

Name of major shareholder	Holding ( Unit: Shares )	Shareholding percentage
Toshiba Corp.	19,821,112	10.06%
Trusted Investment Account of Kingston Technology Inc. by CTBC Bank	15,400,000	7.81%
Trusted Investment Account of Employees' Provident Fund for France Paris Islam Property by Standard Chartered	7,547,000	3.83%
Trusted Investment Account of Singapore Government by Citi Bank	4,566,000	2.32%
Pua, Khein-Seng	4,557,972	2.31%
Yang, Jiunn-Yeong	4,549,114	2.31%
AwYong, Chee-Kong	3,355,745	1.70%
Wu, Han-Wei	3,316,760	1.68%
Trusted Investment Account of Norway Central Bank by Citi Bank	2,920,504	1.48%
Labor Retirement Fund of New System	2,487,000	1.26%

2016 Board of Directors' Gender and Age Distribution

Gender Ratio	Male 	Proportion	Female 	Proportion
Under 30 years old	0	0%	0	0%
30-50 years old	3	30%	0	0%
Over 50 years old	6	60%	1	10%
Total	9	90%	1	10%



Board of Directors' Academic Background, Roles and Continuing Education

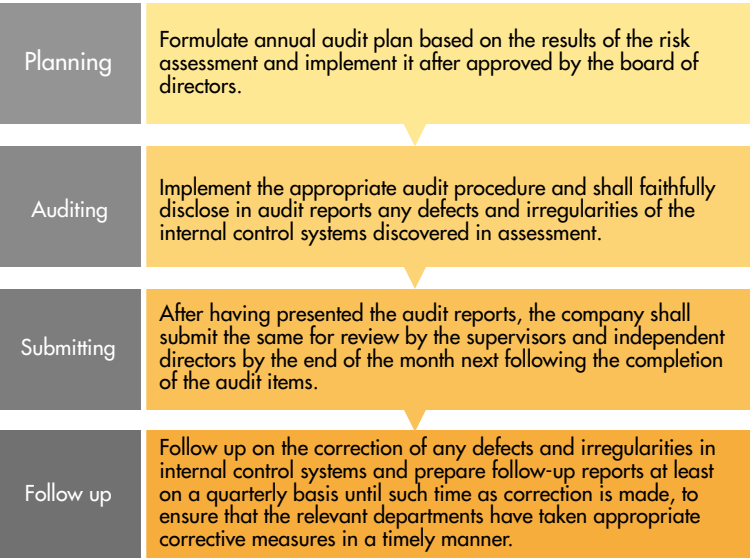
Title	Name	Gender	Academic Background	Current/Acting Roles	Continuing education for directors
Chairman	Pua Khein Seng	Male	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	CEO of Phison Electronics Corporation; Directors Representative and Chairman, Lian Xu Dong Investment Corporation, OSTEK Corporation, Phisontech Electronics Taiwan Corp., Memoryexchange Corporation; Directors Representative, Kingston Solutions Inc.; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited, HYCON Technology Corporation, Cheng He Investment Co., Ltd.	Integrity, governance and corporate social responsibility and their cases (3 hours) Business Secret Protection and its cases (3 hours)
Director	AwYong Chee Kong	Male	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	President of Phison Electronics Corporation; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp.; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, Core Storage Electronic (Samoa) Limited.	Integrity, governance and corporate social responsibility and their cases (3 hours) Business Secret Protection and its cases (3 hours)
Director	Tzung Horng Kuang	Male	Master of Business Administration of Greenwich University Kogen Singapore Pte Ltd	Vice-President of Phison Electronics Corporation; Directors Representative and Chairman, Emlops Electronics Corporation ; Directors Representative, Microtops Design Corporation, OSTEK Corporation ; Director, Phison Electronics Japan Corp., Power Flash (Samoa) Limited.	Integrity, governance and corporate social responsibility and their cases (3 hours) Business Secret Protection and its cases (3 hours)
Director	Chen An Chung	Male	Master Degree of E.E., University of Florida, USA.	Technical Manager of Innovation, Research and Development Business Group of Phison Electronics Corporation.	Integrity, governance and corporate social responsibility and their cases (3 hours) Business Secret Protection and its cases (3 hours)
Director	Toshiba Corporation  Hiroto Nakai : Representative of Toshiba Corporation	Male	N.A.  Bachelor of Earth Resources Engineering of Tohoku University Master of Engineering of Tohoku University Toshiba Corporation Storage & Electronic Devices Solutions Company, Memory Division, Senior Fellow	Director and Supervisor of Toshiba Memory Semiconductor Taiwan Corporation. Because Toshiba Corporation has many positions in lots of companies, the detailed information of these positions are not listed here.  Toshiba Memory Company, Memory Division, Senior Fellow.	Integrity, governance and corporate social responsibility and their cases (3 hours) Business Secret Protection and its cases (3 hours)  Continuing education class by Hiroto Nakai, corporate representative
Independent Director	Chen Wei Wang	Male	CEO, Quanta Computer Inc. President, Quanta Computer Inc.	Director, Janus Technologies, Inc., Ichia Technologies Inc. ; Independent Director, Casetek Holdings Limited, Simplo Technology Co., Ltd. ; Supervisor, Choice Development, Inc., Director Representative, Chicony Power Technology Co., Ltd.	Integrity, governance and corporate social responsibility and their cases (3 hours) Business Secret Protection and its cases (3 hours) Fraud investigation and emergency response (3 hours) Potential tax risk of Taiwanese companies in China (3 hours)

Title	Name	Gender	Academic Background	Current/Acting Roles	Continuing education for directors
Independent Director	Wang Shu Fen	Female	Ph.D. in Finance, University of Houston Director of Department of Information and Finance Management, National Chiao Tung University Director of EMBA in Taiwan, University of South Australia Review Committee Member of TWSE	Associate Professor, Institute of Finance, National Chiao Tung University ; Independent director, Bothhand Enterprise Inc., Original Biomedicals Co., Ltd. Member of the Republic of China Enterprise Evaluation Association Member of the Public Debt Management Committee in Hsinchu County Member of the Public Debt Management Committee in Hsinchu City United States Beta Gamma Sigma Honorary Member Securities Analysts of ROC	Insider trading and corporate social responsibility - 2016 corporate governance series (3 hours)  Integrity, governance and corporate social responsibility and their cases (3 hours)  Business Secret Protection and its cases (3 hours)
Supervisor	Wang Huei Ming	Male	MA in Industrial Management from Chung Hua University Executive Director of Taiwan Certified Public Accountant Association Chairman of Discipline Committee of Taiwan Certified Public Accountant Association Member of Discipline Committee of Taipei Certified Public Accountant Association Vice Chairman of Moral Committee of Taiwan Certified Public Accountant Joint Association	Director of Moores Rowland CPAs; Director of Taiwan Branch of Praxity Global Alliance of Independent Firms; Principal of Shilouhsuan Restaurant and Citizen Business Management Consultant Inc.	Integrity, governance and corporate social responsibility and their cases (3 hours)  Business Secret Protection and its cases (3 hours)
Supervisor	Yang Jiunn Yeong	Male	Postdoc of Graduate Institute	Director of Apacer Technology Inc.	Integrity, governance and corporate social responsibility and their cases (3 hours)  Business Secret Protection and its cases (3 hours)
Supervisor	Chen Chiun Hsiou	Male	MBA of Binghamton University, State University of New York Executive VicePresident of Rich Father International Holdings Lecturer of Chen An-Chi Educational Training Center Manager of General Management of Ichia Technology Inc. President of Kaechuan Corp. Marketing Specialist of Taiwan IBM Inc. Planner of CSEC	Independent of director ,Waffer Technology Corp., National Aerospace Fasteners Corporation.	Insider trading and corporate social responsibility - 2016 corporate governance series (3 hours)  Integrity, governance and corporate social responsibility and their cases (3 hours)  Business Secret Protection and its cases (3 hours)

5.2 Internal Control System

Phison enforces the principle of ethical management in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and other relevant laws and regulations. The Audit Office which reports to the board of directors mainly assists the board of directors and mangers in inspecting and reviewing defects in the internal control systems as well as measuring operational effectiveness and efficiency, and shall make timely recommendations for improvements to ensure the sustained operating effectiveness of the systems and to provide a basis for review and correction.

Internal Control Process



5.3 Ethical Management

Phison’s management has always embraced the principle of honesty. From the Board of Directors down to every unit in the company, honesty is promoted in every aspect and level of corporate operations. All employees, executives and board members are expected to practice this principle and set a pattern for honest and ethical business practices.

Under the "Board of Directors Meeting Rules", board members must state the interest they or the entity they represent have in any important issues during the board meeting. If there is a potential conflict of interest, they will not participate in the discussion or voting, and should recuse themselves. Nor may they vote on other directors' behalf.

At the same time, Phison has formulated an "Employee Code of Conduct", "Work Rules" and "Disciplinary Management Regulations" as part of its Employment Contract to prevent dishonest behavior. Phison requires all employees to notify the company of any professional ethics issues such as existing or potential conflicts of interest.

To ensure honesty in management practices as well as establishing a sound accounting system and internal controls, internal auditors regularly review all business activities and report their findings to the Board. Phison’s employees or suppliers may report any ethics breaches to our HR department by phone, e-mail or mail.

The "Management Procedure for Prevention of Insider Trading" and "Management Audit Procedure for Prevention of Insider Trading" have already been approved by the Board in 2009. The former contains clauses on "how to define the scope of important internal information that affect share prices" and "maintaining the confidentiality of important internal information that affect share prices before their public announcement as well as trading bans". In the future, directors, supervisors, managers and employees will be aware of the management procedures and legislation on prevention of insider trading at different times through printed materials, e-mail or forwarding of the latest legal information.

Legal and Regulatory Compliance

Phison strives to value applicable international regulations, local laws, as well as generally accepted ethical practices including fair competition, anti-competitive behavior, anti-trust behavior, respect applicable local marketing regulations, embargo of illegal products, as well as copyright and all forms of intellectual property.

On August 5th, 2016, the Hsinchu District Prosecutors Office ("Prosecutors Office") started investigation proceeding against Phison Electronics Corp. ("Phison"). In accordance with the Prosecutors Office’s press release immediately after the August 5th legal activity, the investigation is associated with the transactions among Phison, Ostek Corporation (formerly Twinson Electronics Corp.), Memory Exchange Technology Corp., and Everspeed Technology Limited, which might violate the Securities and Exchange Act. The investigation is still on-going, and it is reasonably evaluated that Phison’s finance and operation is not impacted by the investigation. There were no other violations in 2016.

The Foundation of Phison - Keeping the ‘Game of Money’ in Check

Phison became the “king of the ( stock-market ) sector” as its share price surged from NT\$200 in April 2007 to NT\$739 three months later, with the daily trading volume exceeding NT\$3 billion. How did that happen? It’s true that our flash memories were excellent and we’re very profitable, but the dramatic stock price increase was attributable in part to external manipulating forces. Soon after the stock price’s reaching NT\$400, I warned investors to be cautious ( about Phison ) because we’re really not that good.

I knew the exorbitant stock price wouldn’t be good to us, and what goes up must come down. While I didn’t benefit from the rising price, everyone ranted and raved at me once it plunged.

All we can do is keep such a “game of money” in check and make sure information transparency, so individual investors won’t be victimized.

Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"





## 5.4 Remuneration Committee

The Phison Remuneration Committee was established on November 23, 2011. The members of the 1st Remuneration Committee were independent director Wang Shu Fen, independent director Yoshiaki Uchida, and director Hsu Chih Jen. Independent director Wang Shu Fen served as the convener of the Remuneration Committee.

The purpose of the Remuneration Committee is to professionally and objectively evaluate the salary and remuneration policy of the directors, supervisors and executives and then provide its recommendation to the Board of Directors.

### Responsibilities of the Remuneration Committee:

- Ensure that the company's remuneration standards conform to the law and are sufficient to attract talented personnel.
- Evaluation of the performance and remuneration of directors, supervisors and executive, including taking prevailing industry standards into account and taking into consideration the amount of personal time invested, responsibilities, personal target completion, performance in other roles and company remuneration for other people in equivalent roles in recent years. The achievement of the company's short-term and long-term business objectives as well as the company's finances are used to evaluate the correlation between personal performance, company business performance and future risks.
- It should not encourage directors and managers to engage in behavior that exceed the company's risk tolerance in their pursuit of remuneration.
- The ratio of short-term performance bonuses as well as the timing of payments for variable remuneration components for directors and executives should take industry characteristics and the company's business nature into account.

### Proposals Handled by The Remuneration Committee in 2016

- The List of first issuing Employee Stock Option under the "FY2015 Employee Stock Option Plan" for managerial officers.
- The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers.
- The consideration of the remuneration of board of directors and the employee compensation for managerial directors during 2015.
- To approve the revisions to the partial articles of Regulations for "Employee Meal Management".
- To approve the annual health check subsidy amount for managerial officers.
- Reviewing the new managerial officers, to be submitted by the company, for the remuneration pre-examination executed by the Remuneration Committee.
- Review the Remuneration of the managerial officers to be newly appointed.
- The performance evaluation for managerial officers as well as the proposal for the fixed annual salary adjustment for managerial officers.
- Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2015 and the Performance Incentive Bonus and the Employee Bonuses during 2015 for managerial officers.
- The meeting schedule of the Remuneration Committee for the year 2017.
- Review the Special Performance Evaluation for managerial officers as well as the proposal for the Compensation of Project Performance Incentive Bonus during Q3 of 2016 for managerial officers.

## 5.5 Risk Management



### Risk Assessment and Management

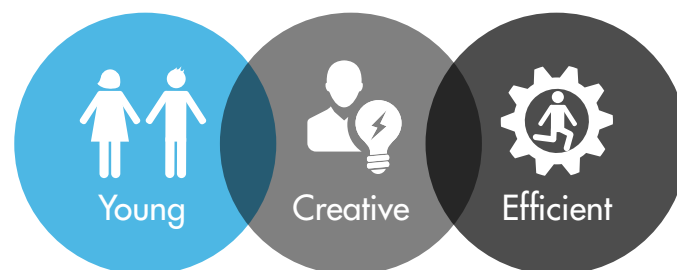
- Financial Risks ( Finance & Accounts Dept. )**
  - Evaluate the impact of interest/exchange rate fluctuations and inflation on income statements;
  - Evaluate company policies regarding highly risky or highly leveraged investments, lending activities, endorsements and derivatives transactions; examine the primary cause of profits/losses.
- Legal Risks ( Legal Affairs Office )**
  - With a focus on litigations and contractual disputes, review the terms of contracts in order to avoid disputes or lawsuits;
  - When a legal dispute occurs, analyze its cause while seeking a settlement with assistance from external legal professionals.
- Intellectual Property Risks ( Intellectual Property Office )**
  - Build an ingenious patenting framework to better protect the rights of both Phison and its customers;
  - With regulatory compliance, apply for intellectual property rights ( IPRs ) and make timely claims for effective IPR protection.
- Information Risks ( Information Division )**
  - Lay down information security policies and relevant protection measures/rules to reduce information security risks;
  - To ensure an efficient information security system, Phison employees' awareness of information security ( including responding skills ) is raised at irregular intervals through emails, bulletin board notices or monthly meetings.
- Environmental Risks ( Facility Division )**
  - Evaluate every environmental/safety/health impacts and risks faced by Phison employees, corporate organization and eco-systems with regard to the company initiatives' environmental impacts or safety/health hazards;
  - By constantly identifying hazards, assessing risks and implementing the required control methods, keep risks at a tolerable level while achieving environmental protection with disaster-free operations.



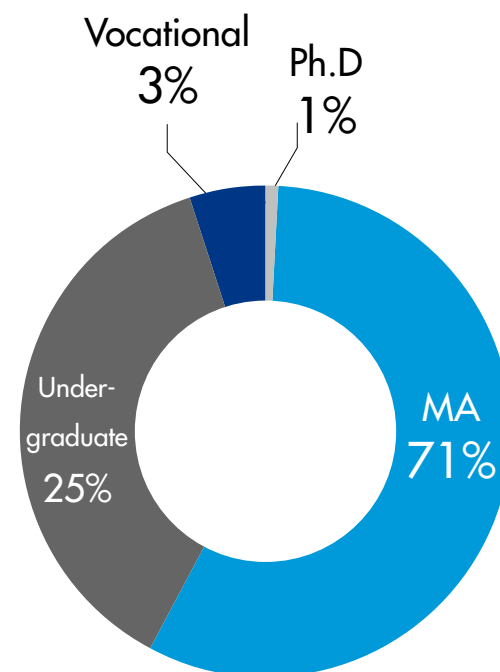


## 6.1 Innovative R&D Team

The innovative and professional R&D team of Phison which is composed of the three exceptional features: Young, Creative and Efficient, is capable of releasing original technology and products rapidly and establish Phison's technology leadership position. The chief engineer of Phison expects the R&D team to be in charge of innovation, research and development to identify the potential of existing technology, to improve the quality of existing products to enhance their convenience and applicability, and to reduce both energy consumption and environmental impact.



We have over 809 professional researchers who cover 68% of total workforce in Phison; the average seniority is 4.6 years. This youthful, enthusiastic and creative engineering team includes 9 Ph.D. and 575 M.A. degree holders. The team possesses not only high-caliber quality but also extensive technical experience. Phison's founder has been engaged in NAND flash memory technology R&D since he was in college and he has accumulated 16 years of expertise and experience. The team he leads not only inherits his expertise but also dedicates to teamwork. In addition, the team maintains their strenuous and persistent attitude to develop new products and realize the various technical requirements generated by product diversity. By responding rapidly to the market and quickly releasing new, innovative technologies and products, they make Phison become the technology leader among the competitors.



Distribution of Academic Qualifications among R&D Personnel

## 6.2 R&D Accomplishments

The Phison R&D team has been devoted to becoming one of the world's top three designers and providers of Flash memory controller IC and Flash memory peripheral application systems. Phison successfully developed USB3.1 (Gen1) NAND flash controller IC, SD 4.0 UHS-II controller IC, eMMC 5.X controller IC, SATA SSD, PCIe SSD controller IC, security USB Pen drive controller IC etc., and belong to the leading group in the same industry.

Successful Technology Development in 2016	The lower power consumption MIPI Gear 3 PHY as the host interface to the UFS Unipro flash memory.
	The USB3.1 (Gen1) flash drive supporting high-speed randomly writing
	The SD/micro SD supporting high-speed, high-resolution and longtime uninterrupted video recording
	The core circuit module to manage flash memory, simplify firmware operation process, promote data transfer speed and lower power consumption.
	The power-saving technology to effectively lower the system power consumption and the power consumption of SSD products.
	The SD/micro SD with high-speed randomly writing and reading performance for the internally-built flash memory of hand-held devices.

### The Foundation of Phison - Staying True to Core Values

I believe that it is important for a company to focus on its core value, but the more significant thing is the extendibility of its core value. If the company hires a bunch of engineers to develop a new technology which is doomed to be useless due to technological advances, this technology will only make money once.

On the contrary, if the core technology can be extended vertically or horizontally, that means it is extendable and your investment will earn limitless profit ceaselessly.

Therefore, Phison focuses all of our resources on our core business according to the above-mentioned principle. However, we do not just stick blindly to our core business. If there is no prospect in flash, we would not insist on it. Actually, there are still five to ten golden years left for flash. Smartphones and tablets both utilize flash memory; thus, their growing market penetration indicates flash still has a long way to go. If Phison gets it right, we can easily make more than NT\$1 ~ 2 billion a year.

Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"



## 6.3 Intellectual Property Management

IP management on Phison is established under the "Intellectual Property Office". It is charge of abiding by regulatory compliance, handling both patent cases and litigation disputes, reducing IP-related risks, protecting the interests of the company and customers through a strict patent strategy, and providing comprehensive IP protection.



R&D Patent Output

Country	Pending	Issued	Total
Taiwan	60	494	554
Mainland China	207	314	521
U.S.	113	369	482
Other	3	30	33

( Patent Output: As of 2016/12/31

2016 Patent Ranking	No. 79 on Taiwan's "Top 100 Utility Patent Applicants" list	No. 35 on Taiwan's "Top 100 Patent Awardees" list
	No. 59 on Taiwan's "Top 100 Patent Applicants" list	No. 29 on Taiwan's "Top 100 Utility Patent Awardees" list

### Patent Development Process

Phison values innovation and patent development. We offer patent bonuses to encourage employees to apply for new patents. The continuous accumulation of technical will facilitate future product development and generate more competitive products.



## 6.4 Future Research Directions

To effectively improve the performance of storage devices, the Phison R&D team not only successfully reduces energy consumption and damage to the Earth's resources during the production process through continuous development and improvement but also strives to provide users with the convenience in work and life by high-technology.

