# PHISON
## Knows What You Need
## Phison Electronics Corp.

PHISON
PS3110-S10

PS8036

PHISON
μSSD
PSS3A041-64G

PHISON
PS2251-08

PHISON

SSD
SATA

eMMC™

# 2015
# Corporate Sustainability Report
## www.phison.com

# Contents

# 1 About This Report

## Reporting Period and Publication

Welcome to read the "Phison Electronics Corp. 2015 Corporate Sustainability Report". This report is to be published by Phison Electronics Corp. ( "Phison" ) . Disclosure period is from January 1, 2015 to December 31, 2015. 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 ) .

## 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 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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# 2 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 16 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.

## 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 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.

Phison Chairman Pua Khein Seng
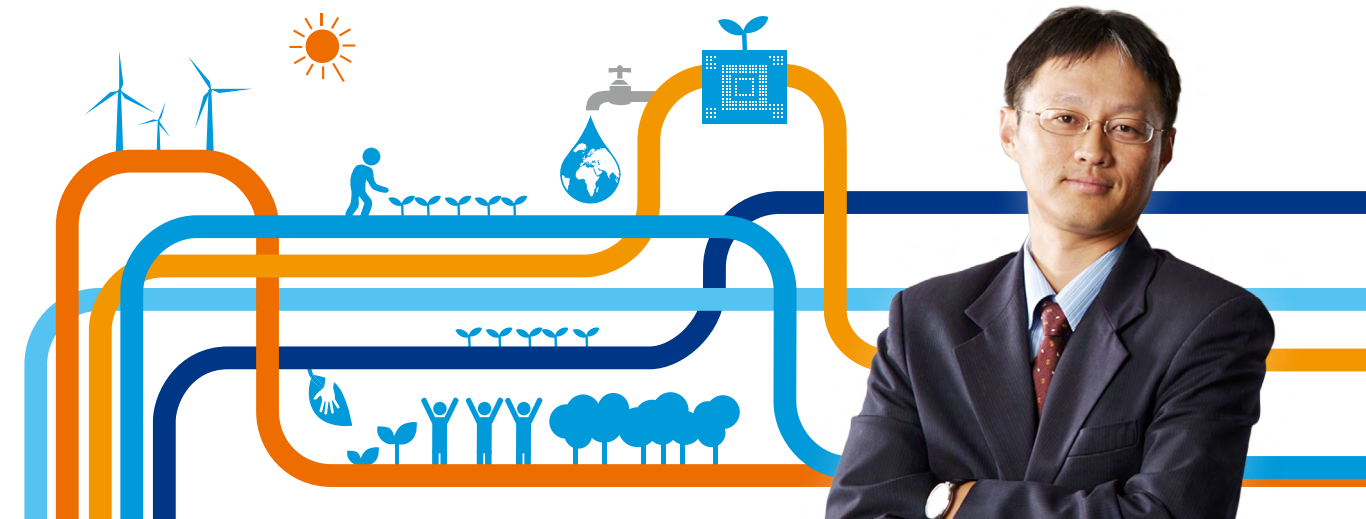
## Assisting Local Community and Charity Groups

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.
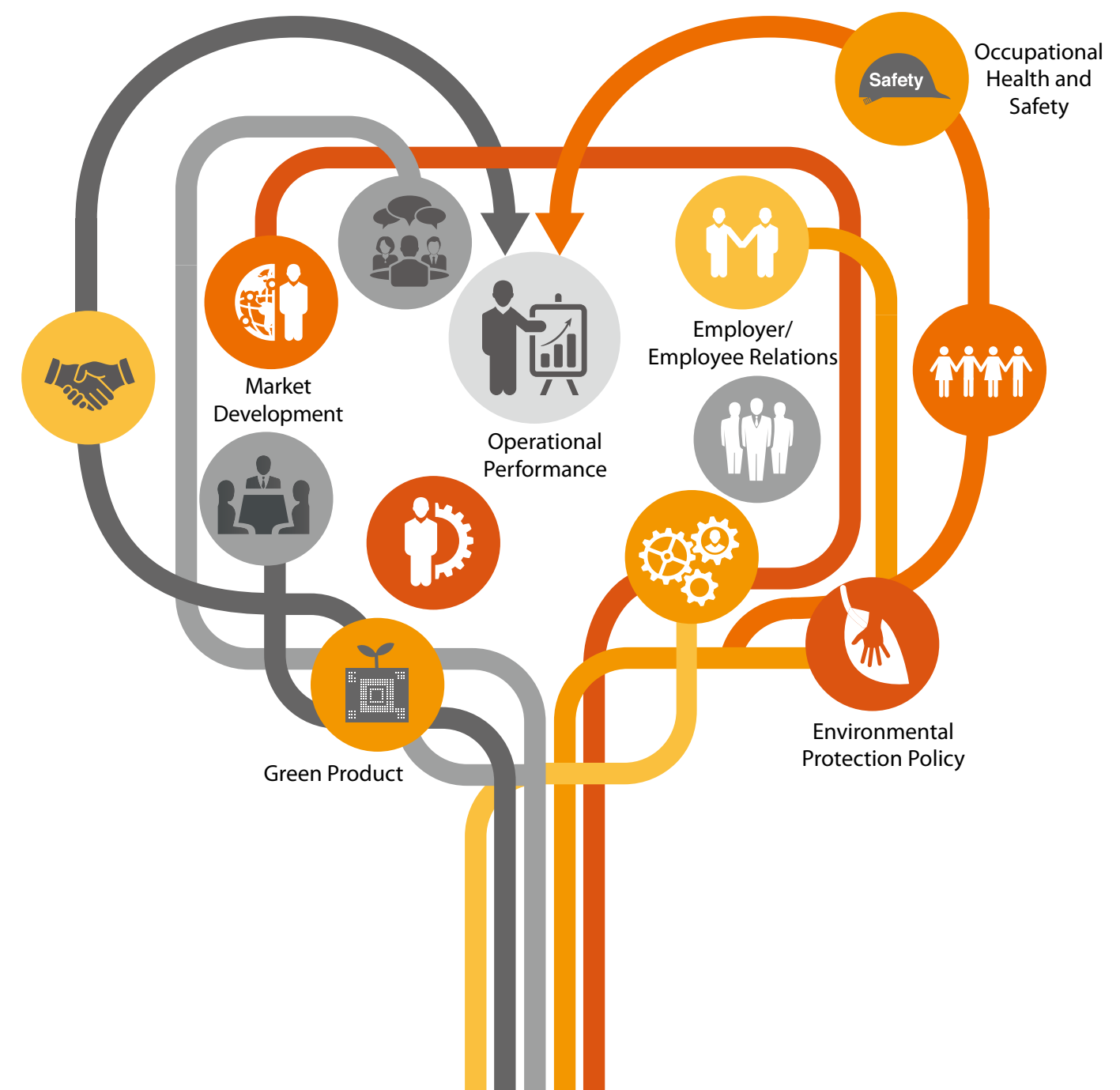
Phison employees know that they must uphold our corporate culture by not indulging in red tape, avoiding excess, rejecting kickbacks, curbing power and money games, working hard, and understand the meaning of gratitude. We often tell our employees that the only relationship in the world where there is 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.
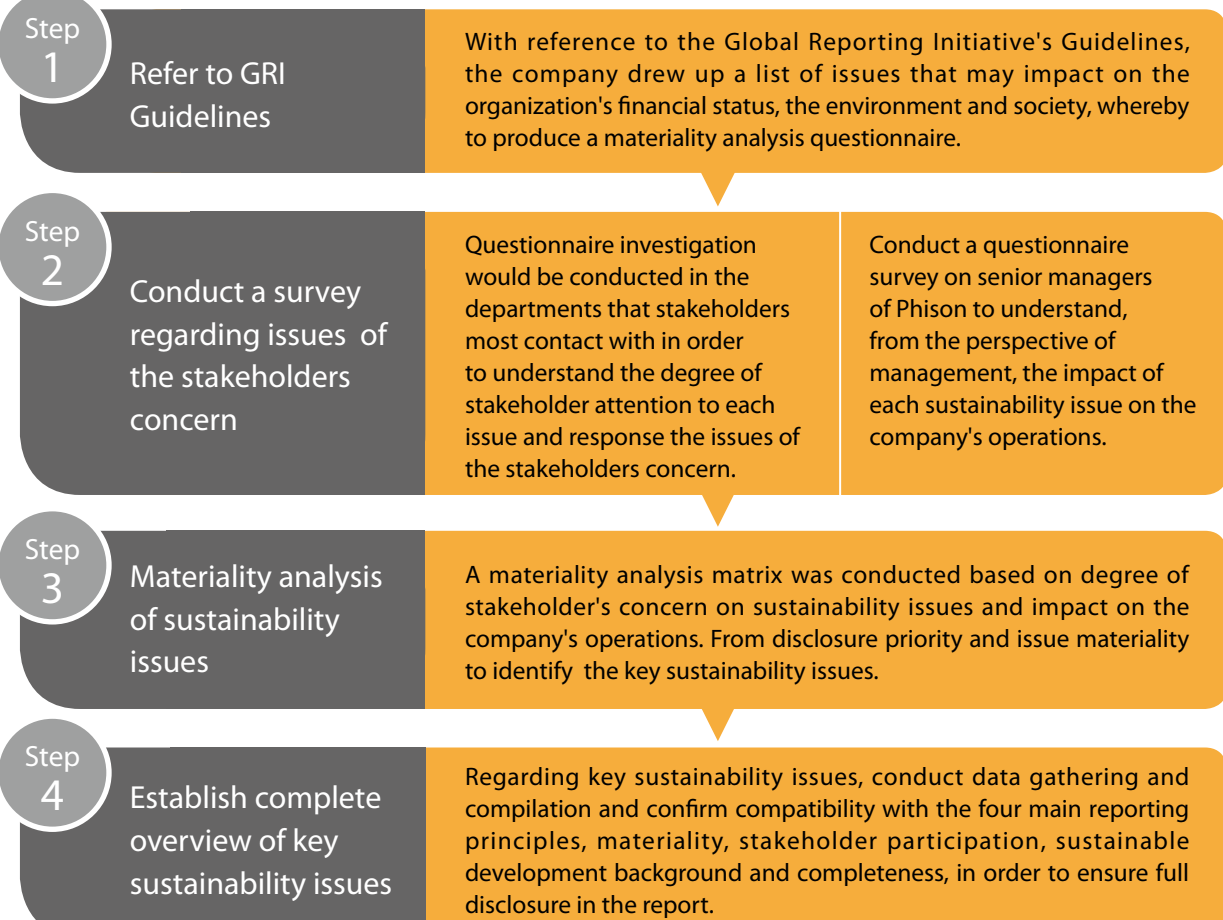
# 3 Communication with Stakeholders