In the future, Phison will continue to invest its R&D resources into embedded industrial systems and enterprise storage solutions to construct solid, reliable, secure, energy-saving and green storage systems and solutions.

### R&D Goals for 2017

- The USB3.1 (Gen1) flash drive supporting high-speed randomly writing.
- The SD/micro SD with high-speed randomly writing and reading.
- The controller chip of UFS Unipro flash memory.
- The core circuit module to manage flash memory, simplify firmware operation process, promote data transfer speed and lower power consumption.
- The high-performance SSD integrating host resources and lowering the overall power consumption.
- The innovative products with new specification which can be used in the SSD product line and built-in flash memory.



### The Foundation of Phison

What is a patent? This is actually a gray area and sometimes, it involves politics.

If I have the patent, perhaps I won't sue you, but I do have the right to sue. There are all kinds of patents out there. You might have something he doesn't have, and vice versa. Usually, a settlement happens as long as the litigation begins. It's very hard to put a company out of business through patent litigation. In a lot of cases, litigation is associated to political issue because settling out of court can produce some benefits.

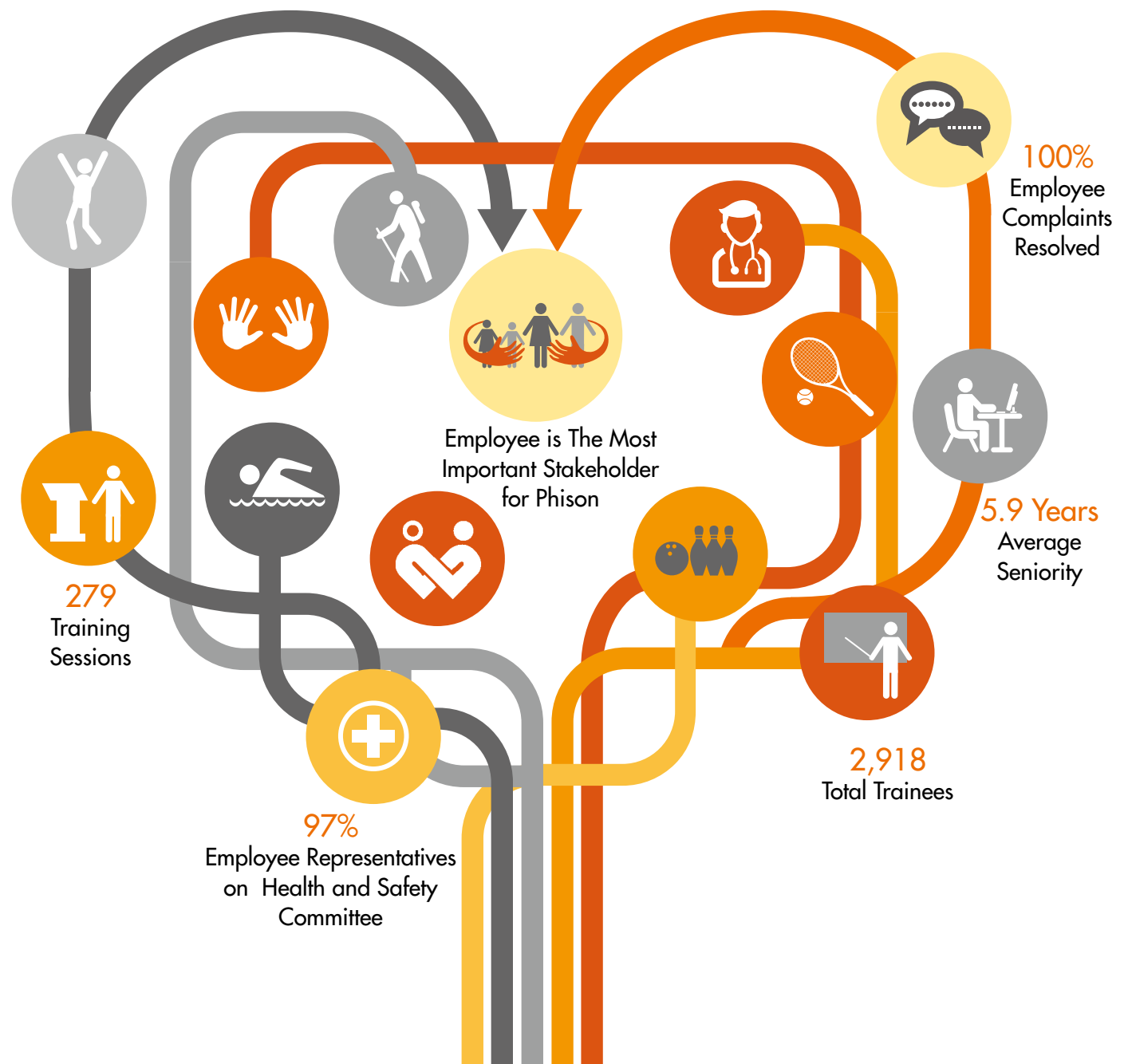
In reality, patent applications cost a lot of money. Phison spends over NT\$2 million per year on applying for patents. I once complained to a colleague in Legal Affairs about how expensive it was but he doesn't think so. Each lawsuit will cost us \$200 million. How many patent applications are they? This shows just how precious patents can be. This is why I am always reminding engineers that if you think of something new or have a new technical idea, be sure to apply for a patent because that's the practical way to go.

Source: "Living up to its own expectations; how Phison achieved profits of NT\$31.8 billion in ten years"



# 7 Truly Caring for Employees

- 7.1 Employee Overview
- 7.2 Employee Policy
- 7.3 Compensation and Welfare
- 7.4 Cultivation and Education
- 7.5 Employee Communications
- 7.6 Workplace Health and Safety

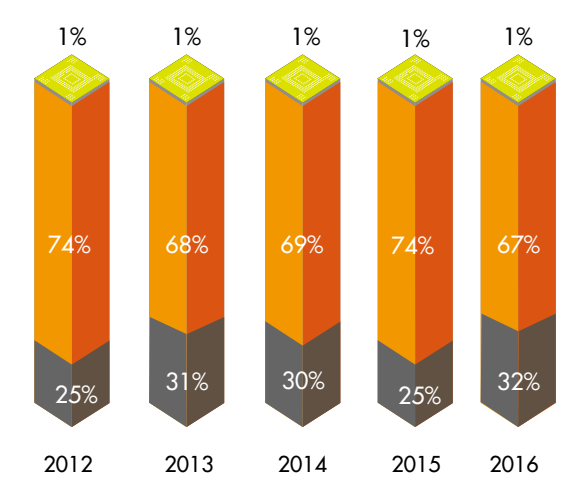
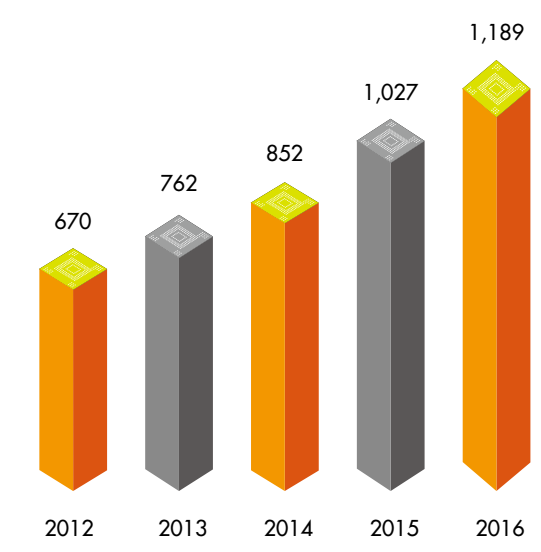


## Truly Caring for Employees

Employees will always be the most important stakeholder for Phison. Taking proper care of our employees is part of Phison's sustainability commitment. The only people that can make Phison become the top of the world are its employees. We must sincerely treat our employees well and build up mutual trust along with family alike relationship to win the true hearts from our employees. Besides, the company should use its resource to help the employee within the reasonable limit to fulfill the requirements from the employees.

Every employee is an indispensable member of the Phison family. In this warm, loving family, everyone is sibling alike and they encourages and assists each other. The simple mercenary relationship between the company and employees without mutual trust and common values can not establish firm loyalty of employees. Therefore, it is part of our sustainability commitment to take good care of our employees' lives and work so that we can all fight together for our goal and vision.

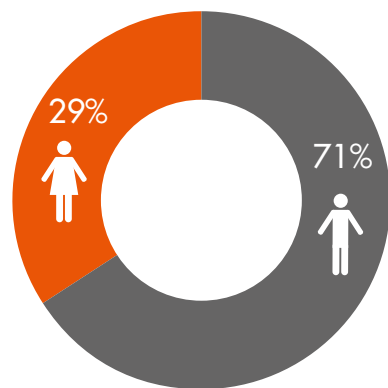
### 7.1 Employee Overview



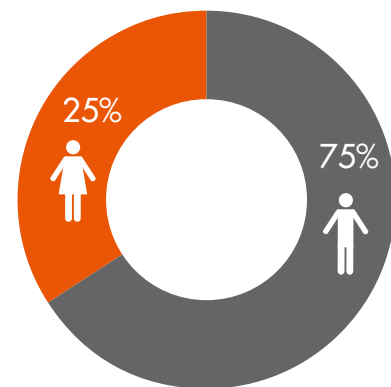
Workforce

Under 30 31-50 years Over 51

Employee Age Distribution

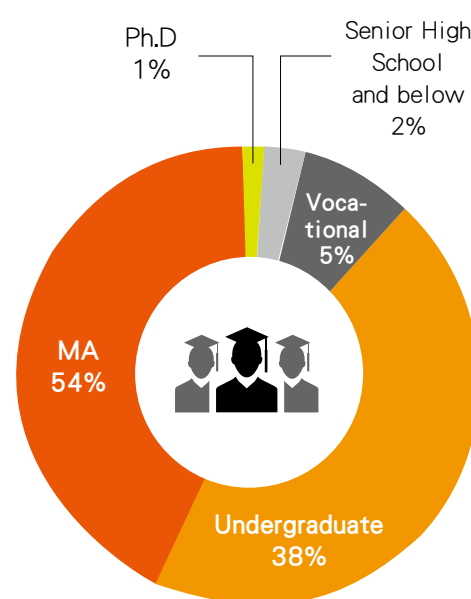


Employee Gender Distribution

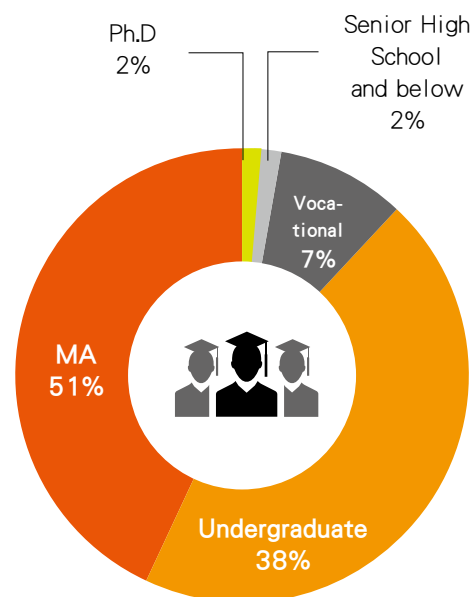


Management Gender Distribution

Year		2012		2013		2014		2015		2016	
Gender		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Employee	Number	427	243	500	262	576	276	717	310	849	340
	Ratio%	64	36	66	34	68	32	70	30	71	29
Management	Number	79	38	87	42	97	41	108	39	114	38
	Ratio%	68	32	67	33	70	30	73	27	75	25

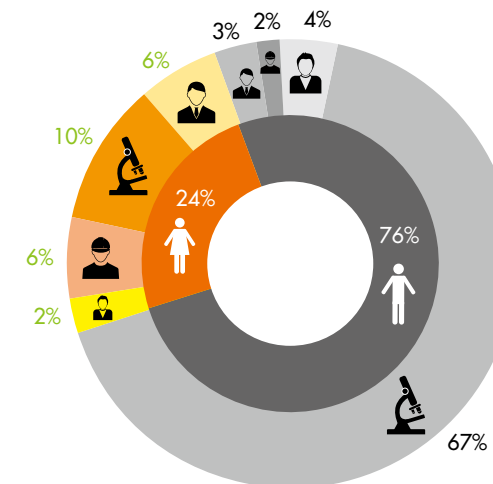


Distribution of Employee Academic Background

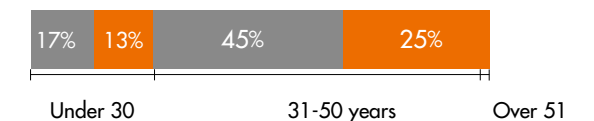
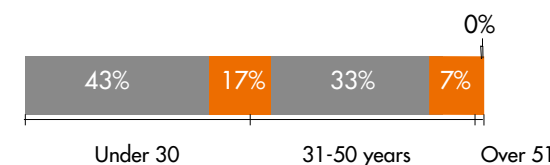
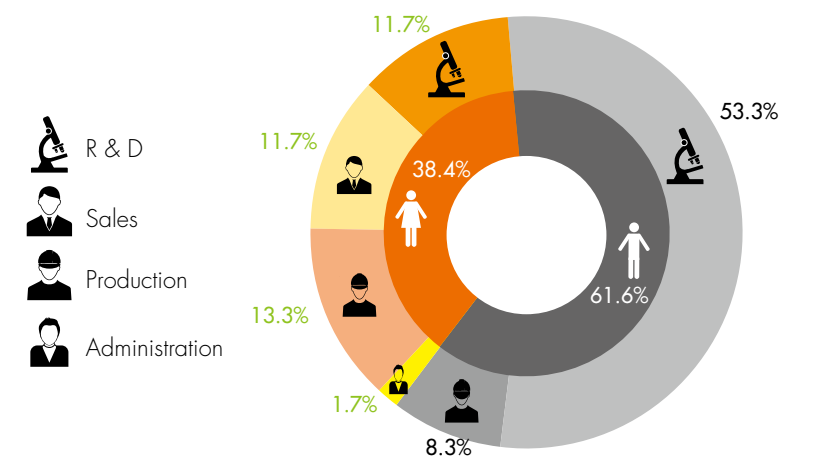


Distribution of Management Academic Background

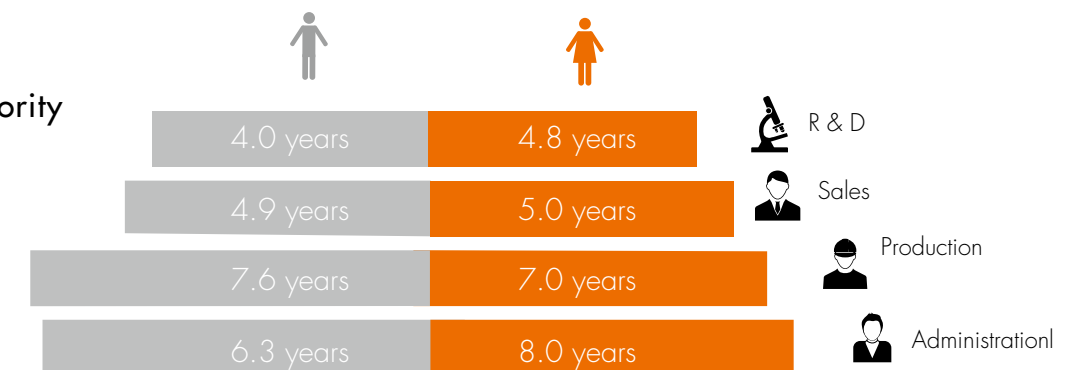
New Employee Demographics



Employee Turnover Demographics



Average Seniority at Each Grade



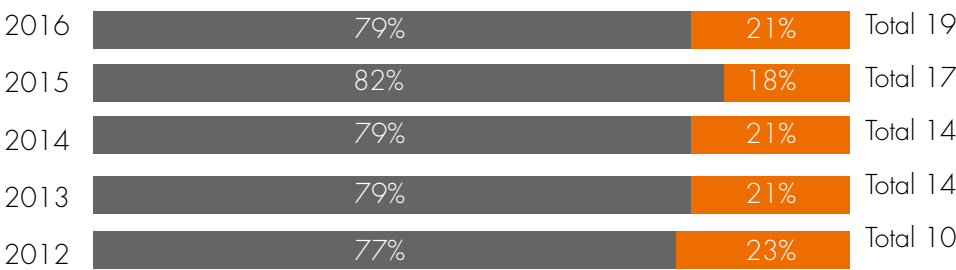
Employee Turnover Rate

Year		2012			2013			2014			2015			2016		
Gender		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Employee Turnover Rate	Resignations	26	11	37	29	22	51	29	25	54	38	26	64	37	23	60
	Total Workforce	427	243	670	500	262	762	576	276	852	717	310	1,027	849	304	1,189
	Ratio %	6.09	4.53	5.52	5.80	8.40	6.69	5.03	9.06	6.34	5.30	8.39	6.23	4.36	6.76	5.05

Employee Turnover Rate: Resignations / Total Workforce x 100%



Ratio of Local People in High-level Management



Note : Chairman/President are Malaysian Chinese. ■ Taiwanese ■ Foreigner

Type of Employment

Year		2012			2013			2014			2015			2016		
Type		Male	Female	Disabled	Male	Female	Disabled	Male	Female	Disabled	Male	Female	Disabled	Male	Female	Disabled
General employee	Number	349	204	2	412	217	6	476	232	6	573	258	6	693	284	6
	Ratio%	52.09	30.45	0.30	53.94	28.48	0.79	55.87	27.23	0.71	55.79	25.12	0.59	58.30	23.89	0.50
Low-level manager	Number	35	20	0	43	24	0	49	19	0	72	24	1	79	29	1
	Ratio%	5.22	2.99	0	5.64	3.15	0	5.75	2.23	0	7.01	2.34	0.10	6.64	2.44	0.08
Mid-level manager	Number	34	13	0	34	12	0	40	16	0	56	19	1	59	18	1
	Ratio%	5.07	1.94	0	4.59	1.57	0	4.69	1.88	0	5.45	1.85	0.10	4.96	1.51	0.08
Senior manager	Number	8	5	0	8	6	0	8	6	0	10	7	0	12	7	0
	Ratio%	1.19	0.75	0	1.05	0.79	0	0.94	0.70	0	0.97	0.68	0	1.01	0.59	0

● General employee defined as: Other employees

● Low-level manager defined as: Team leader, section chief, deputy team leader, deputy section chief

● Mid-level manager defined as: Manager, assistant manager

● Senior manager defined as: Chairman, president, vice president, vice president of technology, director, senior manager

Employment Contract

Employment Contract	Direct labor	Indirect labor	Temporary	R&D Alternative Service	Total
Indefinite contracts	0	1,100	0	84	1,184
Fixed-term contracts	0	5	0	0	5
Total	0	1,105	0	84	1,189

● Indefinite contract: Non-fixed-term contract signed with fulltime or part-time employees.

● Fixed-term contract: Fixed-term contracts are identical to the above employment contract but end at a specific time or when the assignment is expected to end.

Parental Leave Application, Reinstatement and Turnover Rate

Year		2012			2013			2014			2015			2016		
Gender		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Parental leave application rate	Applicants	0	2	2	0	3	3	2	13	15	0	8	8	1	3	4
	Approvals	100	51	151	118	77	195	135	86	221	149	85	234	168	65	233
	Ratio%	0	3.92	1.32	0	3.90	1.54	1.48	15.12	6.79	0	9.41	3.42	0.60	4.62	1.72
Rate of reinstatement after parental leave	Returning number	0	2	2	0	0	0	0	6	6	1	9	10	0	3	3
	Expected to return number	0	3	3	0	1	1	1	8	9	1	14	15	0	6	6
	Ratio%	0	66.67	66.67	0	0	0	0	75	66.67	100	64.29	66.67	0	50	50
Parental leave retention rate	Rate of retention 1 year after reinstatement	0	1	1	0	2	2	0	0	0	0	5	5	0	7	7
	Returns from parental leave from last year	0	1	1	0	2	2	0	0	0	0	6	6	1	7	8
	Ratio%	0	100	100	0	100	100	0	0	0	0	83.33	83.33	0	100	87.50

Note:

● Approvals is based on no. of those that applied for maternity and paternity leave.