- Occupational Health and Safety
- Market Development
- Operational Performance
- Employer/ Employee Relations
- Green Product
- Environmental Protection Policy

# 3 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.

**Step 1** — Refer to GRI Guidelines

With reference to the Global Reporting Initiative's Guidelines, the company drew up a list of issues that may impact on the organization's financial status, the environment and society, whereby to produce a materiality analysis questionnaire.

**Step 2** — Conduct a survey regarding issues of the stakeholders concern

Questionnaire investigation would be conducted in the departments that stakeholders most contact with in order to understand the degree of stakeholder attention to each issue and response the issues of the stakeholders concern.

Conduct a questionnaire survey on senior managers of Phison to understand, from the perspective of management, the impact of each sustainability issue on the company's operations.

**Step 3** — Materiality analysis of sustainability issues

A materiality analysis matrix was conducted based on degree of stakeholder's concern on sustainability issues and impact on the company's operations. From disclosure priority and issue materiality to identify the key sustainability issues.

**Step 4** — Establish complete overview of key sustainability issues

Regarding key sustainability issues, conduct data gathering and compilation and confirm compatibility with the four main reporting principles, materiality, stakeholder participation, sustainable development background and completeness, in order to ensure full disclosure in the report.

## Communications and Relevance between Departments and Stakeholders

| Stakeholders | Response unit | Communication channel and frequency | Relevance of unit to stakeholders |
|---|---|---|---|
| Employee | Human resources Dept. | ● Employee suggestion box ( any time )<br>● Forum ( ad hoc )<br>● New Employee satisfaction survey ( quarterly )<br>● Public notice ( any time )<br>● Chairman's mail box ( on demand )<br>● Inter-department communication meetings ( on demand )<br>● Company events ( ad hoc ) | 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 | ● Telephone and e-mail ( daily )<br>● Customer satisfaction survey ( annual )<br>● Customer service hotline ( on demand ) | 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<br>Plant management Dept.<br>Production Division | ● Supplier online platform ( any time )<br>● Supplier evaluation ( every 6 months ) | Formulate supplier-related policies and guidelines. Learn about the nature of supplier products and services through two-way communications. |
| Investor | Shareholders Service Dept.<br>Finance & Accounts Dept. | ● General shareholders' meeting ( annual )<br>● Extraordinary shareholders' meeting ( ad hoc )<br>● Institutional investor conference ( ad hoc )<br>● Investor mailbox ( any time ) | 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 | ● Law, regulation and public hearings ( ad hoc )<br>● Official correspondence ( ad hoc ) | 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 | ● Local community complaints ( any time )<br>● Participation in community events ( ad hoc )<br>● Hosting of charity events ( ad hoc ) | 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
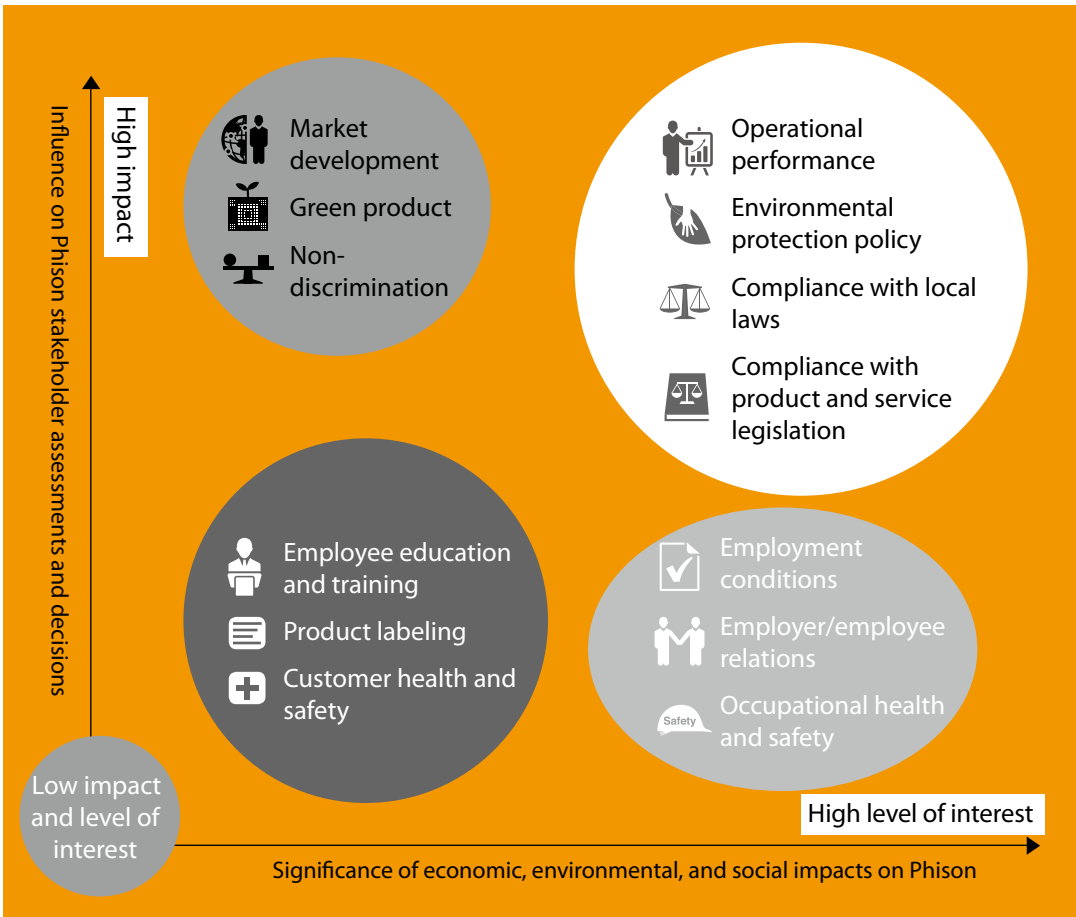


The materiality analysis matrix identified the top 10 sustainability issues stakeholders concerned about and have a high level of impact on Phison. This report will explain our management policy, planning and execution, performance and future commitments on these 10 sustainability issues. Full disclosure 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 $37.2 billion, net profit after tax of $4 billion, total assets of $27.8 billion, EPS of $20.41. 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 Toshiba and Kingston to stabilize chip supply, and development of embedded memory technology. $2.6 billion to be invested in 2016 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 | Complied with local laws and regulations with no violations in 2015. |
| 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
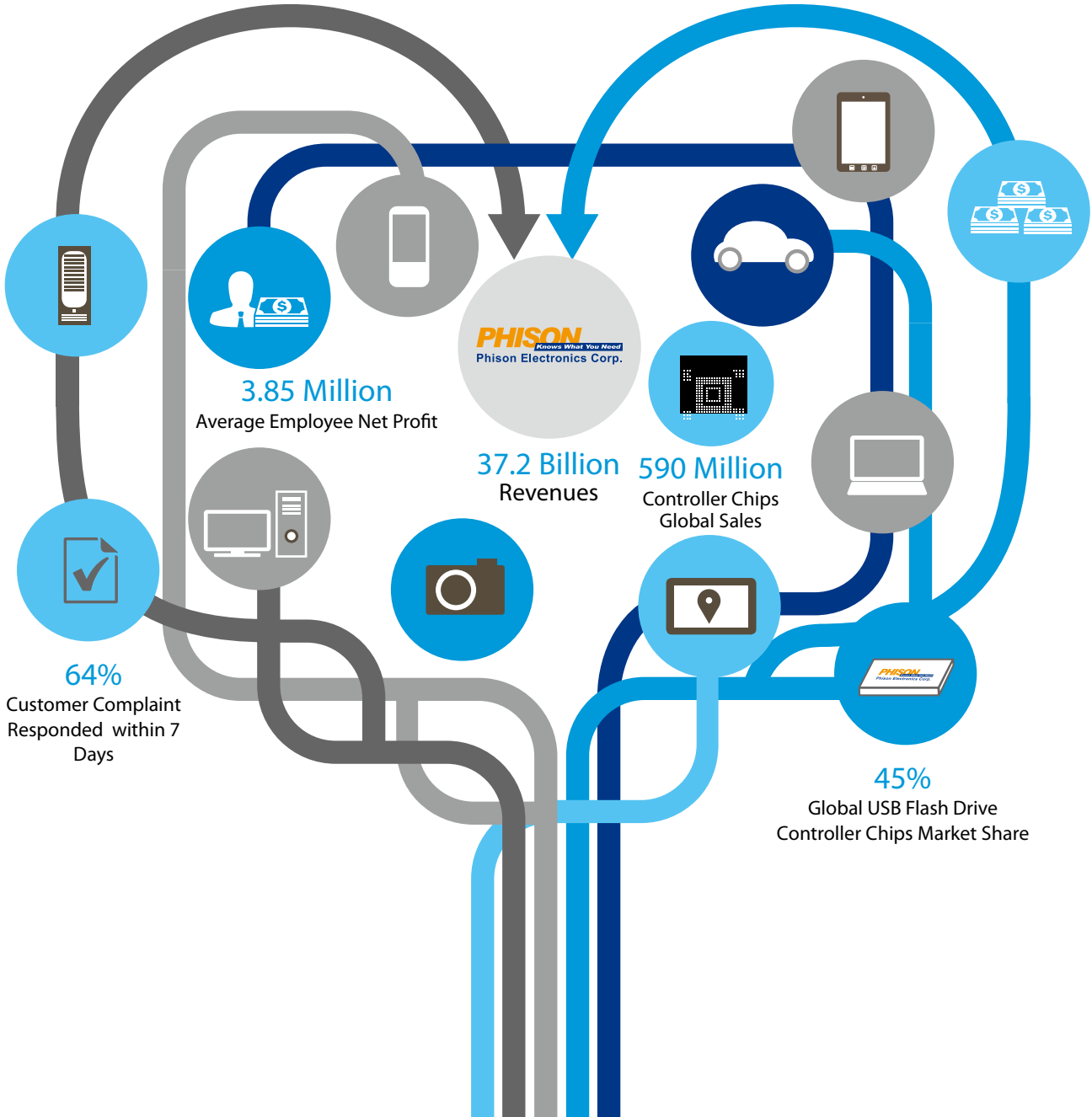
| Sustainability Issue | Inner | Outer | Response Chapter | Description | Stakeholders | Performance |
|---|---|---|---|---|---|---|
| Occupational health and safety | AB | E | 7. Truly Caring for Employees | Prevention and management of accidents, disasters and occupational disease | Employee | The 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 | | 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 | 8. Environmetal Responsibility | 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. There were no violations in 2015. |

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

This year was the first time that Phison has 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 2015 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

**PHISON**
Knows What You Need
**Phison Electronics Corp.**

3.85 Million
Average Employee Net Profit

37.2 Billion
Revenues

590 Million
Controller Chips Global Sales

64%
Customer Complaint Responded within 7 Days

45%
Global USB Flash Drive Controller Chips Market Share

# 4 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$37,178,103,000
**Number of Employees** 1027

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 2015, our controller chips global sales exceeded 590 million and revenue reached NT$37.2billion. This meant that on average, each employee created 3.85 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 ) .

Sharing
Innovation
Phison's Business Philosophy
Integrity
Efficiency
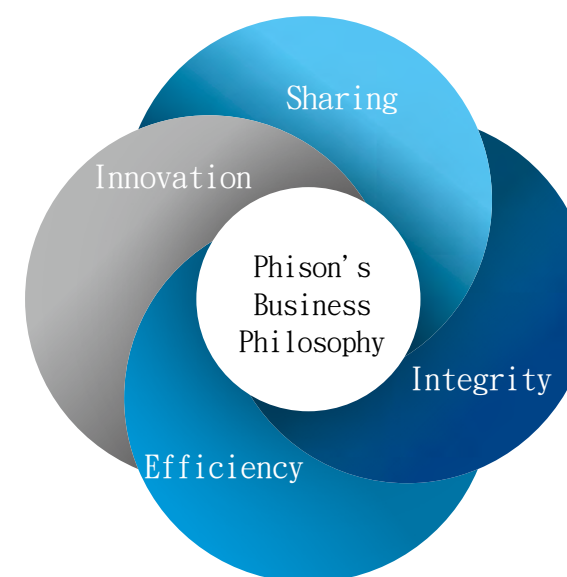
At the same time, Phison is willing to share with all stakeholders the value created in accordance with its business philosophy of "Sharing,Integrity,Efficiency, Innovation". The building of a partnership based on mutual trust enables both parties to collaborate in the most efficient manner and to deliver 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 Memnry Solutions

**R & D** Flash Memory Controller ICs

**Design** NAND Flash Memory System Products

**Integration** NAND Flash Solution

Turnkey

OEM / ODM

System Integration

IC Design

## Phison Milestones

| A Solid Foundation | 2000: Phison was founded at ITRI Incubator | 2002: Toshiba acquired a stake in Phison | 2004: Phison became OTC-listed in Taiwan |
| Enhanced Core Competencies | 2006: Launched SD2.0 Card controller IC | 2007: Launched controller IC for 50-nm USB flash drives | 2007: Launched controller IC for 50-nmSD/MMC flash memories |

**Strategic Alliances**

- 2008: Started a strategic partnership with Kingston and SK Hynix for further stabilized supply of flash-memory materials
- 2010: Entered the eMMC market in partnership with Kingston

**Expanded Markets**

- 2012: Phison eMMC IC reached 1million units cumulative
- 2014: microSSD design-win in servers and PCIe PS5007: Best of Client SSD Award

## 2016 Strategic Objective - The Year of Expansion

| Strategy | The Year of Expansion | | |
| Markets | Memory card | eMMC | SSD |
| Goals | Improved Quality | Innovation and R&D | Efficiency in Product Certification |

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

**Revenue**
NT$ 37,178,103,000

**Net Income**
NT$ 3,957,529,000

**EPS**
NT$ 20.41
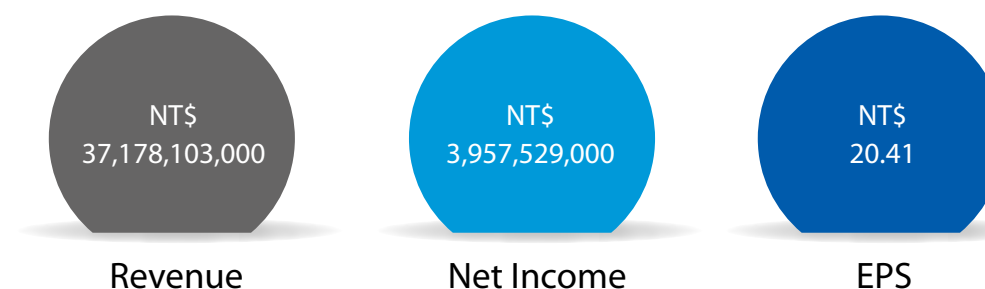
| Item | 2013 | 2014 | 2015 |
|---|---|---|---|
| Revenue | 32,173,947 | 33,074,698 | 37,178,103 |
| Operating cost | 26,454,018 | 27,485,126 | 29,541,921 |
| Gross profit | 5,719,929 | 5,589,572 | 7,636,182 |
| Income tax expense | 587,107 | 530,795 | 574,303 |
| Employee compensation and welfare | 1,699,702 | 1,864,308 | 2,500,142 |
| Total Assets | 19,880,811 | 22,808,545 | 27,752,423 |