Formula:

● Parental leave application rate: Parental leave applicants / parental leave approvals X 100%

● Rate of reinstatement after parental leave: Employees returning from parental leave / Employees expected to return from parental leave X 100%

● Parental leave retention rate: Rate of retention 1 year after reinstatement / Returns from parental leave from last year X 100%







7.2 Employee Policy

Phison complies with both the Labor Standards Law and respects internationally accepted principles of workers' rights which include the freedom of association, collective bargaining, support for disadvantaged groups, prohibition on child labor, elimination of all forms of forced labor, as well as the elimination of discrimination in employment. Local regulations are also incorporated into our labor policy where appropriate to bring the Phison labor policy in line with the international standards and regulations. There were no violations of labor rights in 2016.

Appropriate work management rules have been drawn up to establish a sound human resource management system that makes effective use of human capital and enhances business performance. Apart from protecting workers' rights, it also ensures the soundness of the work environment and internal management system.

If there are any major operational changes for the company ( e.g. cessation or transfer of operations ) , advance notice is given in accordance with the Labor Standards Act. Employees who served the company between 3-12 months are given 10 days' notice; between 1-3 years are given 20 days' notice; for more than 3 years are given 30 days' notice of contract termination.

Recruitment

Phison complies with local labor laws during recruitment and preference is given to hiring locally. We use an open recruitment process that balances the principle of equal opportunity with actual business requirements. We follow the principle of finding the right people with the right skills during the selection process. There is no discrimination due to ethnicity, race, gender, age, religion, belief or disability. Child laborers under the age of 16 are not hired.

The Foundation of Phison - Employee Character Comes First in Hiring

People and culture are closely inseparable. No matter where I go, I always emphasize the importance of culture. To build up a culture, you need to start with the basic and the basic is people. Find the right people to pass down the corporate culture.

What is the top requirement for a youth fresh who is looking for job? First, could his pay be a little higher than others. Second, whether he can learn from this environment; and are there any ways for self-improvement in the future. After five years, if he earns good money and gets a house, excellent performance and a management position, what will he need then? Most people expect a certain atmosphere and that is so-called culture. They would prefer an environment that feels like home and colleagues who are willing to encourage and support each other like family.

These are prerequisites that our company screen for when we start looking for a new employee. Character is therefore very important.

Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"

Human Rights and Labor Rights Declarations

Employment Protection

- Phison signs formal labor contracts with every employee in support of workers' rights;
- No incidents of forced labor involving Phison were reported in 2016;
- No incidents of discrimination involving Phison were reported in 2016.

Labor Unions and Freedom of Association

- Phison respects employees' constitutional freedom of association and assembly, rather than opposing it or obstructing it. All Phison employees enjoy the freedom to form or join unions, as stated in the constitution.
- Phison employees did not form any labor unions in 2016.

Anti-sexual Harassment Measures

- To create a sexual harassment-free workplace in support of its employees' rights, Phison takes preventive, corrective or disciplinary measures with regard to sexual harassment and has "Guidelines for the Prevention and Reporting of Sexual Harassment or Discrimination" laid down according to the Act of Gender Equality in Employment;
- No sexual harassment involving Phison was reported in 2016.

Review of Suppliers' Human Rights Record

- As a part of the contract, every Phison supplier is required to conform to the Electronic Industry Citizenship Coalition (EICC) Code of Conduct .

Banning Child Labor

- As required by the Ministry of Labor, Phison neither hires child labor nor relevant violations in 2016.

The human rights and labor-related declarations, policies and guidelines of the company are reviewed and monitored by the relevant competent authority to ensure the compliance with domestic and overseas human rights and labor-related regulations.

7.3 Compensation and Welfare

Attracting and retaining talented personnel has become an issue that businesses must confront in the face of intense competition in the global technology market. Offering a competitive compensation package is one of the business priorities. At Phison, we embrace the philosophy that "employees are a company's most important assets" and "balancing the interests of employees and shareholders". We provide employees with the most competitive



overall compensation package to attract and retain the most competent personnel and make them become the main driver of our sustainable growth.

Our compensation policy complies with the requirements of labor laws and does not discriminate on the basis of gender, religion, race or political affiliation. Employees are given reasonable compensation based on the requirements of their role, the complexity of their work, professional knowledge, experience and skills as well as the compensation offered by industry peers. The compensation is also always above the minimum wage regulations.

To maintain the competitiveness of Phison's overall compensation package, suitable adjustment of employees' base salaries is executed based on annual industry compensation surveys are used to measure the standard of compensation in the market as well as overall economic indicators. Cash bonuses are on average disbursed on a quarterly basis to not only supplement employees' everyday cash flow but also reward employees for their performance in a timely manner. Employee profit-sharing is paid in installments to encourage continued contributions.

According to Phison Articles of the Corporation, 2016 employee and directors' compensation amount were 8.96% and 0.90% of profit, the profit mains before Pre-Tax Income includes employees' remuneration and compensation of directors and supervisors.

Despite a still-weak global economy and intense industry competition, Phison's profits still hit record high. Apart from employee salary increase in May, the proportion of profits allocated to employee profit-sharing by Phison continued to surpass industry standards as well.

Performance Evaluation System

Employee performance review is divided into new employee evaluation and annual performance evaluation. The annual performance review rates employees' overall performance and the same standard is applied to both sexes. The results of the evaluation are used as a basis for promotions, transfers, profit-sharing, bonuses, annual salary adjustments and HR development.

New Employee Evaluation

The HR unit will send the new employee evaluation form to the unit heads within two weeks after a new employee has completed three months of their contract, to conduct new employee evaluation. New employees must undergo intra-department orientation training and if the orientation training form is not submitted after three months, their trial period will be extended.

Evaluation Items



In mid-June and mid-December of each year, HR sends annual performance evaluation forms of all employees to their units respectively. Managers process each employee's annual performance according to this form and managers at all levels must complete the evaluations by the given deadline. This evaluation task will also influence the manager's personal evaluation. Evaluated items include not only work performance ( objectives set and completed ) but also work attitude, team performance, creative learning and recommendations on personnel development.

Welfare Policy

To enhance cultural values, productivity and morale and maintain the quality of family life to achieve a good work-life balance, Phison offers a wide range of welfare services and a comprehensive welfare policy. This is because Phison believes that it takes a good working environment and employee welfare to retain talented people and let them grow with the company in a sustainable way.

Phison has established an Employee Welfare Committee with the company chairman as an ex-officio member. All other committee members are elected by each department. A full-time director is assigned to manage committee affairs and ad hoc meetings are held to plan welfare measures and activities, boost employee morale, strengthen management-employee cooperation, and establish a sound overall corporate welfare policy.

The Welfare Committee is dedicated to taking care of employee needs and has proposed a variety of welfare activities and measures, including: festival bonuses, birthday bonuses, Labor Day bonus and festival gifts, scholarships /student support for employees' children, compassion payments and bouquets for weddings, funerals, celebrations, births and hospitalization, and continuing education assistance.

Meanwhile, we provide employees with a platform for creating and participating in social clubs to allow employees to develop their hobbies outside of work hours and expand their personal networks. In 2016, the plant was home to more than 12 clubs including basketball, badminton, football, mountaineering, swimming, softball, tennis, yoga and combat aerobics.

Welfare and Subsidies

Allowances	Recreational Benefits	Other Perks	Tuition Reimbursements
<ul style="list-style-type: none"><li>■ Allowances for weddings, funerals and other occasions;</li><li>■ Birth allowance;</li><li>■ Multi-divisional parties;</li><li>■ Allowance toward post-Chinese New Year, "back-to-work" parties;</li><li>■ Company-subsidized incentive travel programs;</li><li>■ Reimbursement for medical services ( e.g., hospitalization ).</li></ul>	<ul style="list-style-type: none"><li>■ Moon Festival Party;</li><li>■ Phison Family Day Campaign;</li><li>■ Leisure symposium;</li><li>■ Domino Trail;</li><li>■ Grants for employee clubs.</li></ul>	<ul style="list-style-type: none"><li>■ Festival and year-end bonuses;</li><li>■ Festival gifts;</li><li>■ Birthday bonus;</li><li>■ Employee welfare payments ( for specific purposes ) .</li></ul>	<ul style="list-style-type: none"><li>■ Training reimbursements;</li><li>■ Tuition assistance for child dependants.</li></ul>

Employee Rewards Program	Any employee who completes a plan/project ahead of schedule and consequently increases Phison's profits by 5% or more will be rewarded.
	Any employee whose proposal for enhancing Phison's operating guidelines, management systems, manufacturing technologies, work processes, sales practices or equipment maintenance/improvement mechanisms has been accepted and implemented to either drive up workplace efficiency by at least 10%, or cut costs by at least NT\$500,000, will be awarded.
	Any employee whose timely and astute response to an emergency prevents Phison from a loss of NT\$500,000 or more will be awarded.
	Any employee whose proposal proves effective in waste or ( raw ) material reduction/reuse and results in at least a NT\$300,000 cut in corporate cost/expenses will be rewarded.
	Any employee who provides verified information on regulatory violations or corruption involving Phison, or infringements of Phison's rights, and prevents Phison from a loss of at least NT\$300,000 will be rewarded.



# Phison Happy Farm

Phison set up an 8250m<sup>2</sup> farm near the Zhunan plant in 2009. We create pastoral scenery by natural fertilizer, tree plantings and vegetable gardens were used to. The farm was divided into the customer tree planting area, vegetable garden, fruit orchard and BBQ area to provide employees with a comfortable environment where they can relax outside of work hours.

As an employee in Phison, one of the benefit is Phison Happy Farm! In addition to the harvest of organic vegetables, it also provides employees with varieties of seasonal fruits all year round. It presents pleasant atmosphere indeed.

When healthy organic fruits and vegetables are ready to be picked up, employees are able to harvest the fruits on the farm by themselves. Associates can therefore take this opportunity to get to learn more about fruits and vegetables. Moreover, they can also experience the fun of harvest, and understand the hardships of farmers who are exposed to the sun. In addition, they can stroll around, breathe the fresh air and relax! This is a very popular benefit for employees. Fruits and vegetables supplies are almost unable to meet the demand.

With the increasing problems of food security in Taiwan, these problems have become a main issue, While Phison's Happy Farm makes use of natural and organic farming, employees can enjoy pesticide-free fruits and vegetables planted by company-hired farmers.



Phison employees plant trees in collaborative efforts with customers



Grown vegetables and fruit



A joyful harvest



Organic fruits and vegetables

# Phison Clubs

Basketball Club

Badminton Club

Swimming Club

Foosball Club

Volleyball Club

Mountaineering Club

Softball Club

Tennis Club

Yoga Club

Combat Aerobics Club

Ten-pin Bowling Club

Golf Club



Foosball Club



Badminton Club



Softball Club



Tennis Club



### Diverse Welfare Subsidies

To promote an employee life balance and expand inter-personal interaction, Phison set up a library where employees can recommend books to and we purchase new books quarterly. Apart from enriching employees' knowledge and horizons, it also enhances their spiritual life by balancing their mind and body.

Festivals, arts & cultural activities, lifestyle seminars, movie screenings and dynamic sporting competitions are held every year. Apart from enhancing employees' cultural sophistication, it also serves to energize employees and teamwork.

Phison takes employees' family relations very seriously as well. Family days, Road running and many other family recreational activities are organized every year. Employees are encouraged to bring their families and increase the quality of their family life. In 2016, more than 4,000 Phison employees and their families took part in various company events.

### Activities Organized by the Welfare Committee in 2016

Category	Type
Leisure and recreational activities	The health of our employees is important to Phison. Employees are encouraged to join in the fun run with their families and run for a healthy life.
	To give heed to the balance between work and life , Phison has hosted travelogue seminar with which employees can exchange traveling experiences.
	Hosted financial- management seminar, share finance planning with colleagues.
	The "Phison and People" newsletter is issued every half a year, as a communication media between the management and employees channel, and as a feedback from employees' article submission.
Team-building activities	Cheerful team camaraderie and sing talent scouting are the goals of the Phison moon festival singing contest.
	Phison employees show their passion and energy during the Phison year end party.
Festivities	At the Christmas party, Phison employees receive gifts to experience the holiday spirit and enjoy the pleasure.

### 2016 Phison Employee Activities in Review



Phison Year End Party



RUN FOR LOVE



Whiskey Course



Christmas Party



Moon Festival Singing Contest



Handmade DIY Classes

### Employee Discounts at Local Childcare Centers

Phison employees can place their children with contracted kindergartens. Employees are also surveyed at different times on kindergarten requirements for their children. All kindergartens that are contracted with Phison were set up in accordance with the law. They must have good environment and security to provide employees' children with a safe learning environment.

### Wide Range of Courses

Happy employees are able to accomplish fabulous performance and healthy profits. Phison has developed a variety of employee assistance plans and activities that help employee achieve a balance between work and play so they can enjoy both work and life. All kinds of courses are available for boosting employee efficiency and morale, maintaining quality of family life and realizing the goal of a work and life balance.

### Unscheduled Interviews, New Hire Interviews and Town Hall Meetings

HR positively understands the reasons for taking leave of employees with attendance problems and check if they need any support. In addition, HR helps new employees adapt to the company as soon as possible and solve any possible questions.



Parent-child Course



Reducing Stress Course



The quarterly employee orientation meeting



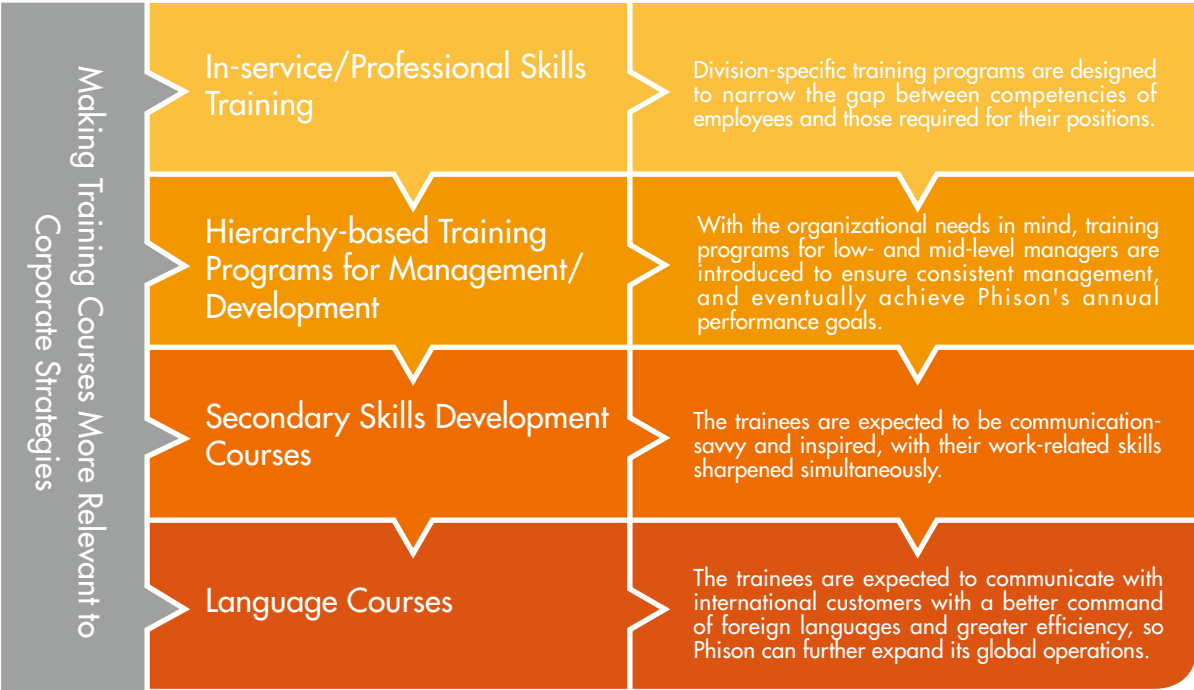
The quarterly employee orientation meeting

7.4 Cultivation and Education



The education unit draws up the annual education and training plan according to the strategic objective of "Quality Upgrade Year" set by the chairman. Gap Analysis is used to estimate the difference between the goal and outcome, then an annual training plan content and major subjects are drawn up based on the specialized requirements of the organization and departments.

To support business development and enhance the caliber of personnel to ensure the manpower efficiency, HR and related departments hold regular and irregular training of various types to strengthen employee's work knowledge and skills. All procedures are in accordance with the company's "Education and Training Management Regulations".



Target and Performance





Target and performance	Sessions	Hours	Trainees	Budget and cost ( NT\$ )
2017 Objectives	291	1,120	3,517	\$5,000,000
2016 Objectives	281	943	3,235	\$5,587,150
2016 Outcome	279	2,705	2,918	\$2,485,156

Strategic Training Objectives and Key Performance Indicator for 2016

Training Category	Curriculum	Trainees	Total hours	Budget Ratio
In-service/Professional Skills Training	<ul style="list-style-type: none"><li>Professional skills training</li><li>Advanced quality control</li><li>Safety &amp; Health</li></ul>	1,705	2,032	41%
Hierarchy-based Training Programs for Management/Development	<ul style="list-style-type: none"><li>Innovative and improved managerial practice</li><li>High- performance interviews with efficiency and improvement</li><li>Management related training</li></ul>	429	64	26.6%
Secondary Skills Development Courses	<ul style="list-style-type: none"><li>Successful presentation design and logical self-expression training</li><li>Excellent customer relationship management</li><li>Good communication skills and solidarity consensus</li><li>Job analysis and improvement</li><li>R&amp;D project schedule and cost management</li><li>Job management and communication improvement</li><li>Enhance effectiveness of communication</li><li>Developing influences on upward management</li><li>Skills of business English presentation</li><li>Self-inspiration training</li></ul>	598	69	17.7%
Language Courses	<ul style="list-style-type: none"><li>English</li><li>Japanese</li></ul>	186	540	14.7%



Average Training Hours per Function

Function	Average training hours per employee per year ( Male )	Average training hours per employee per year ( Female )
 R&D	12.5	12.2
 Sales	15.8	15.7
 Production	15.9	20.7
 Administration	12.5	18.5

Note: The reason why female employees acquired more training hours than male in production function was due to the higher proportion of female in the Materiel Control Dept & Production Control Dept (with higher training hours).

Average Training Hours per Grade

Grade	Average training hours per employee per year ( Male )	Average training hours per employee per year ( Female )
Management	13.7	27.6
Grassroots employee	12.8	14.3

The reason why male managers undertook less training hours than female managers:

- Phison has a higher proportion of male managers. The R&D department was on a tight development schedule last year so R&D managers' attendance at management courses was lower as well.
- There are three female managers continued with their language classes so female managers had a higher average number of training hours.

Grade definition:

- Management definition: Chairman, president, vice president, vice president of technology, section chief, senior manager, manager, assistant manager, director, team leader, deputy director, deputy team leader
- Grassroots employee defined as: Other employees

Future Career Development

At the end of each year, HR conducts an employee training requirements survey to compile the training requirements of all employees for the department heads. The department heads then refer to the employee training requirements as well as "Strategic goals for next year", "Organizational requirements analysis", "Work requirements analysis" and "Subordinate competency gap analysis" to develop the most appropriate training program for each employee, help them improve their work skills and plan their future career development.

At the same time, Phison will introduce workplace ethics training courses organized by the relevant units on human rights, personal privacy and anti-corruption in order to conform to domestic and overseas standards. The education of employees on important international social and environmental trends or issues will help Phison fulfill its social responsibilities as a corporate citizen.

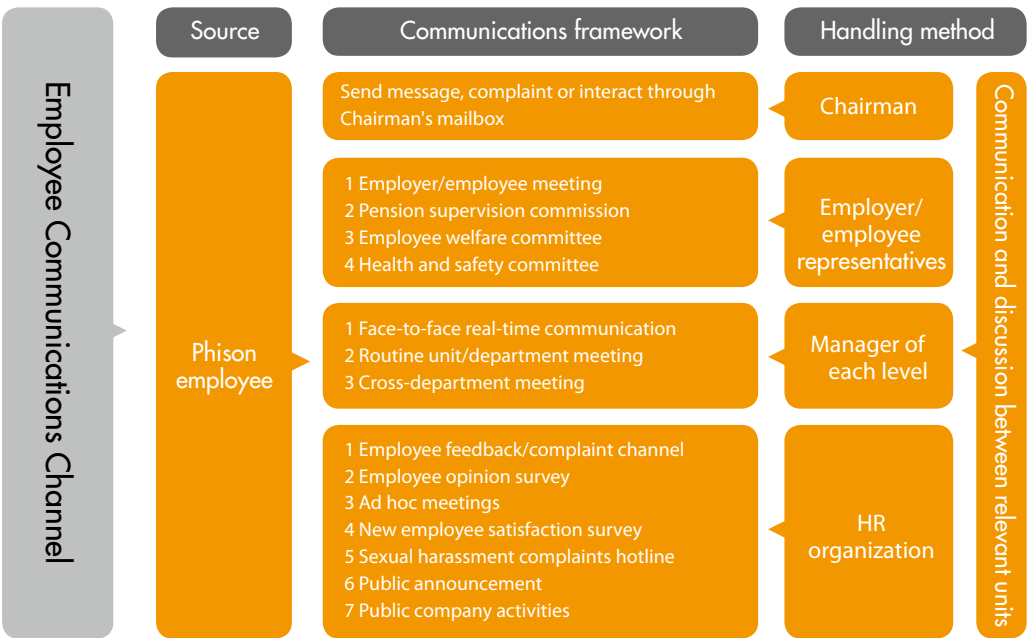
7.5 Employee Communications

117  
Complaints Accepted

117  
Complaints Resolved

100%  
Complaints Resolved

Out of respect and to uphold the ideal of bilateral communications between employer and employee, Phison has set up various communication channels. For example, suggestion boxes, complaint hotlines and complaint e-mail boxes provide various channels to receive employee's grievances. Those channels also ensure the timely, accurate, transparent and efficient transmission of company information. At the same time, Phison also can improve company's management efficiency by collecting employees' suggestions, listening to employee's voices and responding appropriately to employees. Phison knows that positive management-employee relations make an important contribution to business success.