Unit: Thousands of NTD

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

| Upstream | Midstream | Downstream |
|---|---|---|

**Memory controller IC**
- PCB
- IC design
- Silicon wafer
- Plastic material
- Passive components

| | |
|---|---|
| Assembly product | eMMC<br>SD memory card<br>microSD memory card<br>Embedded microSSD<br>SSD |
| System product | Memory card<br>USB flash drive<br>Solid state drive<br>Flash module |

| Smartphone | Tablet |
|---|---|
| Digital cameras & Tablet | Desktop PC |
| Laptop | Industrial computers |
| Host Servers | Automotive devices |

**R&D:** Technology leader, patent advantage, innovative R&D team

**Design:** Industrial design, mechanical design, commercial design

**Integration:** Software-hardware integration technology

The most outstanding, innovative and complete flash memory solutions

## 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, USB 3.0 flash drive and SD, microSD memory card.

## Phison Products

| Embedded MultiMedia Cards (eMMC) | Solid State Disks (SSDs) | Peripheral Component Interconnect Express (PCIe) | SD/micro SD Memory Cards, USB |
|---|---|---|---|
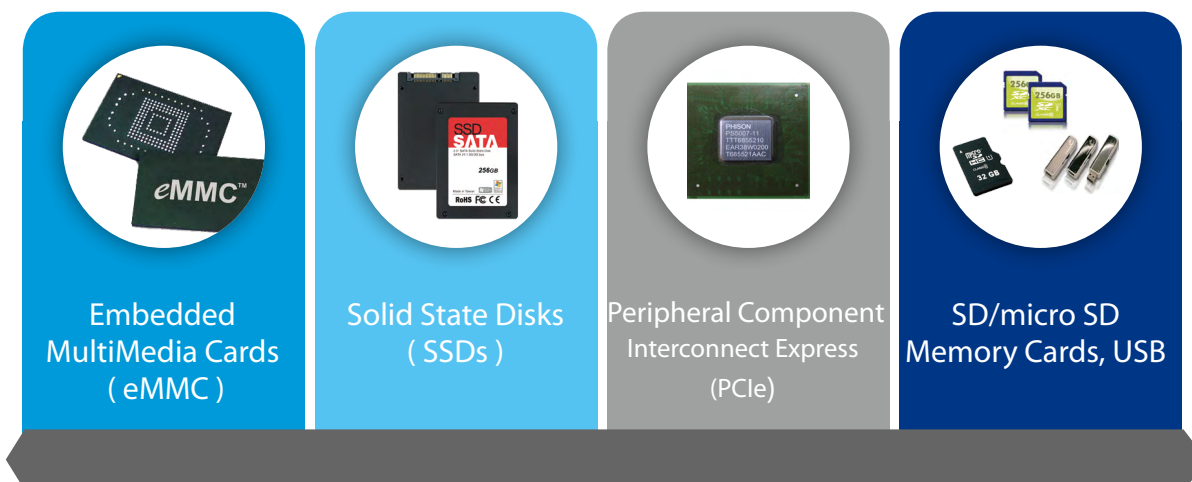
## Phison Products in Everyday Life



- Smartphones
- Digital TVs
- Mobile devices
- Tablet
- Cars
- Digital cameras
- Laptop
- Host Servers
- Desktop PCs
- Cars
- Industrial Computers
- GPS
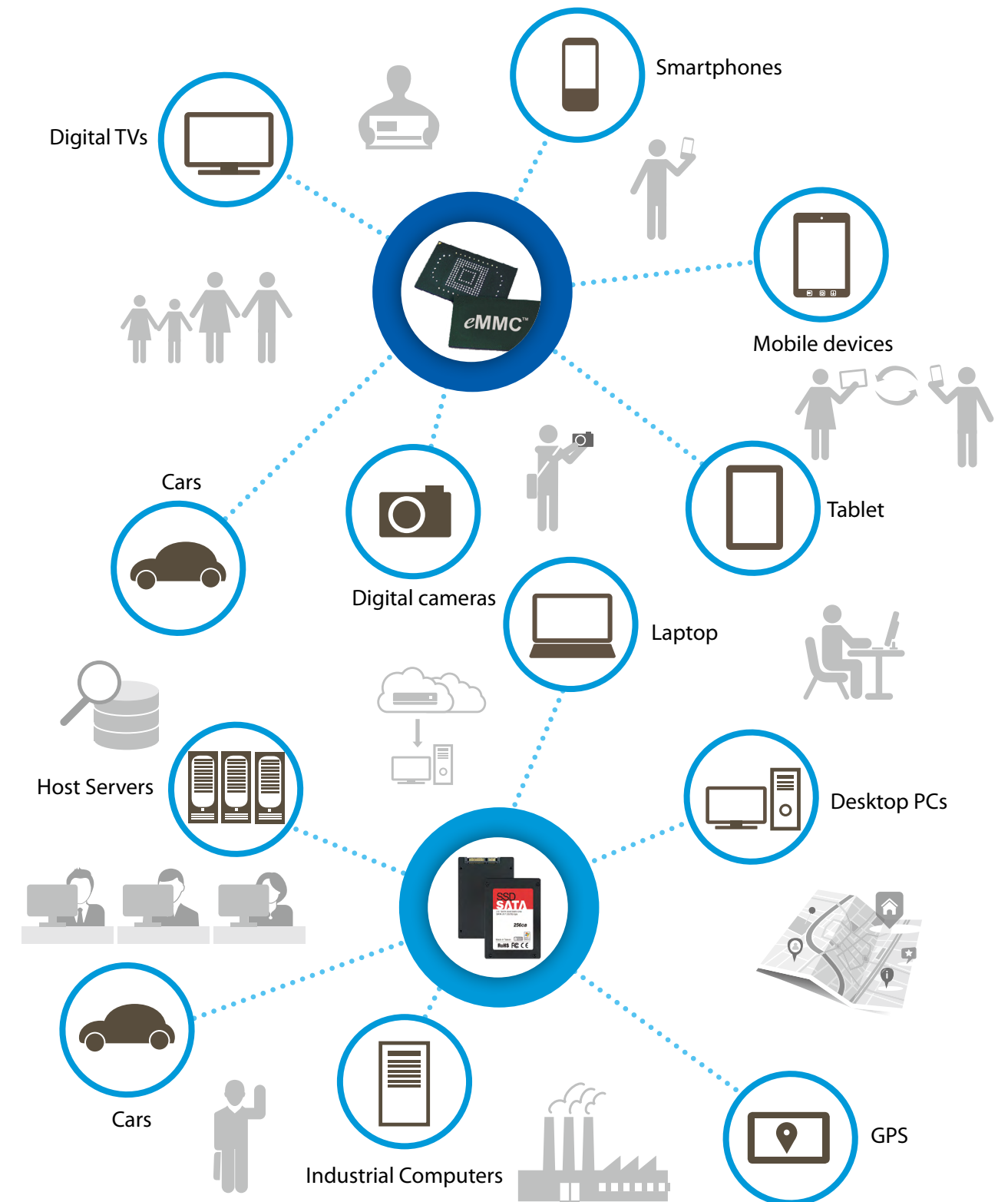
## SSD

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

PS3110-S10 Solid-State Drives (SSDs) are world-class data storage solutions that provide advanced features and improved data transfer rate. It can reach extreme performance with sequential data transfer rate up to Read/Write 550/540MB/s and 100K/90K IOPS random Read/Write performance. Moreover, with quad-core CPU design, you will see fantastic SSDs that can meet the demand for next-generation applications and the best memory performance. This high level SSD controller is designed for different applications, including entry-level tablets, PCs ,gaming platforms, special requirements for industry and military applications, even high end enterprise servers. Moreover, Phison PS3110-S10 is the first SSD controller which supports 3D TLC NAND flash. By supporting different sizes of PCBs ,we can offer our customers the best solution for their various needs. Besides, we can also provide cost advantage to our customer in order to create a win-win situation.

Phison knows that security and privacy of data on memory devices are very important to users especially when nearly everyone now has a smartphone to record personal moments, accounts and passwords. Therefore Phison has developed a memory controller IC with privacy protection targeted at mobile transaction devices such as NFC ( Near Field Communication ) . System software is also used to protect confidential data stored on smartphones and privacy of user data.
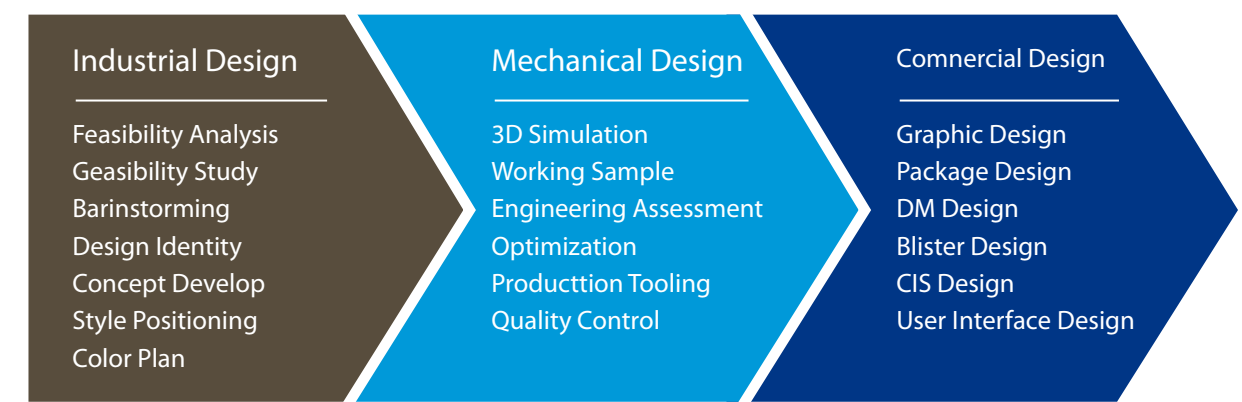
The flash controller developed AES 256 ( Advanced Encryption Standard ) to ensure the security of digital content stored in memory. AES is the advanced encryption standard used by the U.S. Federal Government and is now being adopted around the world. Privacy systems will have widespread application in many different industries to ensure that users' confidential data has the most secure and appropriate system protection.
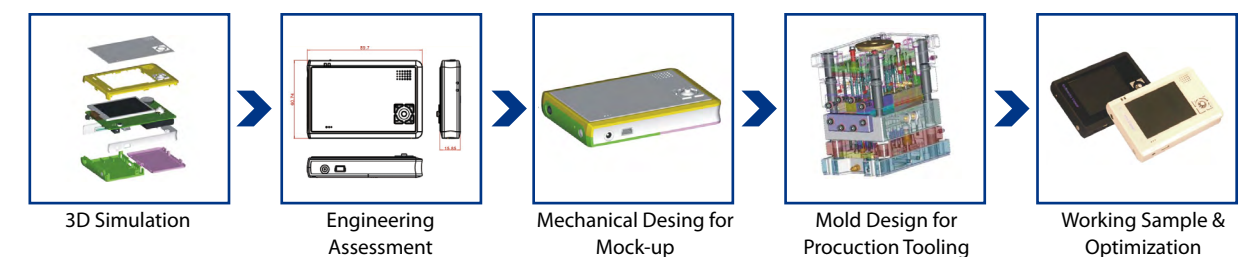
## Privacy Protection Software Applications



## 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.

| Industrial Design | Mechanical Design | Commercial Design |
|---|---|---|
| Feasibility Analysis | 3D Simulation | Graphic Design |
| Geasibility Study | Working Sample | Package Design |
| Barinstorming | Engineering Assessment | DM Design |
| Design Identity | Optimization | Blister Design |
| Concept Develop | Producttion Tooling | CIS Design |
| Style Positioning | Quality Control | User Interface Design |
| Color Plan | | |

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



| 3D Simulation | Engineering Assessment | Mechanical Desing for Mock-up | Mold Design for Procuction Tooling | Working Sample & Optimization |

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.



| User Interface | Graphic Design | Package Design | Package Design | Package Design |

## 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.
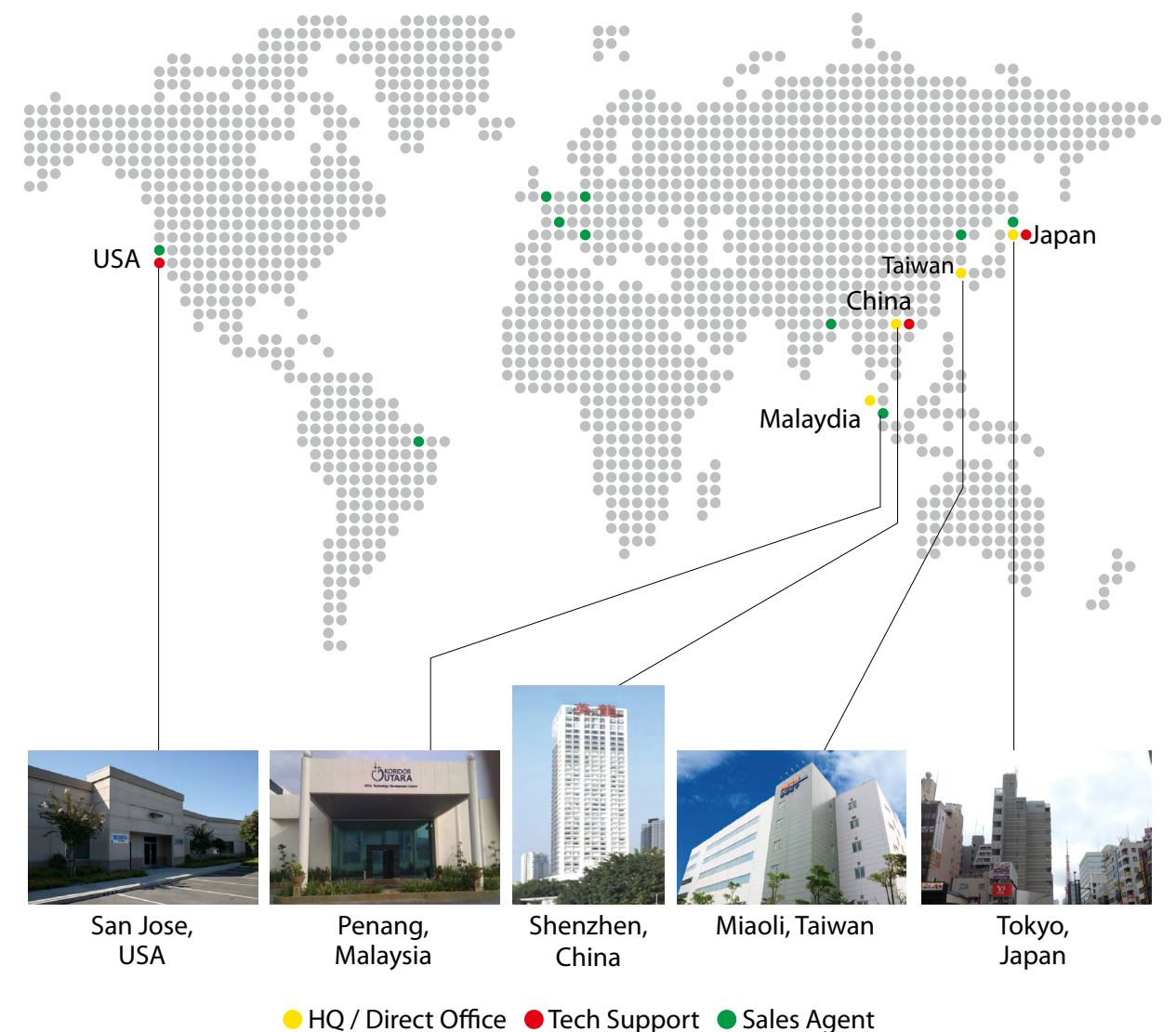
Phison could not concentrate exclusively on systems nor controller ICs. If Phison didn't make controller ICs, why would Toshiba bother backing us? We would have no value. Toshiba backed us because if we can turn a profit then we can continue to develop controller ICs. That means we can then turn around 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.
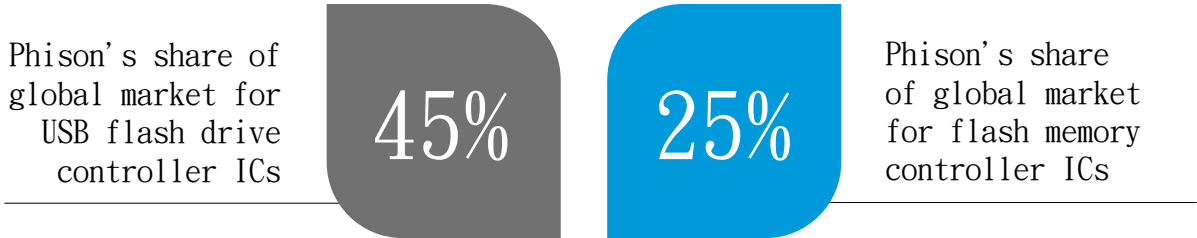
### Global Operations Map



USA
Japan
Taiwan
China
Malaydia

San Jose, USA | Penang, Malaysia | Shenzhen, China | Miaoli, Taiwan | Tokyo, Japan

● HQ / Direct Office  ● Tech Support  ● Sales Agent

| Distribution of major sales regions | |
|---|---|
| Sales regions | 2015 |
| Asia | 38.11% |
| North America | 27.82% |
| Taiwan | 18.80% |
| Europe | 13.63% |
| Oceania | 1.32% |
| Central and South America | 0.32% |

In 2015, the overall value of SSD-related controller ICs and end product shipments grew by 83% year over year. The overall value of eMMC embedded flash memory product controller IC modules also grew by around 66% 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
**45%**