Compile the opinions of stakeholders through various communication channels. Cases are then efficiently processed by the competent units to achieve a 100% closure rate.

Communication Channel	Cases received	Cases closed
New employee opinion survey	19	19
Ad hoc meetings	46	46
Sexual harassment complaints mailbox	0	0
Chairman's Mailbox	0	0
Employee Assistance Program ( EAPs ) - Psychological counseling hotline	52	52
Total	117	117



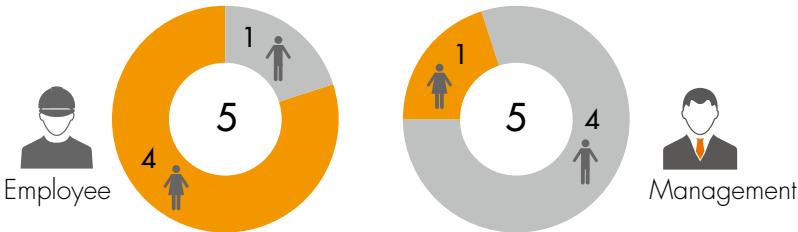
Employer-Employee Meetings

An employer-employee meeting is convened every quarter for communication on different issues and also to notify employees of major operational changes in a timely manner. This protects the collective bargaining rights of Phison employees, promotes collaboration between management and employees, and creates a win-win outcome for both sides.

For the employer-employee meeting, management and employees each elect five representatives. The meeting is held at regular intervals in accordance with the "Regulations for Implementing Employer-Employee Meetings" for effective communication. Key topics include coordination of employee-employer relations, promotion of employer-employee cooperation, labor conditions, employee welfare and increase of productivity. In 2013, for example, employees proposed a relaxation of paternity leave rules. Employees point out the difficulties of the original rules in the meeting, and management understood and respected the need for balance between work and life. A consensus was quickly reached and a motion was passed unanimously.

Many employer-employee meetings have been convened from 2008 to 2016. The numbers of proposals forwarded to the relevant units for assistance have increased every year. A positive working relationship has therefore been established through the employer-employee meeting. Management representatives have set up various channels for collecting suggestions while employee representatives encourage employees to submit proposals and become involved. All of the proposals regardless of their source are voted upon joint decision-making, communication, discussion and transparent disclosure.

Employer-Employee Meeting Representatives



2016 Employer-Employee Meeting Motions

Joint Decision	Motion ( 1 ) : The Activity vendor evaluated for the first half of 2017 lecture activities.
	Motion ( 2 ) : Amended the article of 9.3.3. Accommodation for Employee traveling rule.
	Motion ( 3 ) : Amended the Article 16 for work rules - Paternity Leave.
	Motion ( 4 ) : Amended the Article 9 for work rules- Working hours.
Communication/ Discussions	Motion ( 5 ) : Amended the Article 18 for work rules- Holiday.
	Motion ( 6 ) : Family Day Road Run Rewards - 9KM Challenge Group.
	Motion ( 7 ) : Family Day lucky draw related activities.
	Motion ( 8 ) : According to the overall operational requirement and manpower allocation arrangements, agreed to apply the Labor Standards Law Article 30 of the two weeks and eight weeks flexible working hours.
Reaching a Conclusion Based on Information Transparency	Motion ( 9 ) : According to the overall operational requirement and manpower allocation arrangements, agreed to apply the holiday and rest day adjustable working hours.
	Motion ( 10 ) : According to the overall operational requirement and manpower allocation arrangements, agreed to apply the Labor Standards Law Article 32, employee enable to follow employer's requirement to work in non-working hours. (ie. overtime)
	Motion ( 11 ) : According to the overall operational requirement and manpower allocation arrangements, agreed to apply the Labor Standards Law Article 49 ,the female labor can work from 10 P.M to 6 A.M.
	Motion ( 12 ) : According to Standards Law Article 24, amended the Article 13, paragraph 3, paragraph 2 for work rules – the overtime for rest day, holiday and legal holiday.
	Motion ( 13 ) : Amended the Article 13, paragraph 3, paragraph 3 for work rules – the overtime time off in lieu.
	Motion ( 14 ) : According to Standards Law Article 38,Amended the Article 13, paragraph 3 for work rules – the rule of each leave.
	Motion ( 15 ) : Amended the Article 13, paragraph 3 of work rules – the rule of each leave.
	Motion ( 16 ) : According to Standards Law Article 38,Amended the Article 17 for work rules – the rule of Annual leave.
	Motion ( 17 ) : Amended the Article 18, paragraph 2, paragraph 3 for work rules – the rule of other leave.
	Motion ( 18 ) : Amended the Article 58, paragraph 2 for work rules - Set up the sexual harassment complaint committee.

7.6 Workplace Health and Safety



Health and Safety Committee

Phison's health and safety activities are carried out in accordance with labor health and safety regulations as well as other relevant laws. ISO committee members elected by each department also serve as employee representatives on the Health and Safety Committee. In 2016, there were a total of 34 employee representatives and 1 management representative ( company president ) . Employee representatives therefore made up 97% of the Committee.

Employee Assistance Programs ( EAPs )

Phison treats its employees like family so we take the needs and care of our employees quite seriously. We believe that a healthy mind, body and spirit are essential to better performance from employees. In 2011, Phison set up a long-term partnership with the Hsinchu Lifeline and co-developed professional consulting services on a variety of issues including family issues, gender and marriage, and career development. Dynamic classes and static displays were also organized irregularly. Many sessions and classes were hosted to introduce employees to the service and encourage its use.

In 2016, the service was used by 52 people showing that employees are now more willing to seek help, care about them and also care about their colleagues and families. Employees can therefore be helped to solve difficulties or problems they face at work, in their lives or in emotional situations.

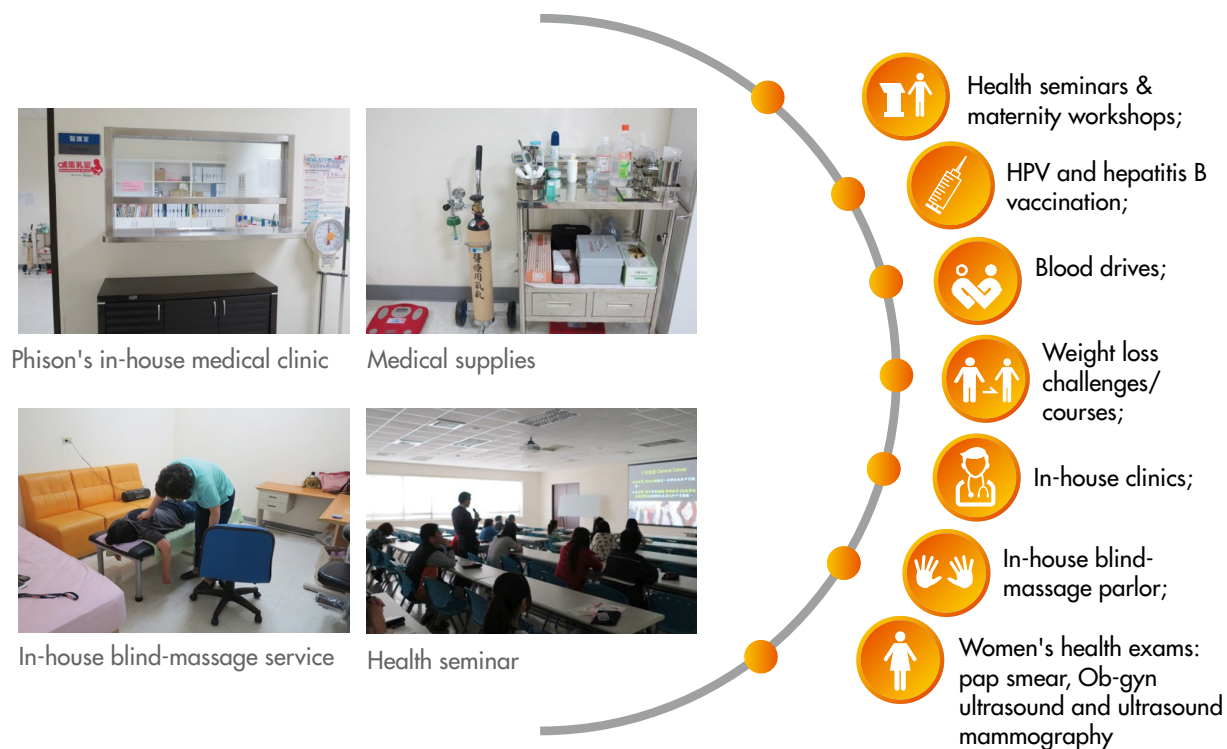
Non-scheduled counseling interviews also set up a mechanism for helping employees deal with special situations. The Hsinchu City Lifeline has now become a bridge between the company and employees. It has no doubt won over our employees in recent years and has to date successfully helped empolyees resolve their difficult circumstances.

Safe Workplace

The physical and mental health of employees forms the company's productivity. Phison organizes regular health exams as well as annual physicals for employees in special roles. The costs for all of these examinations are met with the company. Phison also has its own clinic staffed with doctors and full-time nursing personnel. Two hours of health-related services and activities are organized every month.

To give employees with babies a safe and comfortable workplace, the breast-feeding room also supplies cleaning and disinfectant supplies as well as a refrigerator for storing breast milk. These measures encourage new mothers to return to the workplace while still taking proper care of their children. In addition, Phison has continued to promote a variety of health promotion seminars and EAPs. Whenever there is a major disease or outbreak, internal e-mail is also used to make employees aware of safety and health information. This helps to prevent employees from being affected by serious illnesses, and creates a healthy workplace, boosting the overall competitiveness of the enterprise.





### 2016 Health Seminar Activities

Professional bodies are regularly invited to conduct environmental measurements on-site. The tests include lighting, carbon dioxide, isopropyl alcohol, local ventilation, lead and noise. Employees' drinking water is also inspected quarterly for E.coli and bacterial cluster count. Drinking water filters are replaced every month and the test report is sent by mail to employees to make them aware of their workplace's safety. All workplace safety inspections conducted in 2016 were in compliance with regulatory standards.

Class	Classes	Participants
The indications of cancer	1	10
Physiological time recuperation	1	20
The healthy breakfast eats the law and the choice	1	11
How promotes the foundation metabolism rate	1	23
How eats the health good stature	1	10
Total	5	74

### Occupational Disease, Lost Day Rate, Absentee Rate

Year	2012		2013		2014		2015		2016	
Gender	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Occupational disease leave ( days )	0	0	0	0	0	0	0	0	0	0
Occupational disease leave rate	0	0	0	0	0	0	0	0	0	0
Lost day	0	0	27	3.88	3	3.81	1.88	2.81	6	10.5
Lost day rate	0	0	5.87	1.57	0.56	1.43	0.29	0.97	0.76	3.27
Absentee days	163.31	401.00	185.69	343.81	355.75	383.94	304.50	699.69	660.06	695.5
Absentee rate	340.66	1412.49	323.22	1109.79	534.60	1151.78	379.22	1922.65	669.24	1735.11

#### Definition of leave type:

- Occupational disease: Illness caused by environment or activity ( e.g. work-related stress or long-term exposure to chemicals ), or caused by occupational injury.
- Lost day: Employee is unable to engage in routine work due to work-related accident or occupational disease.
- Absentee: Employee is absent from work due to disability but not limited to work-related injury or disease ( occupational disease, sick leave, menstrual leave )

#### Formula:

- Occupational disease rate = Total occupational diseases / Total work hours x 200,000\*
  - Lost day rate = Total work days lost / Total work hours x 200,000\*
  - Absentee rate = Total absentee days / Total work hours x 200,000\*
- \*Calculations based on 50 weeks a year and 40-hour working weeks for every 100 employees

### Injury Rate

Year	2012	2013	2014	2015	2016
Total work hours	1,098,834	1,281,072	1,461,994	1,687,328	2,005,976
Injured workers	0	4	7	6	9
Deaths	0	0	0	0	0
Lost working days ( Male )	0	42	3	3	5
Lost working days ( Female )	0	5	4	4	9.4
Total working days lost	0	47	7	7	14.4
Injury rate	0	0.62	0.96	0.71	0.90

Injury: Fatal or non-fatal accidents during work.

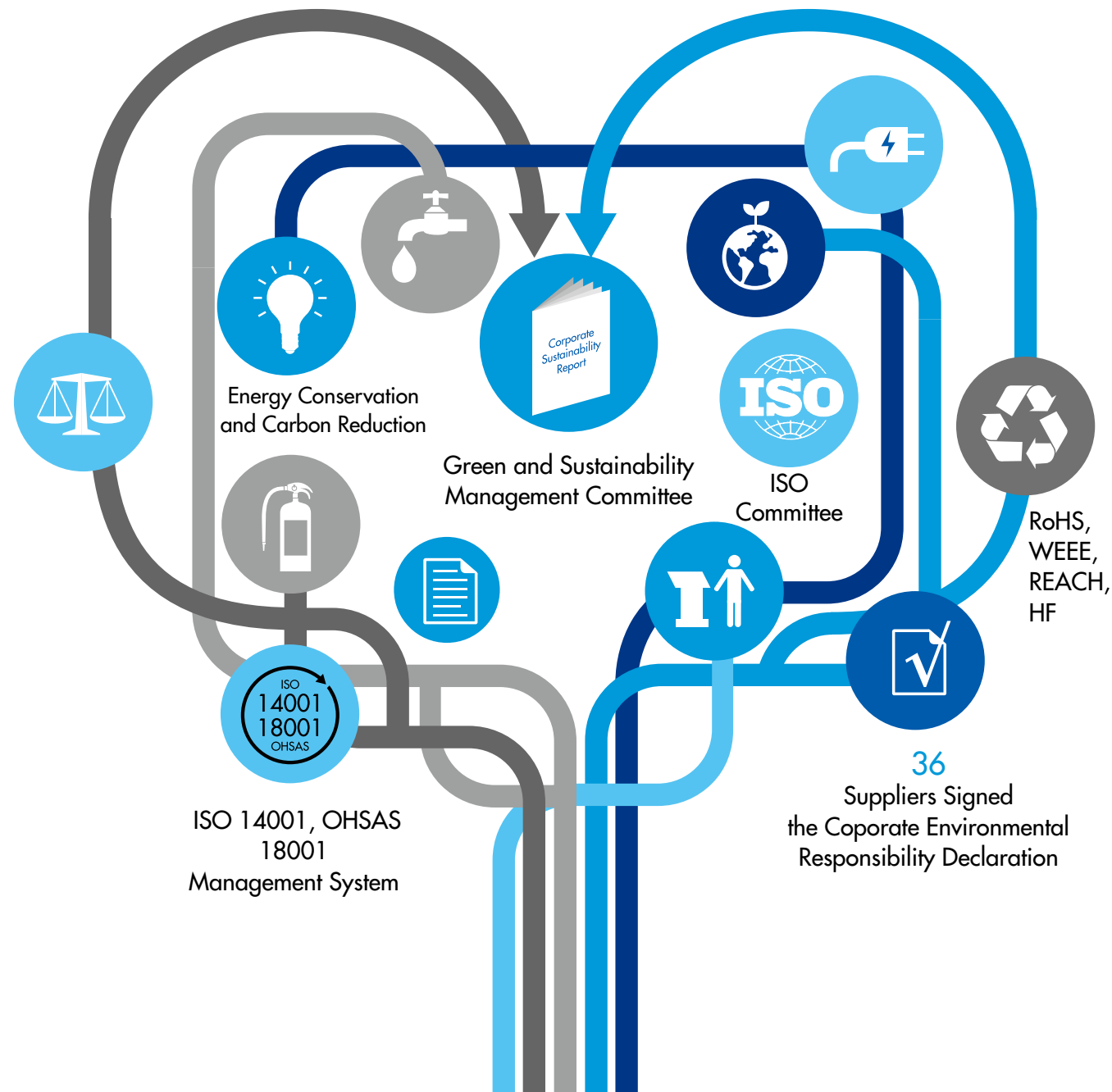
Injury rate = Total industrial injuries ( Injured workers + Deaths ) / Total work hours x 200,000\*

\*Calculations based on 50 weeks a year and 40-hour working weeks for every 100 employees

Note: All injuries during the 2010-2016 period were due to accidents during the commute.

# 8 Environmental Responsibility

- 8.1 EHS Policy
- 8.2 ISO Committee
- 8.3 Green Products
- 8.4 Green Supply Chain Management



## 2017 Targets for Environmental Safety and Health

Energy Efficiency	Hall halogen lamp replacement for LED lamps
Performance Check	Use low-cost LED lamps
Corporate Sustainability Report	2016 Corporate Sustainability Reporting Policy

As a global leader in IC controller design, Phison believes that it must set an example in the transition to a green industry by accepting the responsibility and obligation to protect the environment. Apart from regularly reviewing our own operations to determine our environmental impact, we must also think about how to reduce or prevent damage to the environment, provide eco-friendly products and services, and fulfill the Phison vision on sustainability so our company and the environment can achieve sustainable development.

Phison is focused on R&D and design with manufacturing or production outsourced to outside manufacturers so our direct environmental impact is limited. This is why Phison's environmental protection efforts are based around the development and design of green products. Supplier parts are also required to conform to WEEE ( Waste Electrical and Electronic Equipment ) , RoHS ( Restriction of Hazardous Substance ) , REACH ( Registration, Evaluation, Authorization and Restriction of Chemicals ) and HF ( Halogen Free ) directives. The concepts of sustainability and environmental protection are implemented in R&D, design and partner management in order to fulfill Phison's environmental commitment and responsibility.



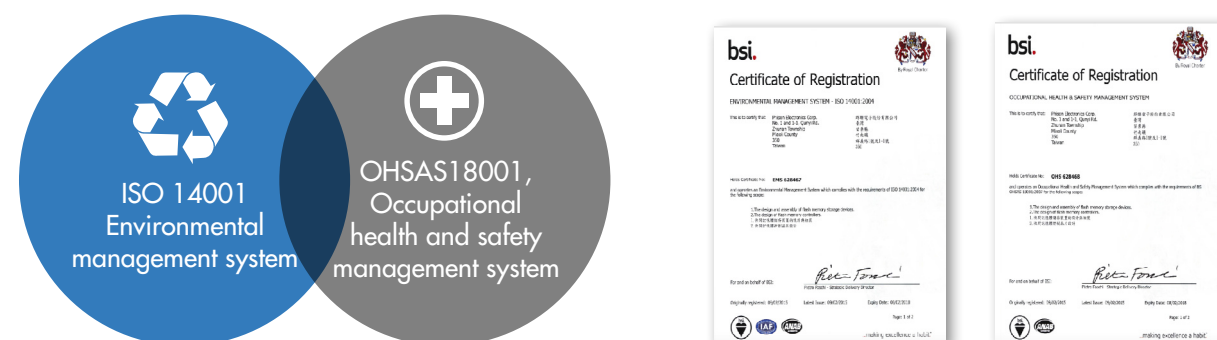
## 8.1 EHS Policy

### EHS Objectives Accomplished in 2016

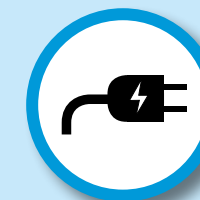


Phison's EHS policy is based on the spirit of environmental friendliness, pollution prevention and continuous improvement. A sound environmental system is used to integrate internal and external resources while all business activities, products and services are comprehensively assessed to reduce any potential environmental impact from business operations. This balances the company's creation of economic value with its responsibility to provide a safe workplace and protect environmental sustainability.