**25%**
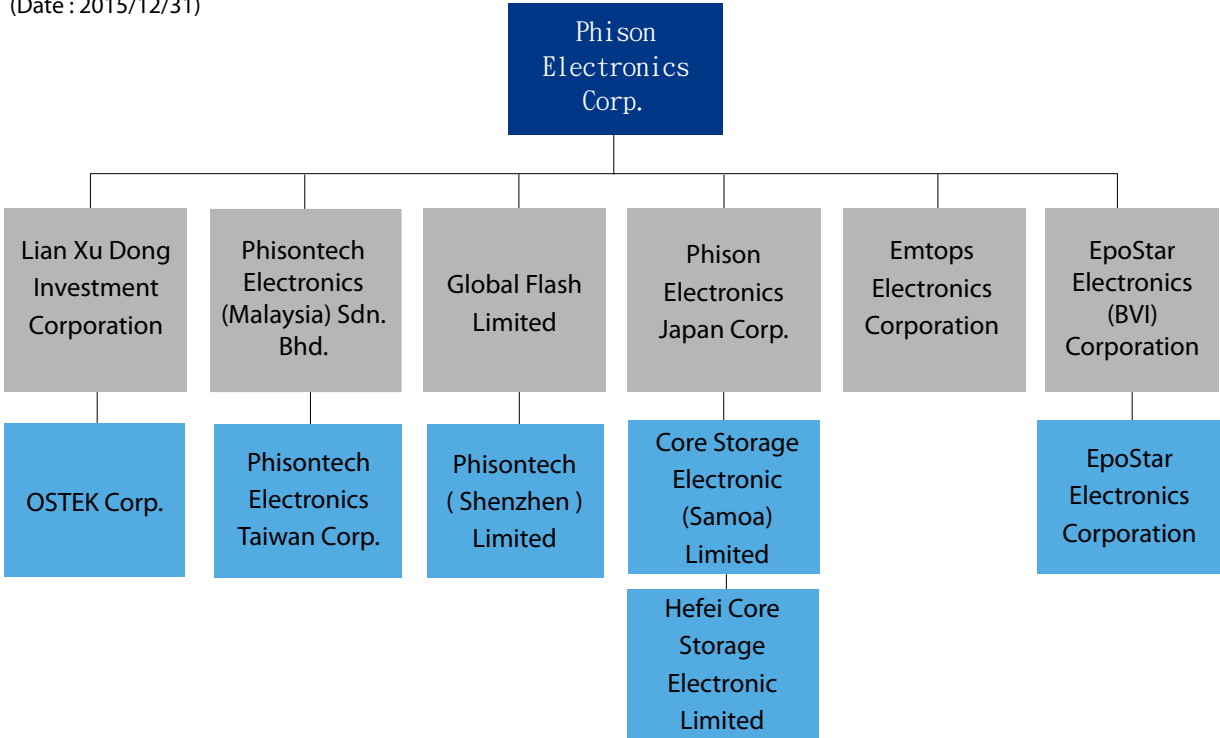Phison's share of global market for flash memory controller ICs

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 : 2015/12/31)

Phison Electronics Corp.

- Lian Xu Dong Investment Corporation
  - OSTEK Corp.
- Phisontech Electronics (Malaysia) Sdn. Bhd.
  - Phisontech Electronics Taiwan Corp.
- Global Flash Limited
  - Phisontech ( Shenzhen ) Limited
- Phison Electronics Japan Corp.
  - Core Storage Electronic (Samoa) Limited
    - Hefei Core Storage Electronic Limited
- Emtops Electronics Corporation
- EpoStar Electronics (BVI) Corporation
  - EpoStar Electronics Corporation

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.

### Investment Strategy in Recent Years

2007: Invested in Flexmedia Eelectronics Corp., which engage in design, development, manufacture and sale high-tech multimedia products.

2008: Co-founded Microtops Design Corp. — a designer and developer of application products for flash memory controller ICs — with Toshiba Corporation, a Japanese strategic partner which occupies a Phison board seat.

2010: Co-founded Kingston Solutions Inc. with Kingston Technology Corporation in an effort to explore eMMC applications/markets.

## 4.3 Operation Challenges

### Future Development Strengths



Effective division throughout Taiwan's semiconductor supply chain

Immense popularity of smartphones that drives growth of small-sized flash memory cards

Phison's Strengths & Advantages

Surging demand for SSD

Ever-widening flash memory applications

### 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. |

## 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.

### Partner - Toshiba

**TOSHIBA**

Shareholding of Phison stock : 10.95%

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

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.

New Customer Profile Management

Customized Order Management

Excellent Customer Relationship Management

Analyzing Report of Sales Management

Customer Complaint Tracking System

Customer Satisfaction Survey

### 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 2015, customer satisfaction among the top 25 customers has generally stayed at around 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.

Customers satisfaction **79%**

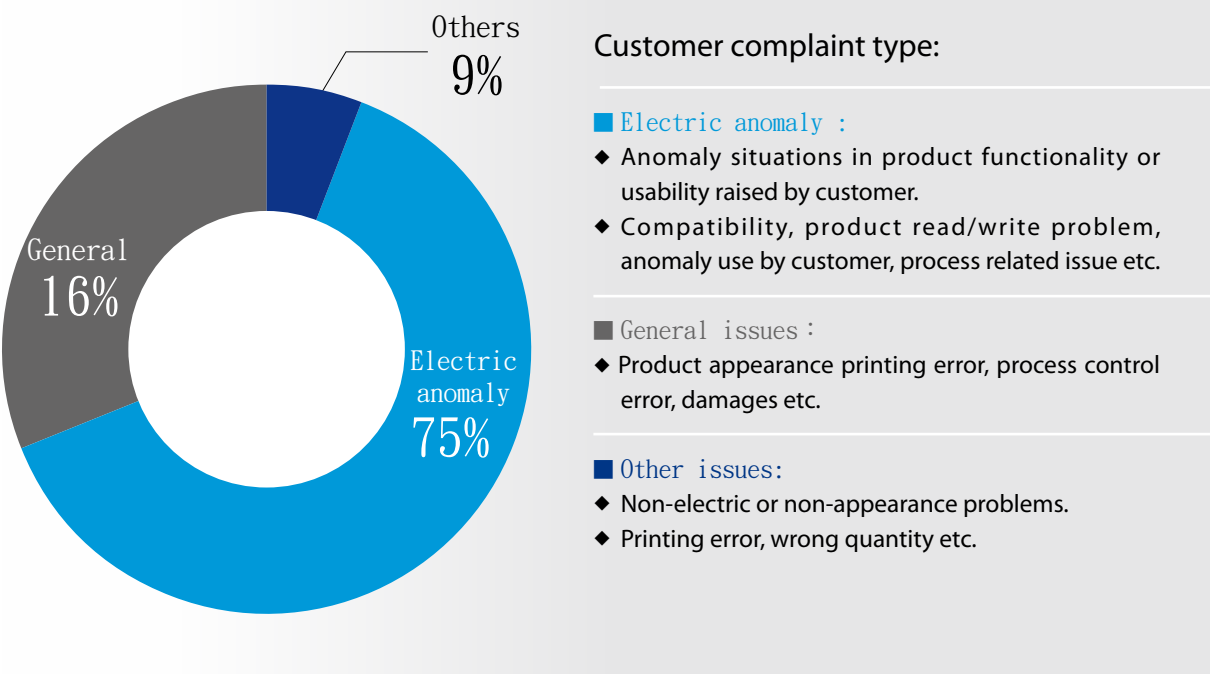**64%** Customer complaints were responded to within 7 days
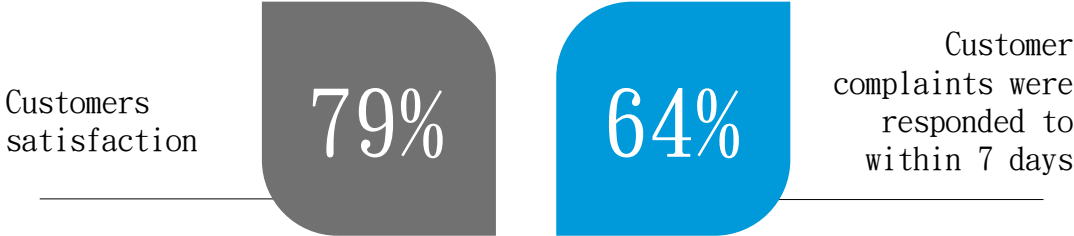
### Customer Complaints

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 2015, 64% of customer complaints were responded to within 7 days of receipt. No case of divulging customer information or violating customer privacy was reported.

### Customer Complaints Management Process

| Customer | A customer reports a quality anomaly or makes other complaints. | |
|---|---|---|
| Sales Staff | Immediately communicate with the customer to identify the problem, and then complete the Customer Complaint Form using the Customer Claim Notification ( CCN ) | |
| Quality Assurance Division | Distinguish the anomaly problem, assign the responsible division, and then submit an anomaly analysis report to the customer ( within 7 working days ) . | |
| Quality Assurance Division | Analyze and confirm the anomaly | Take improvement measures and confirm the efficiency |
| Quality Assurance Division | Repair management | Return management |
| Sales Staff | Submit an anomaly analysis report to the customer | Make sure the customer is satisfied |

## 2015 Customer Complaint Types



Others
**9%**

General
**16%**

Electric
anomaly
**75%**

### Customer complaint type:

■ **Electric anomaly :**
- ◆ Anomaly situations in product functionality or usability raised by customer.
- ◆ Compatibility, product read/write problem, anomaly use by customer, process related issue etc.

■ **General issues：**
- ◆ Product appearance printing error, process control error, damages etc.

■ **Other issues:**
- ◆ Non-electric or non-appearance problems.
- ◆ Printing error, wrong quantity etc.
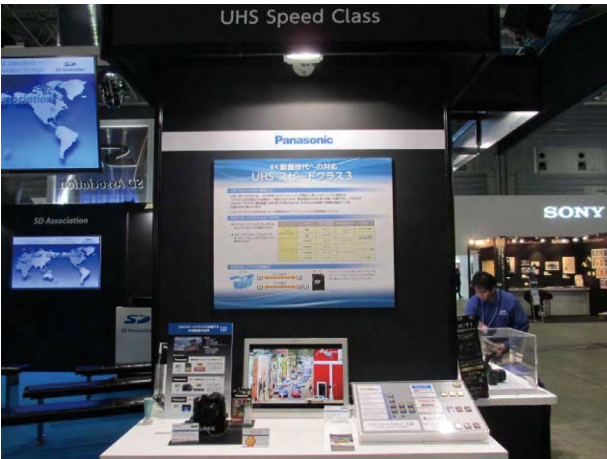
## 4.6 Honors and Awards

### 2015 Honors

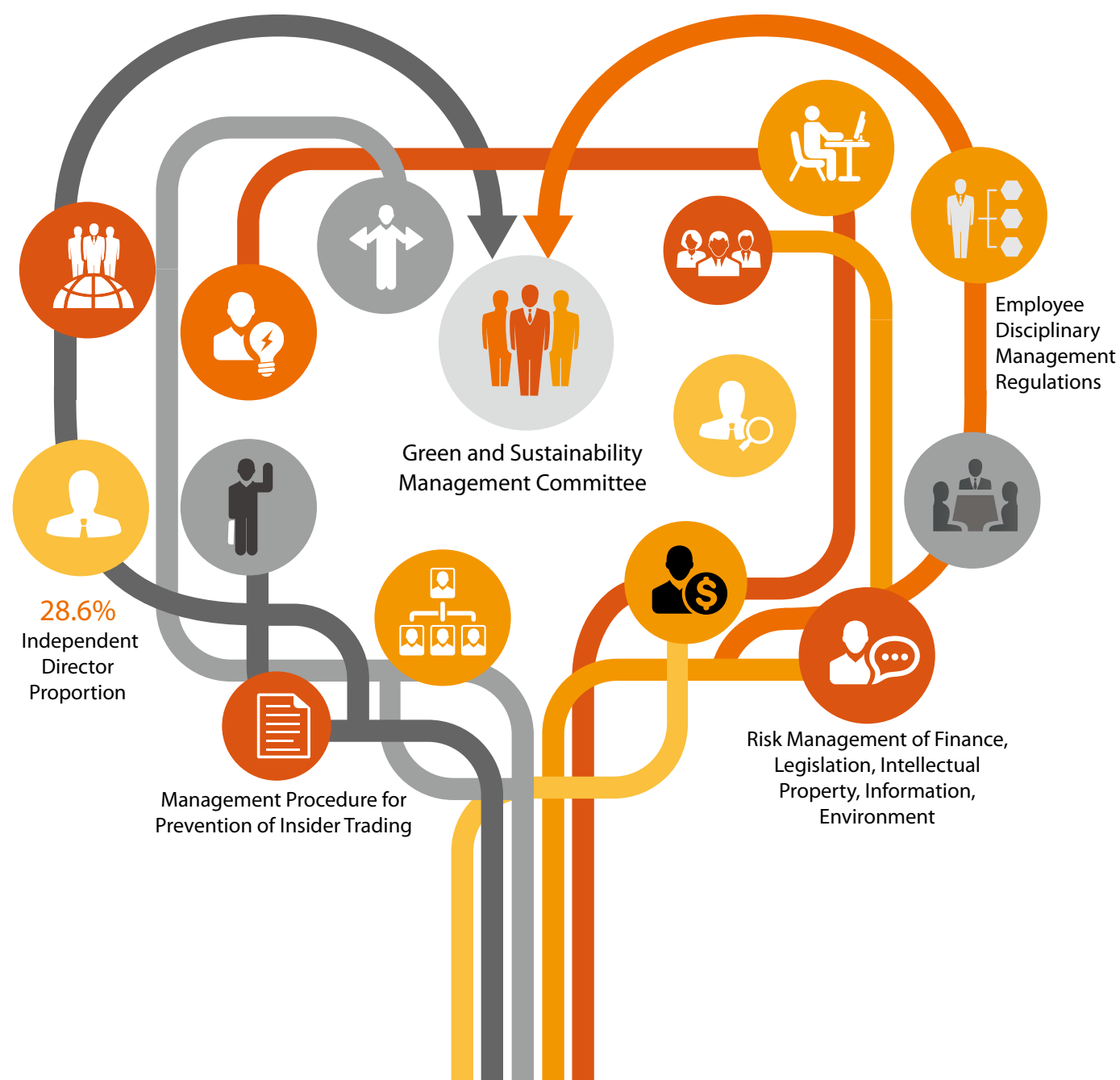| Award |
| --- |
| Toshiba 2015 Award Greatest Sales Contribution |
| Toshiba 2015 Award Best Partner |
| Panasonic 2015 Best Supplier Award |
| Arcadyan Best Technology Innovation Award |
| Social Welfare<br>■ Certificate of Appreciation: Yu An Children's Home<br>■ Certificate of Appreciation: Hsinchu TFCF<br>■ Certificate of Appreciation: Taipei Medical University,TMU<br>■ Certificate of Appreciation: National Hsinchu University of Education<br>■ Certificate of Appreciation: Chinese Professional Management Association of Hsinchu |

## Participation in Industry Associations

| Year of Entry | Organization | Membership Type |
| --- | --- | --- |
| 2012-2015 | Mobile Industry Process Interface Alliance | Member |
| 2010-2015 | Universal Flash Storage Association | Board member |
| 2009-2015 | SD Card Association | Board member |
| 2008-2015 | Solid State Drive Alliance | Board member |
| | The IEEE Standards Association | Corporate Membership |
| 2007-2015 | 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 |
| 2006-2015 | Open NAND Flash Interface | Board member |
| 2004-2015 | The Peripheral Component Interconnect Special Interest Group | Member |
| | USB Implementers Forum | Member |

# 5 Corporate Governance

28.6%
Independent Director Proportion

Management Procedure for Prevention of Insider Trading

Green and Sustainability Management Committee

Employee Disciplinary Management Regulations

Risk Management of Finance, Legislation, Intellectual Property, Information, Environment

# 5 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
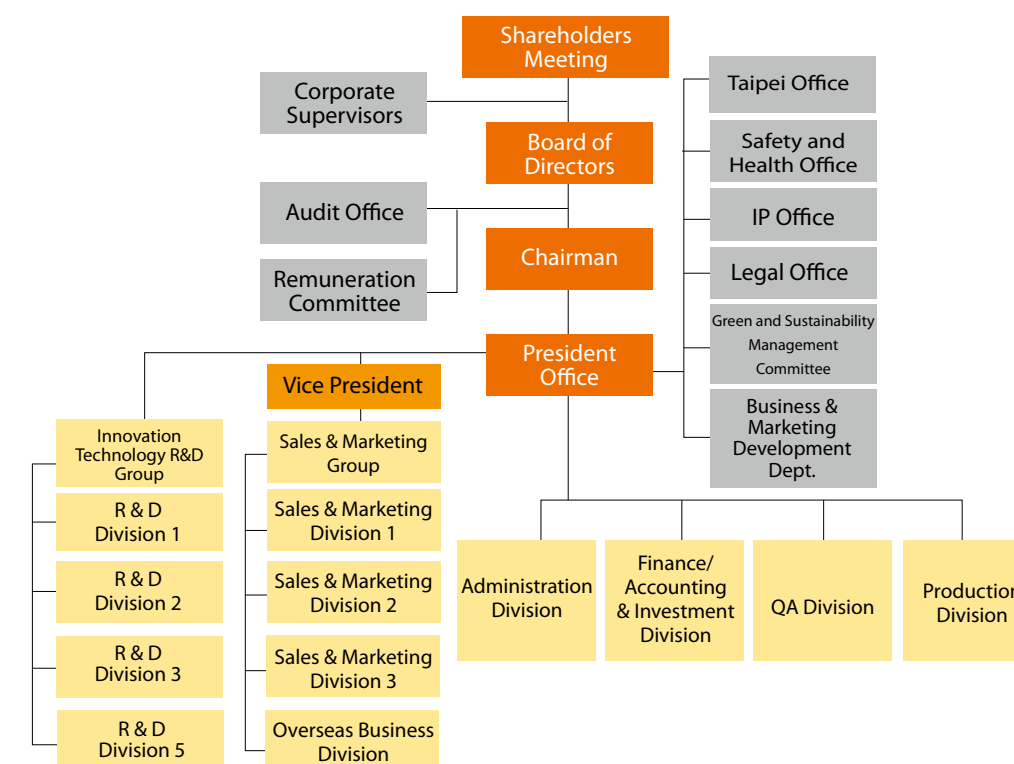
## Top 10 Shareholders