The ISO 14001 environmental management system standard and OHSAS occupational safety and health management system standard are used by Phison to enforce our ESH policy. Each department nominates one or more representatives to the ISO committee for promoting and implementing these systems. The PDCA ( Plan, Do, Check, Action ) management mechanism is used to realize the continuous improvement of internal management systems. At the same time, Phison complies with local ESH regulations, WEE, RoHS, REACH, HF and other related requirements issued by our customers. Environmental protection and assessments are carried out to ensure Phison poses no major potential or tangible negative impact on the local community. There were no restrictions, rejections or fines issued against Phison for violation of international environmental regulations and voluntary codes in 2016.

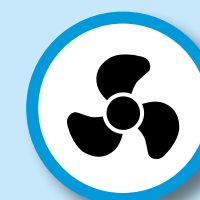


### Energy Management Policy



#### Electricity Consumption

- All electrical devices in Phison's office areas shall be turned off right after use;
- Every piece of Phison's equipment is operated in line with the maintenance efforts to bolster efficiency and reduce power use;
- When the testing procedure stops, the power of relevant R&D lab devices should be turned off by their respective operators as required by the SOP;
- All employees are encouraged to use the stairs rather than elevators, with energy-efficiency slogans placed in elevator cars and stairwells.



#### Air-conditioning

- Temperatures in office areas and meeting rooms should be set at an appropriate level, with the last person leaving the aforesaid areas required to turn off the air-conditioner;
- To ensure efficient air-conditioning, efforts are needed to keep the air-conditioner filters in all company areas clean.



#### Lighting

- All workplace/office areas shall remain adequately lit;
- Unless otherwise deemed necessary, an employee must turn the light out if he/she is the last one to leave a non-workplace area;
- The slogan of "Turn the Light Off When You Leave" shall appear in conspicuous places near lamp outlets to remind employees.



#### Water Resource Management

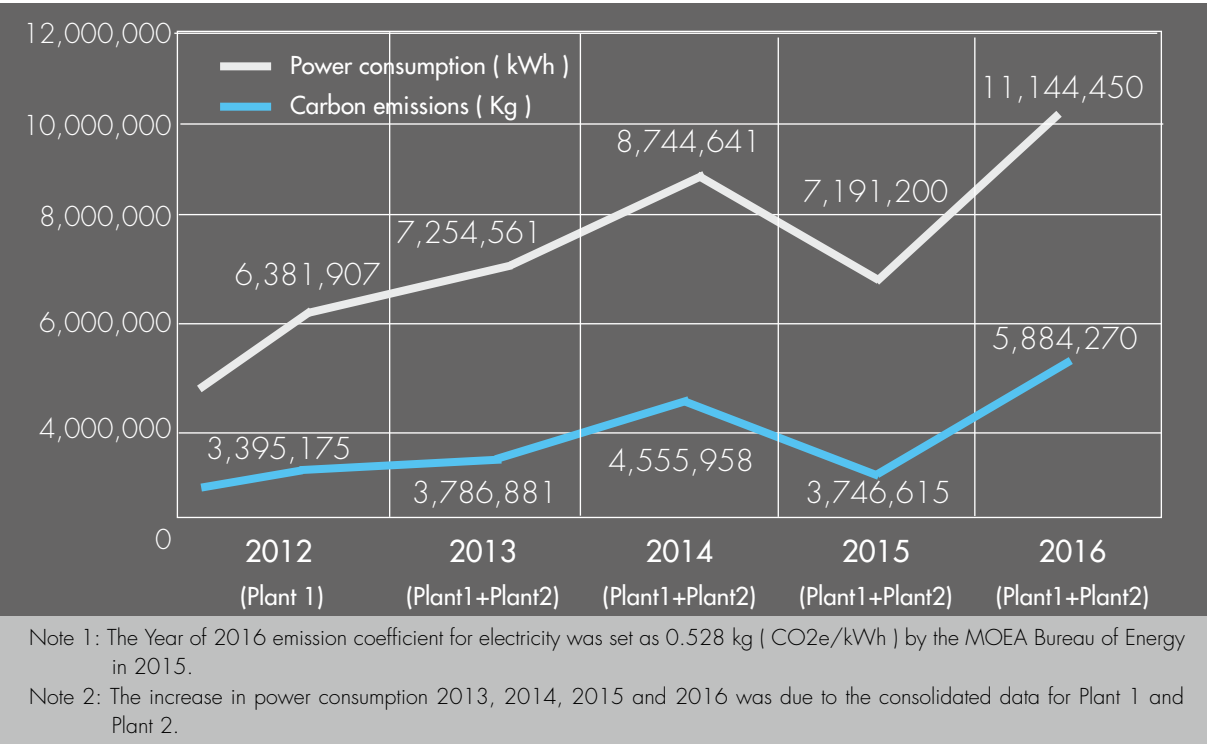
- All waste water is discharged through legitimately registered sewage ducts to Kuan-Yuan Science Park Administration's treatment plant;
- Phison's Jhunan branch doesn't generate any production-related waste water because it comprises simple assembly, packaging, maintenance and testing equipment without involvement in any manufacturing activities that require water. It only generates non-industrial sewage not suitable for recycling/reuse and consequently has insignificant impact on the water quality of Yangang River;
- The "Use Water Wisely" slogan appears in conspicuous places throughout the company to remind employees;
- Employees' drinking water is also inspected quarterly for E.coli and bacterial cluster count by an external, qualified institute.



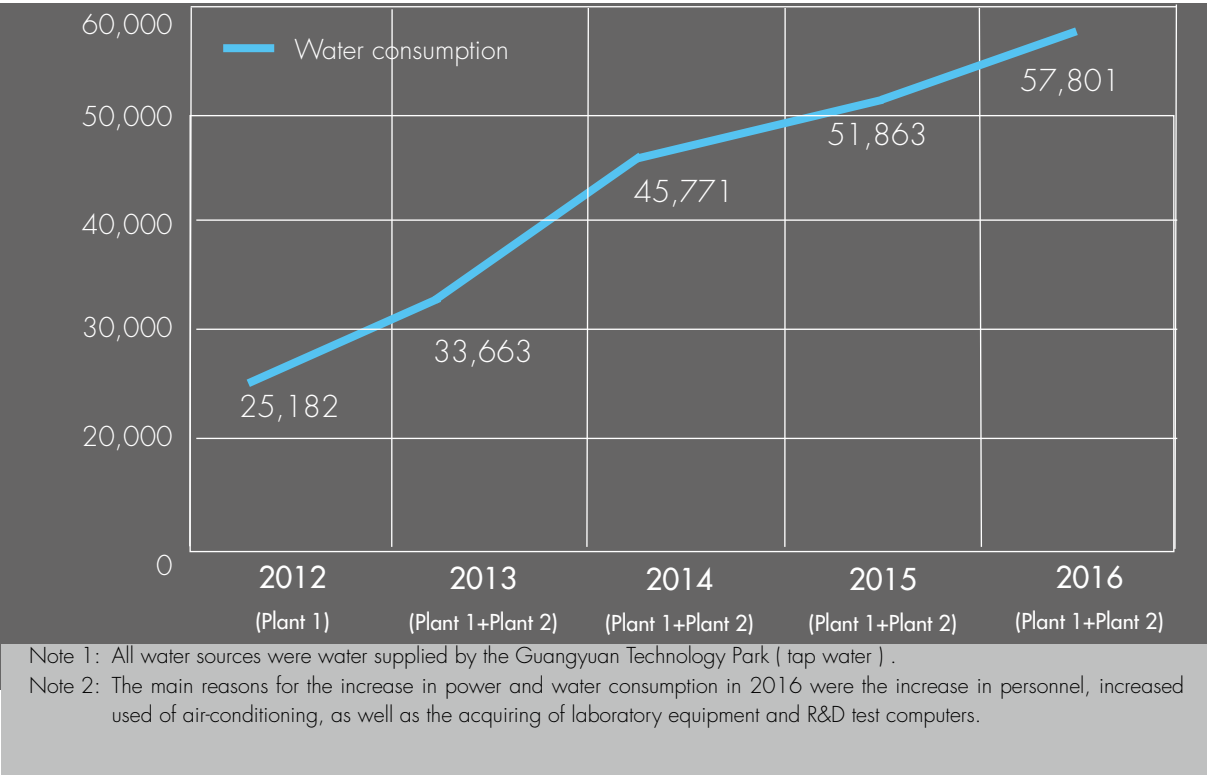
#### Transportation Management

- All logistics tasks should be performed in the "truckload consolidation" manner to increase transportation capacity and efficiency;
- The monthly truckload summary includes such statistics as transportation-induced CO<sub>2</sub> emissions. In 2016, Phison's contractors generated totally 37,842 kilograms of CO<sub>2e</sub> during transportation.

Historic Power Consumption and Carbon Emissions



Water Consumption



Direct and Indirect Energy Usage in 2016

Energy type	Energy purpose	Energy used	Consumption	Megajoules ( MJ )
Direct energy	Official vehicles	Petrol	6,271.326 L	204,546.133 MJ
	Emergency generator	Diesel	900 L	31,612.518 MJ
Indirect energy	Plant-wide power consumption	Electricity	11,144,450 kWh	40,120,020 MJ

Formula:

Energy consumption from petrol: = Petrol ( Liters ) x 7,800 Kcal x 4.18155 MJ

Energy consumption from diesel: = Diesel ( Liters ) x 8,400 Kcal x 4.18155 MJ

Energy consumption from electricity: = Power consumption ( kWh ) x 3.6 MJ

Unit of conversion:

1 Million Calories = 4.18155 MJ

1 L of petrol = 7,800 Kcal ( 7.8 MJ )

1 L of diesel = 8,400 Kcal ( 8.4 MJ )

1 kWh = 3.6 MJ

Source: MOEA Bureau of Energy/ Taiwan Power Corp.

Chemicals, Noise Pollution and Waste Management

	<b>Chemical Control</b> <ul style="list-style-type: none"><li>Containers of hazardous chemical substances are properly labeled with the storage location— among other important information required by laws — clearly specified.</li></ul>
	<b>Noise Pollution Control</b> <ul style="list-style-type: none"><li>Phison investigates workplace noise at regular intervals in an EHS effort to better assess the work environment and employees' exposure to occupational noise.</li></ul>
	<b>Waste Control</b> <ul style="list-style-type: none"><li>With proper oversight, each Phison division collects, sorts commercial waste — into everyday trash, recycled recourses and recycled wastes — and transports it to the designated storage locations for further processing by external, legitimately licensed waste treatment facilities;</li><li>Hazardous commercial waste: Phison hires external, legitimately licensed waste treatment facilities to handle excess electronic materials or defective products in accordance with the Waste Disposal Law.</li></ul>

## 2016 Waste Plastic Packaging Recycling Statistics



## Waste Disposal Method and Total Volume

Waste Category		Handling	Year				
			2012	2013	2014	2015	2016
General industrial waste	Domestic waste	Incineration	Around 60-75 tons per year				
	Recycling	Recycling and reuse	30.4 tons	36.6 tons	44 tons	30 tons	36.7 tons
	Waste recycling	Recycling and reuse	28.5 tons	30 tons	40 tons	15 tons	70 tons
Hazardous industrial waste		Recycling or reuse	Approximately 0-20kg per year				

Phison products are customized or for OEM purposes. The packaging materials of retail products such as paper and plastics are resource waste that the Environmental Protection Administration has designated as general recyclable waste. Product users can sort and recycle these materials after use. Still usable materials are recycled by Phison if possible. In 2016, Phison recycled packaging ( anti-static ) materials returned by vendors.

## 2016 Environmental Protection Expenditure

Environmental protection expenditure items	Investment ( NTD )
Green Purchasing	\$ 26,738,578,278
Environmental management system verification costs	\$ 39,863
Environmental protection education and training costs	\$ 125,901
Water cooler, discharge water and waste disposal costs	\$ 1,546,158
Total environmental expenditure	\$ 26,740,290,200

## 8.2 ISO Committee



In response to climate change and to enforce green product management, Phison established the ISO Committee in 2007. The company president serves as the management representative to coordinate the incorporation of ISO management systems and environmental health and safety legislation into everyday operations. Systematic work procedures were also used to manage green products, continue to improve the management of non-hazardous substances, ban or restrict the use of materials that contain hazardous substances, conform with the EU's WEEE, RoHS and REACH directives, conduct complete assessments of product lifecycles to determine whether they meet environmental protection regulations, produce green products with zero or minimal environmental impact, and balance our dual responsibilities of creating economic value and protecting the ecological environment.

### ISO Committee



### Responsibilities and Guidelines of the ISO Committee:

- The promotion and maintenance of ISO9001 / ISO14001 / OHSAS18001 / Sony GP, OEM GP
- The head of product design serves as the agent of management representative.
- Establish the hazardous substance management procedure and audit ISO management activities of the relevant units.
- Green management task force reviewed Laws and regulations every 6 months to ensure that the company is in compliance with the law.
- Temporary meetings may be convened at any time in response to customers' environmental requirements and rules. The appropriateness of the management procedure is also discussed to ensure that company products and services can satisfy customer requirements.
- Maintenance of internal database and development of standard teaching materials for ISO activities implementation,
- Outside lab testing of hazardous substance content in Phison's main products is carried out every year.
- Organize two regular new sales green regulations training classes.







2016 Issue Handling

NO	2016 issues handled	Result
1	55 customers underwent EICC/GeSI conflict minerals investigation	Compliance with customer requirements
2	888 customer green requirement forms processed	Compliance with customer requirements
3	New sales employees required to attend two sessions of green regulations class for and test	Compliance with objectives
4	To strengthen GRM - Green Regulatory Management Platform	Actively collect legal information and strengthen communications
5	163 current suppliers to download from green document platform	To maintain the timeliness of documents downloaded
6	Green surveys sent out to 253 people	Compliance with objectives

Green Accomplishments

Year	Green accomplishments
2016	Regular Purchaser Import Easy Material Composition Declaration Survey Form
	EICC Code of Conduct seeds members training, EICC Kick off meeting
2015	Hosted ISO and CSR new version standard seminar in March 2015
	Supplier Work Request Form had implemented to improve the feedback efficiency for customer requirement
2014	2013 Corporate Sustainability Report were verified by the Taiwan branch of the British Standards Institution ( BSI )
	GRM - Green Regulatory Management Platform Revised
	Created approved supplier/ brand list and criterion of green products qualification
2013	Created Raw Material Green Risk Table
	GRM - Green Regulatory Management Platform Revised
2012	EHS management program: GHG inventory ( Scope 1 + Scope 2 = 3795 tons )
	EHS management program: Inspection of auxiliary materials at supplier partners ( Green risk management )
	Sony OEM GP certification
2011	EHS management program: ESH compliance audit at suppliers ( 12 suppliers, 8 partners )
	Supplier partner ( 9 companies ) education & training: BSCI ( Business Social Compliance Initiative ) and audit conference
	Assisting supplier partners with promoting and meeting customer CSR requirements

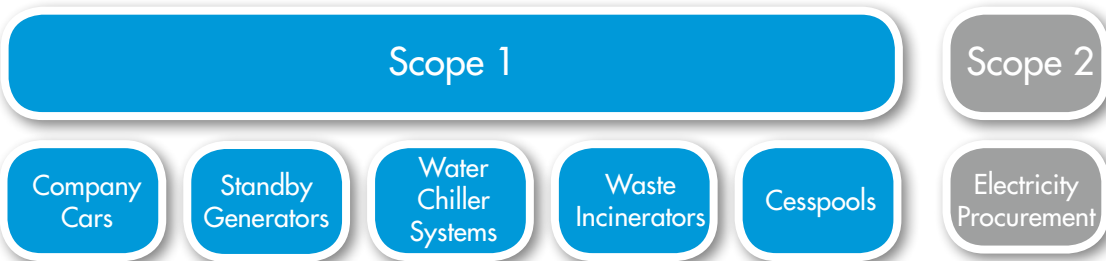
Greenhouse Gas Inventory

Climate change is a sustainability issue that all global enterprises must contend with. Businesses must determine the energy consumption and greenhouse gas ( GHG ) emissions from their operations and conduct a total self-inspection to make more efficient use of energy resources. Phison began conducting a GHG inventory in 2011. The GHG inventory tool developed by the Taiwan Green Productivity Foundation is used every year to inventory the GHG emissions produced by our business activities. The results are not only used to set our internal GHG reduction strategies and targets, but are also used by Phison to assess the potential risks and opportunities brought by climate change. This in turn allows our business strategy to be adjusted in a timely manner.

The scope of the inventory covers the whole of the Miaoli plant. As Phison is a R&D and design company with no manufacturing equipment of its own, the 2016 inventory results showed that Scope 2 externally purchased electricity was the main source of GHG emissions at over 97.7% of all emissions. Scope 1 accounted for just 2.3%. Total emissions amounted to 6,022.55 tons, far lower than the annual emission limit of 25,000 tons CO<sub>2</sub>e set for Phase 2 by the EPA. Scope 3 other indirect emissions covered activities such as employee commutes, waste disposal and outside transportation so were not included in the inventory and calculations.

Chiller machines use environmentally-friendly R134a refrigerant. Ozone depletion potential ( ODP ) is zero and there is no threat to the ozone layer. Refrigerators use R600a and R134a eco-friendly refrigerants as well. There is therefore no ODP at Phison.

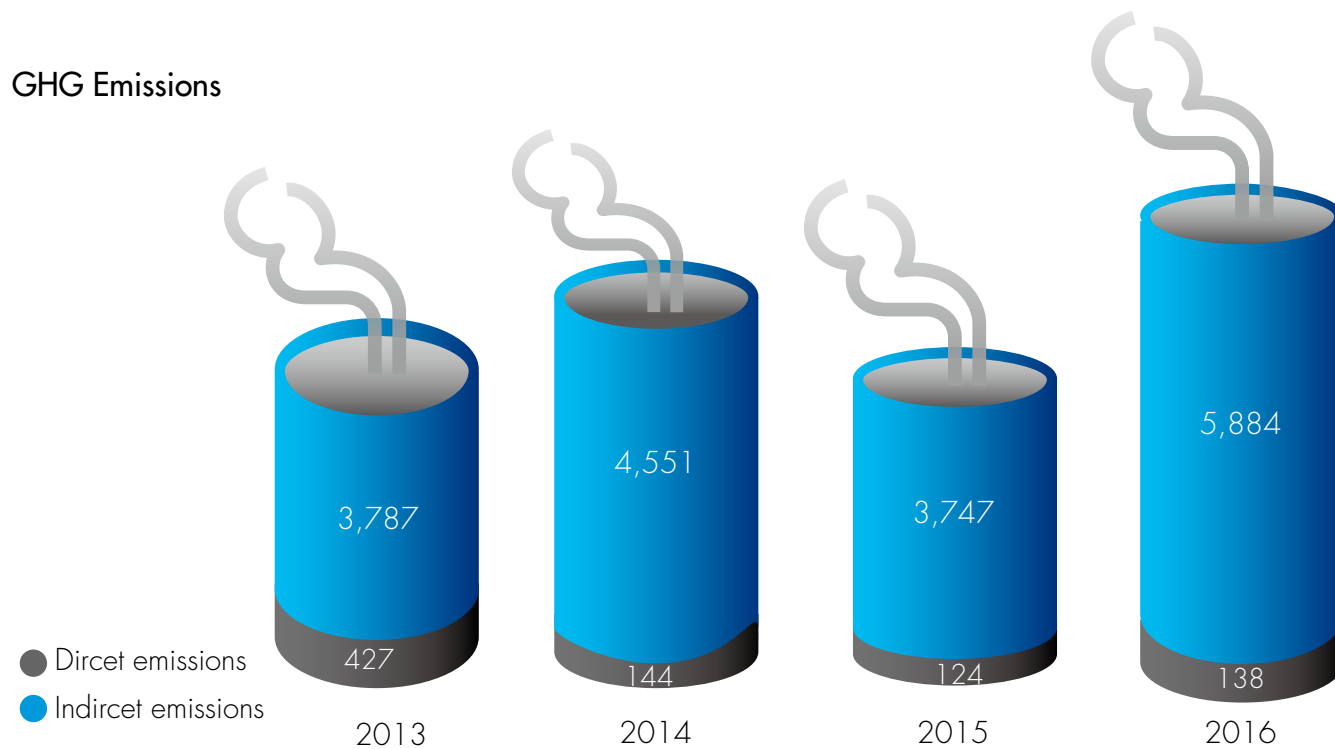
Types of GHG Emissions



2016 Greenhouse Gas Emissions

Greenhouse Gas	CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>	Total
Direct emission Scope 1	93.54	44.32	0.43	0	0	0	138.28
Indirect emissions Scope 2	5,884.27	0	0	0	0	0	5,884.27
The power emission coefficient in 2015 was 0.528 kg CO <sub>2</sub> e/kWh Unit: Tons of CO <sub>2</sub> e/year							6022.55

## GHG Emissions



Year	2013		2014		2015		2016	
	Emissions	Ratio	Emissions	Ratio	Emissions	Ratio	Emissions	Ratio
Direct emissions - Scope 1	427	10%	144	3%	124	3%	138	2%
Indirect emissions - Scope 2	3,787	90%	4,551	97%	3,747	97%	5,884	98%
Total GHG emissions (Tons CO <sub>2</sub> e/year)	4,214		4,695		3,871		6,022	

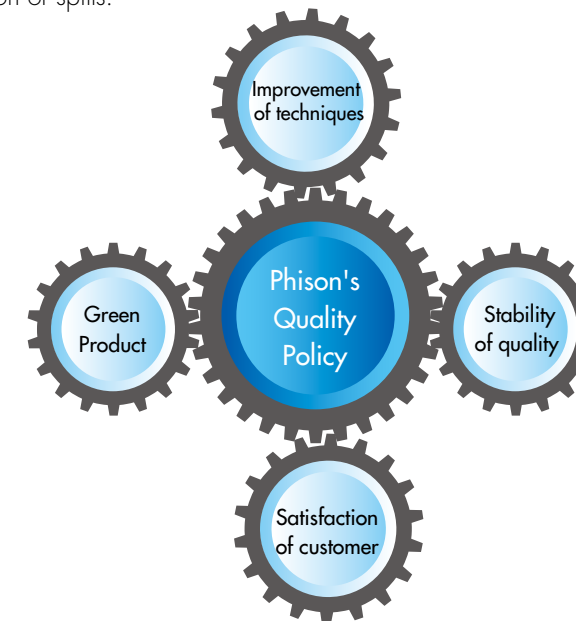
Greenhouse gas emissions from employee business trips ( official vehicles )				
Year	2013	2014	2015	2016
CO <sub>2</sub>	15.40	13.55	16.07	14.19
CH <sub>4</sub>	0.14	0.12	0.12	0.11
N <sub>2</sub> O	0.44	0.39	0.48	0.42
Total	15.98	14.06	16.67	14.72

Unit: Tons of CO<sub>2</sub>e/year

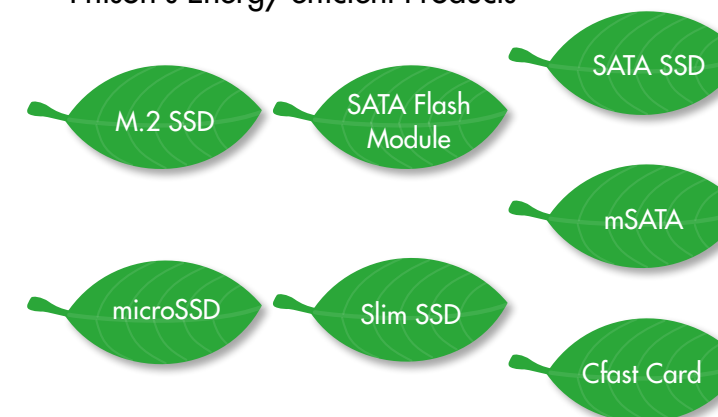
## 8.3 Green Products

Phison has added the green product concept to its quality policy in support of the global sustainable environmental development. We have started looking for ways of improving the energy efficiency of products and reducing their environmental impact from the design stage. Phison wants our customers to trust our products and be environmentally friendly as well. Systematic management have been introduced to complement the hazardous substance management procedure to ensure that materials and products conform to environmental regulations. This in turn improves overall production efficiency and green competitiveness.

Phison products ( SD/PD/SATA ) conform to international environmental regulations ( e.g. EU WEEE, EU RoHS, China RoHS, EU REACH-SVHC etc. ) . Nearly 90% of our products and packaging are labeled with environmental information while the remaining 10% are too small or in loose packaging that makes labeling difficult. In 2016, there were no restrictions, rejections or fines imposed for violations of international product/safety and health regulations, product service and labeling regulations, or voluntary codes. There were also no incidents of pollution or spills.



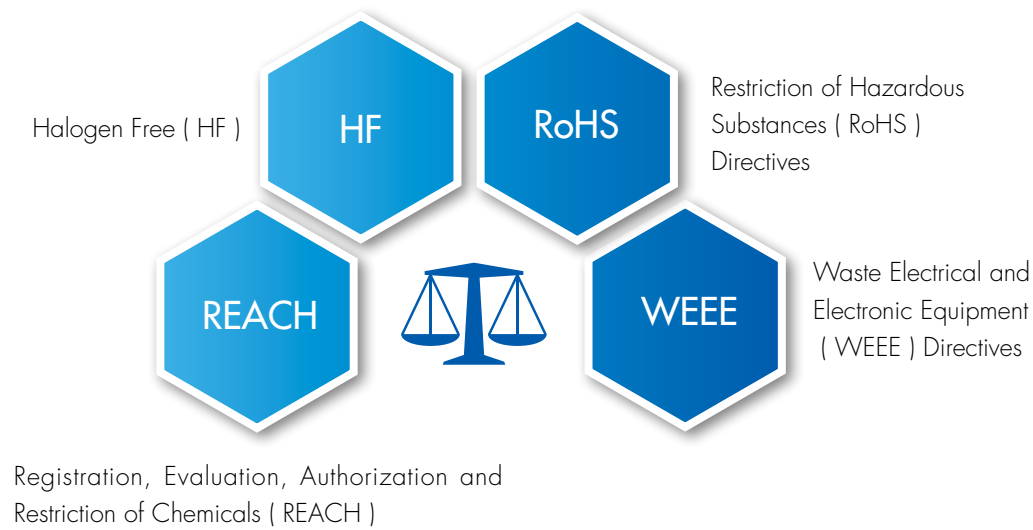
## Phison's Energy-efficient Products



**Device Sleep (DEVSLP) mode**  
Phison's DEVSLP-compatible SATA SSD stays connected even when most of power was cut off. It prevents electricity waste, and prolong battery life in portable systems. In DEVSLP mode, Phison's SSD can only consume less 5mW which is much lower than general device in standby mode with 60-70mW power consumption.

**Triple-Level Cell ( TLC )**  
With the innovative TLC, each memory unit stores up to 3 bits. TLC boasts a larger storage capacity and a lower cost, although the compromised efficiency limits its use to low- and mid-level NAND Flash products. TLC helps narrow the digital divide as it makes electronics more affordable for low-income consumers.

International Environmental Legislation

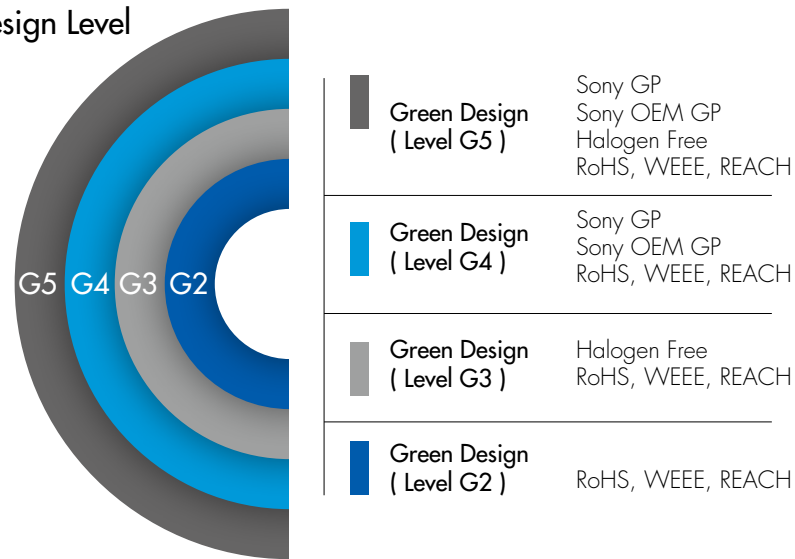


Sony Green Partner

Sony Green Partner

- Building the process and criteria for Green Partner certification.
- Complying with “Sony Green Partner Environmental Quality Approval Program” with the product components, materials and other environment-related substances controlled accordingly.
- Constantly managing/assuring product quality as per the "product and environmental quality assurance program."

Green Design Level



Green Management Process

Green Design	Based on customers' needs, the R&D staff designates a green level ( G2, G3, G4 or G5 ) to the raw material/product.
Green Purchasing	As requested by the R&D staff, the supplier delivers level-appropriate samples and purchasing documents to Phison.
Green Production	As requested by the R&D staff, the subcontractor implements level-appropriate manufacturing procedures and process control measures.
Green Logistics	The warehouse stores and manages in-coming raw materials according to their GP levels.
Recycling & Disposal	Product recycling services are inaccessible: only the trays coming with subcontractor's delivery are recycled.
Assessment	The green management projects are evaluated in either the preliminary assessment or annual audit of suppliers and subcontractors.

Product and service information	Description	Labeling ratio
Source or service provider for product components or materials	The rear spec sheet or manual is marked with "brand vendor".	90%
Materials, especially those that may have an impact on the environment or society	The rear spec sheet or manual is printed with the "RoHS" mark.	Depends on customer requirements
Safe use of product or service	The rear spec sheet or manual is printed with the "CE" mark.	90%
Product disposal and its environmental/ social impact	The rear spec sheet or manual is printed with the "WEEE" mark.	90%





## 8.4 Green Supply Chain Management

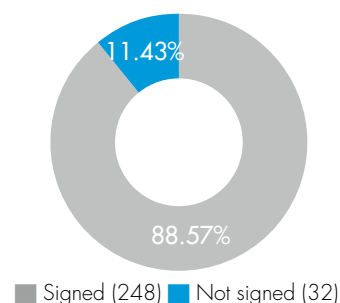


Phison focuses mainly on R&D and design. Manufacturing and production are outsourced to outside manufacturers. Production is carried out by qualified factories that conform to environmental regulations. The environmental requirements include low-pollution, low-hazard as well as compliance with EU WEEE and RoHS directives. Every effort is made to fulfill environmental social responsibilities in pollution prevention.

In 2013, 192 suppliers were asked to sign a "Declaration of Non-use of Hazardous Substances". Signed declarations have been returned by 248 suppliers so far. Phison will continue to follow-up on the remaining suppliers and provide assistance or counseling as necessary. At the moment only electro-plating and PCB suppliers have been asked to sign and return the corporate environmental responsibility declaration. Up to 2016, 36 suppliers have signed and returned the declaration.

In addition, 88.57% of long-term suppliers were asked to sign the "Quality and Purchasing Contract". The contract requires suppliers to abide by the Electronic Industry Code of Conduct ( EICC ) . Supplier compliance will also be progressively reviewed each year.

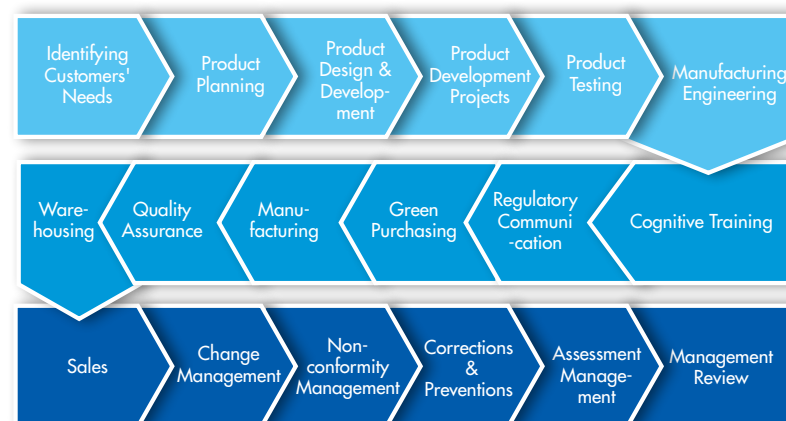
### Supplier Signed the Quality and Purchasing Contract Rate



For supplier evaluation, an audit is carried out every six months to regularly assess how well supplier quality, pricing, delivery, management, process and technologies conform to Phison requirements and rules. At the same time, suppliers must provide documentation on "Hazardous Substance Management Standards" and "Hazardous Substance Testing Standards". They must also sign the "Restrictions on the Use of Hazardous Substances in Electrical Appliances and Electronic Equipment" ( RoHS ) to ensure that their parts and products conform to environmental regulations.

### Hazardous Substances Management Procedure

Ban or restrict the level of hazardous substances used in product components or materials, the content thresholds, testing methods as well as define the management activities of the relevant units to reduce the environmental impact of product-related activities.

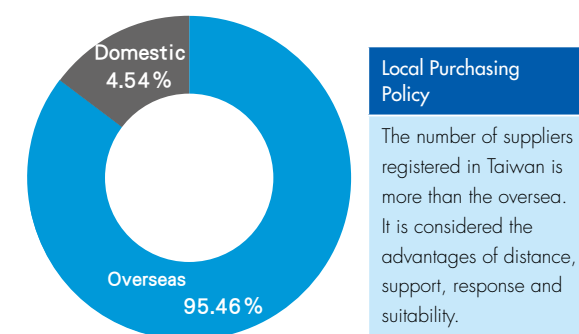


The Green Product Management System ( ezGPM ) works closely with suppliers to establish whether review documentation at each phase conforms to regulations. An online platform is used to check on the latest environmental legislation and green product specifications in realtime for effective green supply chain management, document tracking and two-way communication. This prevents the use of any components containing restricted chemical substances. A total of 130 companies ( satellite factories ) were connected ( 17 were partners with the rest being suppliers ) .



Green Product Management System Functions	The central plant sends a notification letter to a satellite plant.
	The satellite plant submits hazardous substances-related information — namely testing summary reports, Material Composition Data ( MCD ) or Material Safety Data Sheet ( MSDS ) — to the central plant for a review. By approving or rejecting the information submitted, the central plant ensures the satellite plant's green compliance regarding raw materials.
	An automatic, system-generated notification letter will be sent to the satellite plant if any test summary report submitted by the latter has expired ( for over one year ) . After receiving such a letter, the satellite plant should submit a valid report for the central plant's approval.
	The satellite plant's documents about international standards ( e.g., ISO certificates ) and management effectiveness are collected.

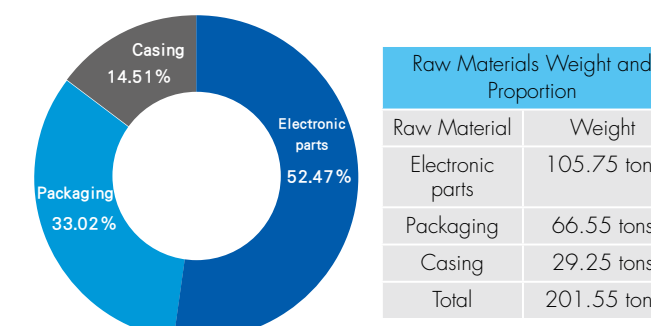
### Percentage of Local Purchasing Amount



**Local Purchasing Policy**  
The number of suppliers registered in Taiwan is more than the oversea. It is considered the advantages of distance, support, response and suitability.

The purchasing amount by area is modified from supplier's location of registration, 2015, to be supplier's location of manufacturing, 2016.

### Raw Materials Weight and Proportion



## 9 Spreading Goodwill

- 9.1 Charitable Donations
- 9.2 Caring for Local Communities
- 9.3 Supporting Disadvantaged Groups



## Spreading Goodwill

Phison believes in spreading goodwill to make society a better place. The use of corporate resources and capabilities to help the needy will show them the importance of spreading goodwill as well. They will then exert their own influence to help other people. If this goodwill can be passed on, it will bring hope to society and make more people willing to give. Society will then be filled with human warmth.

### 9.1 Charitable Donations



Phison donations are targeted mainly at local small and medium charities because these small /medium regional charities actually need more help. Resources must be distributed to those who need those most in order to have the most effect. We also provide long-term support to allow the charity to focus all of their efforts on caring for the disadvantaged.

Apart from charities, Chairman Pan also welcomes invitations to speak at schools or charities on his own startup experience and to encourage more ambitious young people to start their own business. Phison has also set up scholarships to reward students from poor families, scholarships for special education, sponsorship of research or training by school clubs, and makes donations to local medical research. At the same time, Phison also donates to Chunan Elementary School, local farmers' associations, local temples and emergency rescue associations based on community requirements to help them improve their software/hardware facilities or host relevant events. We actively do our part to help groups in society that need assistance.





Past Aid Recipients and Description

Year assisted	Aid recipient	Aid description
2016	Foundation of NCTU, NTU Academic Development Foundation, Epoch, SINOCON, , Zhu Ming Teaching Foundation, CPMAH, NCAFROC, CPMAH, Taiwan Techmakers Association etc	Sponsorship of various activities and seminars, agglomeration the power of industry, government, academia, and promote cross-industry and cross-generational exchange.
	NCTU, NTHU, NHUE,NTU, NSYSU etc	Promoting the communication between industries and universities, sponsorship of various activities and seminars, supports of school societies in order to encourages students to actively participate in public, cultural affairs as well as international exchange.
	Mackay Hospital, CWLF, CCF, Syin-Lu, Autism Foundation, Boyo Social Welfare Foundation, Eden, Hsin Miao, Premature Baby Foundation, Huashan Foundation, Yu An Children's Home, Holy Family for Special Education etc	Phison has donated fundings to support social welfare organizations, facilities and funding of substantial subsidy Multi habilitation services for children, care for elderly people living alone and disease prevention and screening propaganda.
2015	NTUH emergency-assistance grants	NT\$3 million Donation for Early intervention plan and medical facilities for patients of flammable starch-based powder exploded at the Formosa Fun Coast.
	Criminal Investigation Bureau, Hsinchu County Police Bureau, Miaoli County Friends of Police Association	Donation CIB Internet crime investigation hardware equipment, the police patrol car donation, supports of Friends of Police Association and crime prevention.
	Miaoli County Government, Hsinchu City Government	Sponsored Miaoli County for cultivate outstanding athletes and disabled sports events, and sponsored Hsinchu City Expo.
	Epoch, Spring Foundation of NCTU, SINOCON, Zhu Ming Teaching Foundation, CPMAH, Taiwan Techmakers Association, CIAE	Sponsorship of various activities and seminars, agglomeration the power of industry, government, academia, and promote cross-industry and cross-generational exchange.
	NCTU, NTHU, NHUE, TMU, NTSU, NCU,NTU etc	Promoting the communication between industries and universities, sponsorship of various activities and seminars, supports of school societies in order to encourages students to actively participate in public, cultural affairs as well as international exchange.
	CWLF, Taiwan Health Foundation, CCF, Syin-lu, Boyo, Eden, Hsin Miao, Premature Baby Foundation, Huashan Foundation, Liver Disease Prevention & Treatment Foundation, Yu An Children's Home, Holy Family for Special Education	Phison has donated fundings to support social welfare organizations, facilities and funding of substantial subsidy Multi habilitation services for children, care for elderly people living alone and disease prevention and screening propaganda.

The Purpose of Speech is to Promote the Phison Philosophy and Culture

First, students always feel lost about their future. I felt the same way at school. Even though the school organized lectures as well, the speakers were all successful entrepreneurs in their fifties. I couldn't understand what they were saying and couldn't follow their example either! If my speech helps to increase students' confidence by even a little bit, I will have done my part.

Second, Phison still needs 200 engineers. But Mediatek always gets in the way. A lot of NCTU graduates that have filed the paperwork end up telling me on their onboard date that "my parents, my girlfriend and my girlfriend's parents all say that Mediatek has a better share price!" That's a real headache for me!

That's why I decided to start small. If I give 100 speeches, there are bound to be two people willing to come to Phison, right? ( Laughter ) I tell students that if you go to a big company with thousands of people, you will be at most a talented sidekick. When Mediatek was a small company, it would've attracted people with ambition. Now that it's a big company, people with big ambition may look elsewhere. This is where Phison comes in. Still, if I don't "do well", nobody will have heard of "Phison".


In my speech, I won't go on and on about "becoming a millionaire overnight" in this industry because that just doesn't happen! All I tell students is that the future is not always rosy but if you work harder, it will get a little better.

Source: Manager Today @ CEO Lectures - Survival Instinct is More Tenacious than Strategy

Total Academic Donations in 2016

Type	Recipient	Total ( NTD )
	Spring Foundation of NCTU	2,500,000
	National Taiwan University Academic Development Foundation	1,500,000
	National Chiao Tung University	1,414,000
	Epoch Foundation	1,336,000
	National Tsing Hua University	670,000
	Zhu Ming Teaching Foundation	425,200
	National Culture and Arts Foundation	400,000
	Mountain City Friendship Humanity Foundation	300,000
	Taiwan Techmakers Association	300,000
	SINOCON Industrial Standards Foundation	200,000
	National Hsinchu University of Education	180,000
	Miaoli Country Chunan Elementary School	120,000
	Program the World Association	100,000
	Chinese Society for Management of Technology	100,000
	National Sun Yat-sen University	80,000
	Minghsin University of Science and Technology	60,000
	Ming Chuan University	60,000
	National Taiwan University	60,000
	Liver Disease Prevention & Treatment Research Foundation	34,397
	Chinese Professional Management Association of Hsinchu	30,000
	National Cheng Kung University Cultural and Education Foundation	14,500
Total amount of academic donations		9,884,097

Total Social Donations in 2016

Type	Recipient	Total ( NTD )
	Hsinchu Mackay Memorial Hospital	1,800,000
	Miaoli County Friends of Police Association	800,000
	Child Welfare League Foundation.R.O.C.	579,000
	Taipei Orphan Welfare Foundation in Taiwan	500,000
	Taiwan Fond for Children and Families, Hsinchu Country Branch Office	424,000
	Taiwan Fund for Children and families , Miaoli Branch Office	299,000
	Boyo Social Welfare Foundation	289,000
	Premature Baby Foundation of Taiwan.	289,000
	Syin-Lu Social Welfare Foundation	271,000
	Yu An Children's Home R.O.C	239,000
	Hsinchu County Friends of Police Association	200,000
	Huashan Social Welfare Foundation	189,000
	Eden Social Welfare Foundation	189,000
	Autism Foundation	166,000
	Holy Family for Special Education	129,000
	Second Special Police Corps	125,000
	Hsin Miao Development Center of Juridical Person Organization	121,000
	Taiwan Health Foundation	40,000
Total amount of social donations		6,649,000





## 9.2 Caring for Local Communities

Phison has supported and assisted many social vulnerable groups in Hsinchu-Miaoli region in recent years, including reformatories, orphanages and nursing centers. We visited these places and learned that we can help them with donations of money and supplies, and etc. Managers were also invited to participate the Charity Visiting to learn about forgotten segments of society and work together to give them more compassion and assistance.



### Recipients of Long-term Care and Support, 2011-2016

No.	Group aided	Aid recipient
1	Hsin Miao Development Center	Intellectually handicapped, autistic, multiple disabilities, Alzheimer's and Down syndrome patients over the age of 15
2	Holy Family for Special Education	Early intervention and rehabilitation for children aged between 0-6 with developmental delays
3	Syin-Lu Foundation	Newborn children with developmental delays or disabilities
4	Yu An Children's Home	Mainly the mentally or multiple disabilities (intellectually impaired) aged between 0-60
5	(Edan) Hsinchu City Care Service Center for Mental Retardation	Aged from 15 to 64 citizens with mentally disabled ID
6	Autism Foundation	Preschool children with autism or other mental disabilities
7	Hsinchu / Miaoli TFCF Hsinchu	Children under the age of 18 and their families
8	Hsinchu/Miaoli Child Welfare League Foundation	Child Welfare Advocacy / Research / Services
9	Boyo Social Welfare Foundation	Disadvantaged families among high school and elementary school students
10	Premature Baby Foundation	Premature babies
11	Huashan Foundation	Elderly services

## Premature Baby Foundation

Through long-term interaction and communication with the local community, Phison learned about the inadequate medical facilities for premature babies among local hospitals in Hsinchu and Miaoli. There is an 8-10% chance of premature births during ordinary pregnancy yet they account for 80% of the newborn mortality rate.



Premature births may have other hidden problems including dependence on respirators, hyperbilirubinemia, septicemia and respiratory tract diseases.

To reduce the challenge of caring for premature babies and provide premature babies in the Hsinchu-Miaoli region with more complete medical care, Phison donated high flow nasal cannula and high frequency respirators to the Hsinchu Mackay Hospital through the PBF in 2014. The donation showed pregnant women in the Hsinchu-Miaoli region the care and support of local enterprises.

## 9.3 Supporting Disadvantaged Groups

To help social vulnerable groups independent, Phison set up a charity sales corner in cafeteria located at 7F, that vulnerable groups may use for charity sales, promotion and fundraising. Phison employees also embraced the philosophy of spreading goodwill by giving their fully and enthusiastically support to every charity sale. A total of 25 charity sales were hosted in 2016.

Charity sales groups	Charity sales merchandise
Hsin Miao Development Center	Foods, commodities
Huashan Foundation	Foods, commodities, yearly raised festival giftboxes
Hwa Yen Development Center	Potted orchids, life articles, commodities
An Children's Home	Foods, moon cakes gift boxes & commodities
Autism Foundation	Foods & commodities
Taipei Orphan Welfare Foundation	Raise scholarships, foods
Holy Family for Special Education	Handmade dumplings, snack, commodities
Syin-Lu Foundation	Raised piggy banks, foods & commoditi





2016 Second Hand Item Donation

Recipient	Donated goods
Holy Family for Special Education	Pre-owned commodities , donated receipts
Yu An Children's Home	Pre-owned clothing
Hsin Miao Development Center	Pre-owned commodities
Huashan Foundation	Pre-owned commodities
Miaoli TFCF	Pre-owned commodities
Taipei Orphan Welfare Foundation	Pre-owned commodities

Receipt donation boxes and second hand item collection area are set up in plant. Clothing, small electrical appliances, books and other usable items are all welcome. Five donations are made annually.



In 2016, Phison held the "RUN FOR LOVE" charity run event. More than 2,200 people including the locals and Phison employees along with their family joined in the festivity. In addition, Phison not only invited a total of 10 charity groups to take part in stage performance, but also provided stalls for them to do charity sale and small fundraising. On site, Phison initiated the donation and hosted the fundraising event because we hope to raise the awareness for each charity group and to give the public more chances to understand them and then help them. Furthermore, Phison expects this event can influence people to consider good deeds as a common practice and fill the society with love and care.



Syin-Lu Social Welfare Foundation

Phison began sponsoring music therapy classes at the Syin-Lu Foundation's Hsinchu daycare center in 2012. The support allowed every child to benefit from the assistance of a professional music therapist. Every child looks forward to their weekly class. The music therapist prepares all kinds of music and instruments to boost children's participation and interest in learning. The children's abilities are enhanced as a result.



Music Therapy

The use of music and rhythm as a form of therapy for patients with physical or mental illnesses is based on the execution of a "planned" and "targeted" treatment process.

By stimulating the brain through hearing and using music to soothe brain waves into an Alpha state ( 8-12 Hz ) , the human body and mind can be placed in a relaxed state. In this state, the brain is more sensitive to external information and internal thinking. At this point, a professional therapist can then make the appropriate psychological or physiological adjustments.

Music Therapy New Zealand has stated that "Music is a powerful and helpful tool that can be used to establish a channel for communication for supporting the learning and rehabilitation of children or adults in terms of the mind, body, social behavior and emotions."

The Foundation of Phison - the Steamed Bun Theory

One day, my mother said: "You've donated a lot of money already. You should leave the rest to the kids." I said to my mother: "Where would I be now if they hadn't helped me then? How can you repay that debt? You can't."My theory is like this. You are starving to death when someone gives you two steamed buns. Eating the steamed buns gives you the strength to find a job and so you manage to survive. Ten years later, you are now rich. Do you think you can just give them back the two steamed buns plus an extra one as interest - and call it even at three steamed buns? Is that acceptable?

You don't repay gratitude that way. You should help in a way that matters. That's not money thrown down the drain either. It is going towards nurturing the next generation. If we can cultivate a few more people who become successful 20 years on, they can start helping people in return. I can stand where I am today thanks to the help of a lot of people. If they don't need my help, that's fine. I won't go give them gifts of antiques or anything because it's unnecessary. But if they need my help, they have it."

Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"

Glossary Proper Nouns

Abbreviation	Full Noun
AES	Advanced Encryption Standard
Cfast Card	CompactFast Card
DEVSLP	Device Sleep
DRAM	Dynamic Random Access Memory
DSP	Digital Signal Processor
EICC CoC	EICC Code of Conduct
EICC/GeSI	Electronic Industry Code of Conduct & Global eSustainability Initiative
eMMC	Embedded MultiMedia Card
IOPS	Input Output Per Second
LDPC	Low-Density Parity-Check
M.2 SSD	M.2 NGFF SSD NGFF, Next Generation Form Factor
MLC	Multi-Level Cell
MIPI	Mobile Industry Processor Interface
mSATA	mini-SATA
NAND Flash	NAND Flash
NFC	Near Field Communication
PATA	Parallel ATA, Parallel Advanced Technology Attachment
PCIe	PCI Express, Peripheral Component Interconnect Express
PCIe Gen3 PHY	PCIe G3 Physical Layer
SATA	Series ATA, Serial Advanced Technology Attachment
SD	Secure Digital Card
SiP	System in Package
SSD	Solid State Disk, Solid State Drive
TLC	Triple-Level-Cell
UFS	Universal Flash Storage
UFS Gear 3 PHY	Universal Flash Storage, UFS Gear 3 Physical Layer
UHS-ISDXC	Ultra-High Speed I, UHS-I Secure Digital High Capacity
USB	Universal Serial Bus
uSSD	micro SSD
WTG	Windows To Go
xD-Picture	Extreme Digital-Picture Card

GRI G4 Guideline Index

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G4-9	Scale of the organization.	4 About Phison	013
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G4-12	Organization's supply chain.	4 About Phison	013
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G4-20	For each material Aspect, report the Aspect Boundary within the organization.	3 Communication with Stakeholders	007
G4-21	For each material Aspect, report the Aspect Boundary outside the organization.	3 Communication with Stakeholders	007
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	No re-editing.	
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	No significant changes.	
G4-24	Provide a list of stakeholder groups engaged by the organization.	3 Communication with Stakeholders	007
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G4-35	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	5 Corporate Governance	034
G4-36	Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	3 Communication with Stakeholders	007
G4-37	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	3 Communication with Stakeholders	007
G4-38	Report the composition of the highest governance body and its committees.	5 Corporate Governance	034
G4-39	Report whether the Chair of the highest governance body is also an executive officer.	5.1 Board of Directors and Supervisors	035
G4-40	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members.	5 Corporate Governance	034
G4-41	Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. Report whether conflicts of interest are disclosed to stakeholders.	3 Communication with Stakeholders	007
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G4-49	Report the process for communicating critical concerns to the highest governance body.	5 Corporate Governance	034
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G4-51	Report the remuneration policies for the highest governance body and senior executives.	5.4 Remuneration Committee	040
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G4-53	Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.	5.4 Remuneration Committee	040
G4-54	Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees	Not disclosed.	
G4-55	Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.	Not disclosed.	
Ethics and Integrity		Disclosed Chapter	Page
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	5.3 Ethical Management	039
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.	5.3 Ethical Management	039
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	5.3 Ethical Management	039

Specific Standard Disclosures Status: ● Fully Disclosed ● Partially Disclosed ○ Not Disclosed

Economic		Status	Disclosed Chapter	Page
EC1	Direct economic value generated and distributed.	●	4.1 Business Model	017
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	No opportunity and risk assessment for climate change in 2016.	
EC3	Coverage of the organization's defined benefit plan obligations.	●	7.3 Compensation and Welfare	055
EC4	Financial assistance received from government.	●	Phison complies with financial subsidies condition of " Article 9 of Statute for Upgrading Industries " and "Article 10 of Statute for Industrial Innovation " in 2016.	
EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	○	Not disclosed.	
EC6	Proportion of senior management hired from the local community at significant locations of operation.	●	7.1 Employee Overview	049
EC7	Development and impact of infrastructure investments and services supported.	●	9 Spreading Goodwill	086
EC8	Significant indirect economic impacts, including the extent of impacts.	●	9 Spreading Goodwill	086
EC9	Proportion of spending on local suppliers at significant locations of operation.	●	8.4 Green Supply Chain Management	084
Environmental		Status	Disclosed Chapter	Page
EN1	Materials used by weight or volume.	●	8.1 EHS Policy	072
EN2	Percentage of materials used that are recycled inout materials.	○	Not disclosed.	
EN3	Energy consumption within the organization.	●	8.1 EHS Policy	072
EN4	Energy consumption outside of the organization.	●	8.1 EHS Policy	072
EN5	Energy intensity.	●	8.1 EHS Policy	072
EN6	Reduction of energy consumption.	●	8.1 EHS Policy	072
EN7	Reductions in energy requirements of products and services.	●	8.1 EHS Policy	072
EN8	Total water withdrawal by source.	●	8.1 EHS Policy	072
EN9	Water sources significantly affected by withdrawal of water.	●	Phison has no manufacturing activities and produce no wastewater. Phison regularly detect and report each environmental indicators according to law to prevent polluting plants surroundings. Therefore, Phison has no significant impact to water sources.	
EN10	Percentage and total volume of water recycled and reused.	●	8.1 EHS Policy	072
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN13	Habitats protected or restored.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN14	Total number of IUCN red list species and national conservation list species with habitats areas affected by operations, by level of extinction risk.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN15	Direct green house gas (GHG) emissions (scope1).	●	8.2 ISO Committee	077

Environmental		Status	Disclosed Chapter	Page
EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2).	●	8.2 ISO Committee	077
EN17	Other indirect greenhouse gas (GHG) emissions (scope 3).	●	8.2 ISO Committee	077
EN18	Greenhouse gas (GHG) emissions intensity.	●	8.2 ISO Committee	077
EN19	Reduction of greenhouse gas (GHG) emissions.	●	8.1 EHS Policy	072
EN20	Emissions of ozone-depleting substances (ODS).	●	8.2 ISO Committee	077
EN21	NOx, SOx and other significant air emissions.	●	8.2 ISO Committee	077
EN22	Total water discharge by quality and destination.	●	8.1 EHS Policy	072
EN23	Total weight of waste by type and disposal method.	●	8.1 EHS Policy	072
EN24	Total number and volume of significant spills.	●	No significant spills in 2016.	
EN25	Weight of transported, imported, exported, or treted waste deemed hazarouds under the terms of the Basel convention Annex I, II, and VII, and percentage of transported waste shipped internationally.	●	Phison has no offshore transport. Waste electronoc components and scraps are finally recycled or reused. 8.1 EHS Policy	072
EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff.	●	Phison has no manufacturing activities and produce no wastewater. Phison regularly detedt and report each environmental indicators according to lae to prevent polluting plants surroundings.	
EN27	Extent of impact mitigation of environmental impacts of products and services.	●	8.2 ISO Committee 8.3 Green Products	077 081
EN28	Percentage of products sold and their packaging materials that are reclaimed by category.	●	8.1 EHS Policy	072
EN29	Monetry value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	No fines for environmental law violations in 2016.	
EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's organization's operations, and transporting members of the workforce.	●	8.1 EHS Policy	072
EN31	Total environmental protection expenditures and investment by type.		8.1 EHS Policy	072
EN32	Percentage of new suppliers that were screened using environmental criteria.	●	8.4 Green Supply Chain Management	084
EN33	Significant actural and potential negative environmental impacts in the supply chain and actions taken.	●	8.4 Green Supply Chain Management	084
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms.	●	No environmental impacts related grievances in 2016.	

Labor Practices and Decent Work		Status	Disclosed Chapter	Page
LA1	Total number and rates of new empolyee hired and employee turnover by age group, gender and region.	●	7.1 Employee Overview	049
LA2	Benefits provided to full-time employees that are not provided to temporary or partime employees, by significant locations of operation.	●	7.3 Compensation and Welfare	055
LA3	Return to work and retention rates after parental leave, by gender.	●	7.1 Employee Overview	049
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	●	7.2 Employee Policy	054
LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	●	7.6 Workplace Health and Safety	067
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	●	7.6 Workplace Health and Safety	067
LA7	Workers with high incidence or high risk of diseases related to their occupation.	●	7.6 Workplace Health and Safety	067
LA8	Health and safety topics covered in formal agreements with trade unions.	●	Although Phison doesn't have trade union, health & safety issues are still discussed in Labor/Management Conference.	
LA9	Average hours of training per year per employee by gender, and by employee category.	●	7.4 Cultivation and Education	062
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them managing career endings.	●	7.4 Cultivation and Education	062
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.	●	7.3 Compensation and Welfare	055
LA12	Composition of governance bodies and breakdown of employees per employee catagory according to gender, age group, minority group membership, and other indicators of diversity.	●	5.1 Board of Directors and Supervisors 7.1 Employee Overview	035 049
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	○	Not disclosed.	
LA14	Percentage of new suppliers that were screened using labor practices criteria.	●	8.4 Green Supply Chain Management	084
LA15	Significant actual and potential negative impacts for labor practiveis in the supply chain and actions taken.	●	No plans for labor practices in the supply chain 2016.	
LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.	●	No labor practices related course in 2016. 7.5 Employee Communications	065

Human Rights		Status	Disclosed Chapter	Page
HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.	●	Although Phison's contracts and agreements don't include human right articles, they still meet requirements of local code.	
HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	●	No human rights related training in 2016.	
HR3	Total number of incidents of discrimination and corrective actions taken.	●	No human rights related training in 2016. 7.2 Employee Policy	054
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.	●	7.2 Employee Policy	054

Human Rights		Status	Disclosed Chapter	Page
HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	●	7.2 Employee Policy	054
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	●	7.2 Employee Policy 8.4 Green Supply Chain Management	054 084
HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations.	●	No human rights related training in 2016.	
HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken.	●	No related event in 2016.	
HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.	●	7.2 Employee Policy	054
HR10	Percentage of new suppliers that were screened using human rights criteria.	●	No relatd plan in 2016.	
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken.	●	No relatd plan in 2016.	
HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.	●	No human rights related grievance in 2016. 7.5 Employee Communications	065
Society		Status	Disclosed Chapter	Page
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	●	9.2 Caring for Local Communities	090
SO2	Operations with significant actual and potential negative impacts on local communities.	●	Phison's business operation follow local legislation to conduct environmental protection and related assessment. No significantly potential or factually negative impact to local communities.	
SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	●	No corruption risk analysis in 2016.	
SO4	Communication and training on anti-corruption policies and procedures.	●	No related event.	
SO5	Confirmed incidents of corruption and actions taken.	●	No related event.	
SO6	Total value of political contributions by country and recipient/beneficiary.	●	No related event.	
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	●	No related event.	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	●	no violations of products and services related to regulations in 2016.	
SO9	Percentage of new suppliers that were screened using criteria for impacts on society.	●	No related plan in 2016.	
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken.		No related plan in 2016.	
SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms.	●	No significantly negative impact happened in local community. Also no any grievance and complaint from local environmental department, local community or societies in 2016.	
Product Responsibility		Status	Disclosed Chapter	Page
PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	●	8.3 Green Products	081
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	●	8.3 Green Products	081
PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements.	●	8.3 Green Products	081
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	No violation of products and service information label legislation in 2016.	
PR5	Results of surveys measuring customer satisfaction.	●	4.5 Customer Relationship Management	030
PR6	Sale of banned or disputed products.	●	Phison no formulates review system and project for marketing, there is no any violation record in 2016. 5.3 Ethical Management	039
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.	●	Phison no formulates review system and project for marketing, there is no any violation record in 2016. 5.3 Ethical Management	039
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	No customer compliance in 2016. 4.5 Customer Relationship Management	030
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	No violation of products and service-related legislation in 2016. 5.3 Ethical Management	039

Global Compact Index

Type	The Ten Principles	Related Chapters of the Report	Page
Human rights	Businesses should support and respect the protection of internationally proclaimed human rights.	7.2 Employee Policy	054
	Businesses should make sure that they are not complicit in human rights abuses.	7.2 Employee Policy	054
Labor	Uphold the freedom of association and the effective recognition of the right to collective bargaining.	7.2 Employee Policy	054
	The elimination of all forms of forced and compulsory labor.	7.2 Employee Policy	054
	The effective abolition of child labor.	7.2 Employee Policy	054

Type	The Ten Principles	Related Chapters of the Report	Page
Labor	The elimination of discrimination in respect of employment of occupation and employment.	7.2 Employee Policy	054
Environment	Support a precautionary approach to environmental challenges.	8.1 EHS Policy	072
	Undertake initiatives to promote greater environmental responsibility.	8.1 EHS Policy	072
	Encourage the development and diffusion of environmentally friendly technologies.	6.4 Future Research Directions 8.3 Green Products	047 081
Anti-corruption	Businesses should work against corruption in all its forms, including extortion and bribery.	5.3 Ethical Management	039

ISO26000 Index

Themes		Related Sections of the CSR Report	Page
Organizational governance	Due diligence	3 Communication with Stakeholders 5 Corporate Governance	007 034
Human rights	Compliance with the law and preventing inspections due to human rights risks	7.2 Employee Policy	054
	Human rights risk situations	7.2 Employee Policy	054
	Avoidance of complicity - Direct beneficial or collusion	5.3 Ethical Management	039
	Resolving grievances	7.5 Employee Communications	065
	Discrimination and vulnerable groups	7.2 Employee Policy	054
	Civil and political rights	7.2 Employee Policy	054
	Economic, social and cultural rights	7.3 Compensation and Welfare	055
Labor practices	Fundamental principles and rights at work	7.2 Employee Policy	054
	Employment and employment relationships	7.1 Employee Overview 7.2 Employee Policy	049 054
	Conditions of work and social protection	7.2 Employee Policy 7.3 Compensation and Welfare	054 055
	Social dialogue	3 Communication with Stakeholders 7.5 Employee Communications	007 065
	Health and safety at work	7.6 Workplace Health and Safety	067
	Human development and training	7.4 Cultivation and Education	062
Environment	Pollution prevention	8.1 EHS Policy	072
	Sustainable resource use	8.1 EHS Policy	072
	Climate change mitigation and action	8.2 ISO Committee	077
Fair operating practices	Protection of the environment & diversity, and restoration of natural habitats	No related event and no operation in nature reserve.	
	Anti-corruption	5.3 Ethical Management	039
	Responsible political involvement	No related event.	
	Fair competition	5.3 Ethical Management	039
	Promoting social responsibility in the value chain	8.4 Green Supply Chain Management	084
	Respect for property rights	5.5 Risk Management 6.3 Intellectual Property Management	041 046
Comsumer issues	Fair marking, factual and unbiased information and fair contractual practices	5.3 Ethical Management	039
	Protecting consumers' healthy & safety	8.3 Green Products	081
	Sustainable consumption	8.3 Green Products	081
	Consumer service, support and complaint and dispute resolution	4.5 Customer Relationship Management	030
	Consumer data protection and privacy	4.5 Customer Relationship Management	030
	Access to essential services	4.5 Customer Relationship Management	030
	Education and awareness	8.3 Green Products	081
Community involemnt and development	Community involvement	9.2 Caring for local Communities	090
	Education and culture	9.1 Charitable Donations	087
	Employment creation and skills creation	7.2 Employee Policy	054
	Technology development	6 Innative R&D	042
	Wealth and income creation	4.1 Business Model	017
	Health	7.6 Workplace Health and Safety	067
	Social investment	9.1 Charitable Donations	087



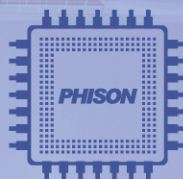
## Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies

Article	Content	Related Chapters	Page
Chapter 1	General Principles		
Article 1	In order to assist companies listed on the Taiwan Stock Exchange Corporation ("TWSE") and GreTai Securities Market ("GTSM") (collectively referred to as "TWSE/GTSM listed companies") to fulfill their corporate social responsibility initiatives and to promote economic, environmental, and social advancement for purposes of sustainable development, the TWSE and GTSM hereby jointly adopt the Principles to be followed by TWSE/GTSM listed companies. TWSE/GTSM listed companies are advised to promulgate their own corporate social responsibility principles in accordance with the Principles to manage their economic, environmental and social risks and impact.	1 About This Report	002
Article 2	The Principles applies to TWSE/GTSM listed companies, including the entire operations of each such company and its business group. The Principles encourages TWSE/GTSM listed companies to actively fulfill their corporate social responsibility in the course of their business operations so as to follow international development trends and to contribute to the economic development of the country, to improve the quality of life of employees, the community and society by acting as responsible corporate citizens, and to enhance competitive edges built on corporate social responsibility.	5 Corporate Governance	034
Article 3	In fulfilling corporate social responsibility initiatives, TWSE/GTSM listed companies shall, in its corporate management guidelines and business operations, give due consideration to the rights and interests of stakeholders and, while pursuing sustainable operations and profits, also give due consideration to the environment, society and corporate governance.	3 Communication with Stakeholders	007
Article 4	To implement corporate social responsibility initiatives, TWSE/GTSM listed companies are advised to follow the principles below: 1.Exercise corporate governance. 2.Foster a sustainable environment. 3.Preserve public welfare. 4.Enhance disclosure of corporate social responsibility information.	5 Corporate Governance	034
Article 5	TWSE/GTSM listed companies shall take into consideration the correlation between the development of domestic and international corporate social responsibility principles and corporate core business operations, and the effect of the operation of individual companies and of their respective business groups as a whole on stakeholders, in establishing their policies, systems or relevant management guidelines, and concrete promotion plans for corporate social responsibility programs, which shall be approved by the board of directors and then reported to the shareholders meeting. When a shareholder proposes a motion involving corporate social responsibility, the company's board of directors is advised to review and consider including it in the shareholders meeting agenda.	5 Corporate Governance	034
Chapter 2	Exercising Corporate Governance		
Article 6	TWSE/GTSM listed companies are advised to follow the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the Code of Ethical Conduct for TWSE/GTSM Listed Companies to establish effective corporate governance frameworks and relevant ethical standards so as to enhance corporate governance.	2 From the Chairman 5 Corporate Governance	004 034
Article 7	The directors of a TWSE/GTSM listed company shall exercise the due care of good administrators to urge the company to perform its corporate social responsibility initiatives, examine the results of the implementation thereof from time to time and continually make adjustments so as to ensure the thorough implementation of its corporate social responsibility policies. The board of directors of a TWSE/GTSM listed company is advised to give full consideration to the interests of stakeholders, including the following matters, in the company's performance of its corporate social responsibility initiatives: 1. Identifying the company's corporate social responsibility mission or vision, and declaring its corporate social responsibility policy, systems or relevant management guidelines; 2. Making corporate social responsibility the guiding principle of the company's operations and development, and ratifying concrete promotional plans for corporate social responsibility initiatives; and 3. Enhancing the timeliness and accuracy of the disclosure of corporate social responsibility information. The board of directors shall appoint executive-level positions with responsibility for economic, environmental, and social issues resulting from the business operations of a TWSE/GTSM listed company, and to report the status of the handling to the board of directors. The handling procedures and the responsible person for each relevant issue shall be concrete and clear.	5 Corporate Governance	034
Article 8	TWSE/GTSM listed companies are advised to, on a regular basis, organize education and training on the implementation of corporate social responsibility initiatives, including promotion of the matters prescribed in paragraph 2 of the preceding article.	7.4 Cultivation and Education	062
Article 9	For the purpose of managing corporate social responsibility initiatives, TWSE/GTSM listed companies are advised to establish an exclusively (or concurrently) dedicated unit to be in charge of proposing and enforcing the corporate social responsibility policies, systems, or relevant management guidelines, and concrete promotional plans and to report on the same to the board of directors on a periodic basis. TWSE/GTSM listed companies are advised to adopt reasonable remuneration policies, to ensure that remuneration arrangements support the strategic aims of the organization, and align with the interests of stakeholders. It is advised that the employee performance evaluation system be combined with corporate social responsibility policies, and that a clear and effective incentive and discipline system be established.	5.3 Ethical Management 5.4 Remuneration Committee	039 040
Article 10	TWSE/GTSM listed companies shall, based on respect for the rights and interests of stakeholders, identify stakeholders of the company, and establish a designated section for stakeholders on the company website; understand the reasonable expectations and demands of stakeholders through proper communication with them, and adequately respond to the important corporate social responsibility issues which they are concerned about.	3 Communication with Stakeholders	007
Chapter 3	Fostering a Sustainable Environment		
Article 11	TWSE/GTSM listed companies shall follow relevant environmental laws, regulations and international standards to properly protect the environment and shall endeavor to promote a sustainable environment when engaging in business operations and internal management.	8.1 EHS Policy	072
Article 12	TWSE/GTSM listed companies are advised to endeavor to utilize all resources more efficiently and use renewable materials which have a low impact on the environment to improve sustainability of natural resources.	8.1 EHS Policy	072
Article 13	TWSE/GTSM listed companies are advised to establish proper environment management systems based on the characteristics of their industries. Such systems shall include the following tasks: 1.Collecting sufficient and up-to-date information to evaluate the impact of the company's business operations on the natural environment. 2.Establishing measurable goals for environmental sustainability, and examining whether the development of such goals should be maintained and whether it is still relevant on a regular basis. 3.Adopting enforcement measures such as concrete plans or action plans, and examining the results of their operation on a regular basis.	8.2 ISO Committee 8.3 Green Products	077 081
Article 14	TWSE/GTSM listed companies are advised to establish a dedicated unit or assign dedicated personnel for drafting, promoting, and maintaining relevant environment management systems and concrete action plans, and should hold environment education courses for their managerial officers and other employees on a periodic basis.	8.2 ISO Committee 8.3 Green Products	077 081

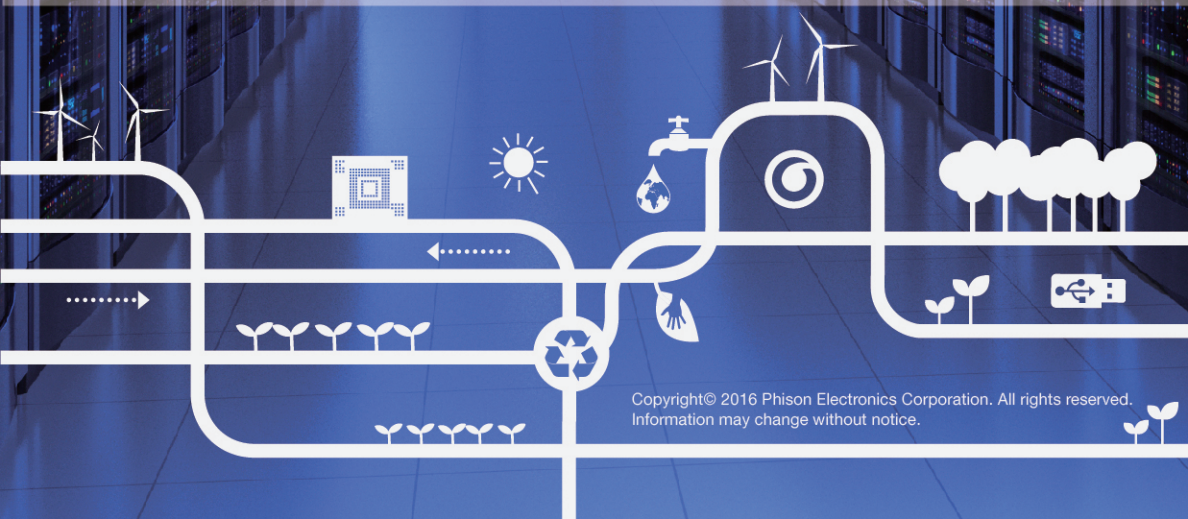
Article	Content	Related Chapters	Page
Article 15	TWSE/GTSM listed companies are advised to take into account the effect of business operations on ecological efficiency, promote and advocate the concept of sustainable consumption, and conduct research and development, procurement, production, operations, and services in accordance with the following principles to reduce the impact on the natural environment and human beings from their business operations: 1.Reduce resource and energy consumption of their products and services. 2.Reduce emission of pollutants, toxins and waste, and dispose of waste properly. 3.Improve recyclability and reusability of raw materials or products. 4.Maximize the sustainability of renewable resources. 5.Enhance the durability of products. 6.Improve efficiency of products and services.	8.2 ISO Committee	077
Article 16	To improve water use efficiency, TWSE/GTSM listed companies shall properly and sustainably use water resources and establish relevant management measures. TWSE/GTSM listed companies shall construct and improve environmental protection treatment facilities to avoid polluting water, air and land, and use their best efforts to reduce adverse impact on human health and the environment by adopting the best practical pollution prevention and control measures.	8.1 EHS Polict	072
Article 17	TWSE/GTSM listed companies are advised to adopt standards or guidelines generally used in Taiwan and abroad to enforce corporate greenhouse gas inventory and to make disclosures thereof, the scope of which shall include the following: 1. Direct greenhouse gas emissions: emissions from operations that are owned or controlled by the company. 2. Indirect greenhouse gas emissions: emissions resulting from the generation of externally purchased or acquired electricity, heating, or steam. TWSE/GTSM listed companies are advised to monitor the impact of climate change on their operations and should establish company strategies for energy conservation and carbon and greenhouse gas reduction based upon their operations and the result of a greenhouse gas inventory. Such strategies should include obtaining carbon credits to promote and minimize the impact of their business operations on climate change.	8.2 ISO Committee	077
Chapter 4	Preserving Public Welfare		
Article 18	TWSE/GTSM listed companies shall comply with relevant laws and regulations, and the International Bill of Human Rights, with respect to rights such as gender equality, the right to work, and prohibition of discrimination. A TWSE/GTSM listed company, to fulfill its responsibility to protect human rights, shall adopt relevant management policies and processes, including: 1. Presenting a corporate policy or statement on human rights. 2. Evaluating the impact of the company's business operations and internal management on human rights, and adopting corresponding handling processes. 3. Reviewing on a regular basis the effectiveness of the corporate policy or statement on human rights. 4. In the event of any infringement of human rights, the company shall disclose the processes for handling of the matter with respect to the stakeholders involved. TWSE/GTSM listed companies shall comply with the internationally recognized human rights of labor, including the freedom of association, the right of collective bargaining, caring for vulnerable groups, prohibiting the use of child labor, eliminating all forms of forced labor, eliminating recruitment and employment discrimination, and shall ensure that their human resource policies do not contain differential treatments based on gender, race, socioeconomic status, age, or marital and family status, so as to achieve equality and fairness in employment, hiring conditions, remuneration, benefits, training, evaluation, and promotion opportunities. TWSE/GTSM listed companies shall provide an effective and appropriate grievance mechanism with respect to matters adversely impacting the rights and interests of the labor force, in order to ensure equality and transparency of the grievance process. Channels through which a grievance may be raised shall be clear, convenient, and unobstructed. A company shall respond to any employee's grievance in an appropriate manner.	7.2 Employee Policy	054
Article 19	TWSE/GTSM listed companies shall provide information for their employees so that the employees have knowledge of the labor laws and the rights they enjoy in the countries where the companies have business operations.	7.2 Employee Policy	054
Article 20	TWSE/GTSM listed companies are advised to provide safe and healthful work environments for their employees, including necessary health and first-aid facilities and shall endeavor to curb dangers to employees' safety and health and to prevent occupational accidents. TWSE/GTSM listed companies are advised to organize training on safety and health for their employees on a regular basis.	7.6 Workplace Health and Safety	067
Article 21	TWSE/GTSM listed companies are advised to create an environment conducive to the development of their employees' careers and establish effective training programs to foster career skills. TWSE/GTSM listed companies shall appropriately reflect the corporate business performance or achievements in the employee remuneration policy, to ensure the recruitment, retention, and motivation of human resources, and achieve the objective of sustainable operations.	7.4 Cultivation and Education	062
Article 22	TWSE/GTSM listed companies shall establish a platform to facilitate regular two-way communication between the management and the employees for the employees to obtain relevant information on and express their opinions on the company's operations, management and decisions. TWSE/GTSM listed companies shall respect the employee representatives' rights to bargain for the working conditions, and shall provide the employees with necessary information and hardware equipment, in order to improve the negotiation and cooperation among employers, employees and employee representatives. TWSE/GTSM listed companies shall, by reasonable means, inform employees of operation changes that might have material impacts.	7.5 Employee Communications	065
Article 22-1	A TWSE/GTSM listed company is advised to treat customers or consumers of its products or services in a fair and reasonable manner, including according to the following principles: fairness and good faith in contracting, duty of care and fiduciary duty, truthfulness in advertising and soliciting, fitness of products or services, notification and disclosure, commensuration between compensation and performance, protection of the right to complain, professionalism of salespersons etc. Said company shall also develop the relevant strategies and specific measures for implementation.	5.3 Ethical Management	039
Article 23	TWSE/GTSM listed companies shall take responsibility for their products and services, and take marketing ethics seriously. In the process of research and development, procurement, production, operations, and services, the company shall ensure the transparency and safety of their products and services. They further shall establish and disclose policies on consumer rights and interests, and enforce them in the course of business operations, in order to prevent the products or services from adversely impacting the rights, interests, health, or safety of consumers.	5.3 Ethical Management	039
Article 24	TWSE/GTSM listed companies shall ensure the quality of their products and services by following the laws and regulations of the government and relevant standards of their industries. TWSE/GTSM listed companies shall follow relevant laws, regulations and international guidelines when marketing or labeling their products and services and shall not deceive, mislead, commit fraud or engage in any other acts which would betray consumers' trust or damage consumers' rights or interests.	5.3 Ethical Management 8.3 Green Products	039 081
Article 25	TWSE/GTSM listed companies are advised to evaluate and manage all types of risks that could cause interruptions in operations, so as to reduce the impact on consumers and society. TWSE/GTSM listed companies are advised to provide a clear and effective procedure for accepting consumer complaints to fairly and timely handle consumer complaints, shall comply with laws and regulations related to the Personal Information Protection Act for respecting consumers' rights of privacy and shall protect personal data provided by consumers.	4.5 Customer Relationship Management	030



Article	Content	Related Chapters	Page
Article 26	<p>TWSE/GTSM listed companies are advised to assess the impact their procurement has on society as well as the environment of the community that they are procuring from, and shall cooperate with their suppliers to jointly implement the corporate social responsibility initiative.</p> <p>Prior to engaging in commercial dealings, TWSE/GTSM listed companies are advised to assess whether there is any record of a supplier's impact on the environment and society, and avoid conducting transactions with those against corporate social responsibility policy.</p> <p>When TWSE/GTSM listed companies enter into a contract with any of their major suppliers, the content should include terms stipulating mutual compliance with corporate social responsibility policy, and that the contract may be terminated or rescinded any time if the supplier has violated such policy and has caused significant negative impact on the environment and society of the community of the supply source.</p>	8.4 Green Supply Chain Management	084
Article 27	<p>TWSE/GTSM listed companies shall evaluate the impact of their business operations on the community, and adequately employ personnel from the location of the business operations, to enhance community acceptance.</p> <p>TWSE/GTSM listed companies are advised to, through equity investment, commercial activities, endowments, volunteering service or other charitable professional services etc., dedicate resources to organizations that commercially resolve social or environmental issues, participate in events held by citizen organizations, charities and local government agencies relating to community development and community education to promote community development.</p>	9 Spreading Goodwill	086
Chapter 5	Enhancing Disclosure of Corporate Social Responsibility Information		
Article 28	<p>TWSE/GTSM listed companies shall disclose information according to relevant laws, regulations and the Corporate Governance Best Practice Principles for TWSE/GTSM listed Companies and shall fully disclose relevant and reliable information relating to their corporate social responsibility initiatives to improve information transparency.</p> <p>Relevant information relating to corporate social responsibility which TWSE/GTSM listed companies shall disclose includes:</p> <ol style="list-style-type: none"> <li>1. The policy, systems or relevant management guidelines, and concrete promotion plans for corporate social responsibility initiatives, as resolved by the board of directors.</li> <li>2. The risks and the impact on the corporate operations and financial condition arising from exercising corporate governance, fostering a sustainable environment and preserving social public welfare.</li> <li>3. Goals and measures for realizing the corporate social responsibility initiatives established by the companies, and performance in implementation.</li> <li>4. Major stakeholders and their concerns.</li> <li>5. Disclosure of information on major suppliers' management and performance with respect to major environmental and social issues.</li> <li>6. Other information relating to corporate social responsibility initiatives.</li> </ol>	5 Corporate Governance	034
Article 29	<p>TWSE/GTSM listed companies shall adopt internationally widely recognized standards or guidelines when producing corporate social responsibility reports, to disclose the status of their implementation of the corporate social responsibility policy. It also is advisable to obtain a third-party assurance or verification for reports to enhance the reliability of the information in the reports. The reports are advised to include:</p> <ol style="list-style-type: none"> <li>1. The policy, system, or relevant management guidelines and concrete promotion plans for implementing corporate social responsibility initiatives.</li> <li>2. Major stakeholders and their concerns.</li> <li>3. Results and a review of the exercising of corporate governance, fostering of a sustainable environment, preservation of public welfare and promotion of economic development.</li> <li>4. Future improvements and goals.</li> </ol>	1 About This Report	002
Chapter 6	Supplementary Provisions		
Article 30	<p>TWSE/GTSM listed companies shall at all times monitor the development of domestic and foreign corporate social responsibility standards and the change of business environment so as to examine and improve their established corporate social responsibility framework and to obtain better results from the implementation of the corporate social responsibility policy.</p>	5 Corporate Governance	034



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