2016/04/17

| Name of major shareholder | Holding ( Unit: Shares ) | Shareholding percentage |
|---|---|---|
| Toshiba Corporation | 21,621,112 | 10.95% |
| Kingston Technology Company corporate investment account managed by CITIC Bank | 15,400,000 | 7.80% |
| Cathay Life Insurance Co., Ltd. | 6,896,000 | 3.49% |
| Employee provident fund board-BNP paridas Islamic asset management Sdn Bhd as external fund manager | 5,763,000 | 2.92% |
| Labor Pension Fund, New System | 5,182,500 | 2.63% |
| JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency | 4,749,880 | 2.41% |
| Old Labor Pension Fund | 4,619,500 | 2.34% |
| Pua Khein Seng | 4,557,972 | 2.31% |
| Yang Jiunn Yeong | 4,549,114 | 2.30% |
| BT Pension Scheme | 4,323,639 | 2.19% |

## 2015 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% |
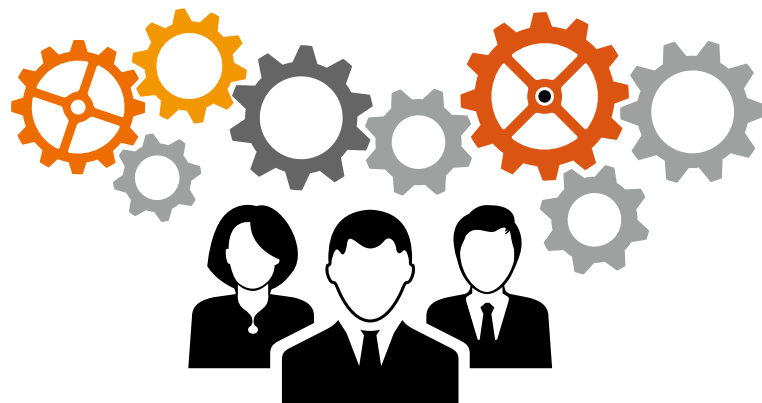
## Board of Directors' Academic Background, Roles and Continuing Education

| 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<br><br>R&D Engineer, Feiya Technology Corp. | CEO, Phison Electronics Corp. ; Directors Representative & Chairman, Lian Xu Dong Investment Corporation, OSTEK Corp.,Phisontech Electronics Taiwan Corp. ; Directors Representative, Kingston Technology Corp. ; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Director | Aw Yong Chee Kong | Male | MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp. | President, Phison Electronics Corp. ; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp. ; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Director | Kuang T.H. | Male | Greenwich University<br><br>Kogen Singarpore Pte Ltd | Vice-President, Phison Electronics Corp. ; Directors Representative & Chairman, Emtops Electronics Corporation ; Directors Representative, Microtops Design Corporation, OSTEK Corp. ; Director, Phison Electronics Japan Corp., Power Flash (Samoa) Limited | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Director | Chen An Zhong | Male | Master Degree of E.E., University of Florida,USA. | Technical Manager, Phison Electronics Corp. | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Director | Toshiba Corporation Representative: Hiroto Nakai | Male | | Director and Supervisor, Toshiba Memory Semiconductor Taiwan Corp.<br><br>Due to the number of roles that Board Director Toshiba Corporation and its representative Hiroto Nakai hold in other companies, they are not listed here for the sake of brevity. | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours )<br><br>Continuing education class by Hiroto Nakai, corporate representative |
| Independent Director | Michael Wang | Male | CEO, Quanta Computer Inc. President, Quanta Computer Inc. | Director, Janus Technologies, Inc., Ichia Technologies Inc. ; Directors Representative,Elite group Computer Systems Co., Ltd. ; Independent Director, Casetek Holdings Limited, Simplo Tchnology Co.,Ltd. ; Supervisor, Choice Development,Inc. | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Independent Director | Wang Shu Fen | Female | Ph.D. in Finance, University of Houston | Associate Professor, Institute of Finance, National Chiao Tung University ; Independent Director, Bothhand Enterprise Inc. ; Supervisor, Microelectronics Technology Inc. | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )<br><br>Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |

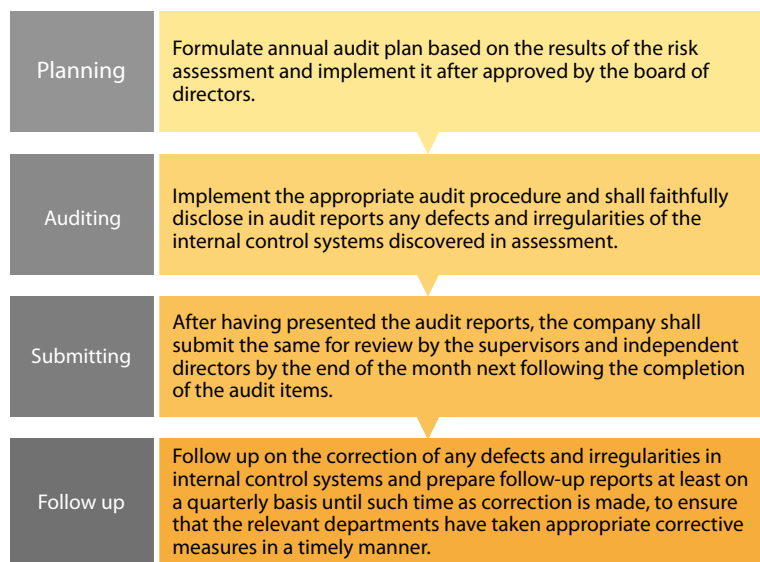| Title | Name | Gender | Academic Background | Current/Acting Roles | Continuing education for directors |
|-------|------|--------|---------------------|----------------------|-----------------------------------|
| Corporate Supervisor | Wang Huei Ming | Male | MA in Industrial Management from Chung Hua University, Executive Director of R.O.C. Certified Public Accountants Association, Chairman of Disciplinary Committee of R.O.C. Certified Public Accountants Association, Chairman of Disciplinary Committee of Taipei City CPA Association, Ministry of Finance Imputation System Lecturer , Professional Training Center Ministry of Economic Affairs, R.O.C. Lecturer, Chairman of United Web Corp. , Deputy Chairman of Professional Ethics Committee of National Federation of Certified Public Accountant Associations of the Republic of China , Supervisor, GIGABYTE Technology Corp. | President of Moores Rowland CPAs  Head of Taiwan Region, Praxity Global Alliance of Independent Firms | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )  Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Corporate Supervisor | Yang Jiunn Yeong | Male | Postdoctoral Research Fellow, Institute of Electrical and Control Engineering, National Chiao Tung University  Ph.D. in Electrical and Control Engineering, National Chiao Tung University | Director, Apacer Technology Inc. | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )  Insider Trading Legal Liabilities for Directors & Supervisors(3 hours ) |
| Corporate Supervisor | Chen Jun Xiu | Male | MA in Business Management from Binghamton University, State University of New York, Vice-President, Dad International, Executive Vice President,Expert Management Consulting Co., LTD, Lecturer, Institute of Chen An-Che Research and Training Corp. Ltd., Manager of Administrative Department, Ichia Technologies, Inc. , General Manager, Kingtext Corp. Ltd., Marketing Specialist, Taiwan IBM , CSEC Planners | Independent Director, Waffer Technology Corp.  Independent Director, National Aerospace Fasteners Corporation | Personal Liabilities of Corporate Directors/ Supervisors and Risk Management(3 hours )  Insider Trading Legal Liabilities for Directors & Supervisors(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

**Planning** — Formulate annual audit plan based on the results of the risk assessment and implement it after approved by the board of directors.

**Auditing** — Implement the appropriate audit procedure and shall faithfully disclose in audit reports any defects and irregularities of the internal control systems discovered in assessment.

**Submitting** — After having presented the audit reports, the company shall submit the same for review by the supervisors and independent directors by the end of the month next following the completion of the audit items.

**Follow up** — Follow up on the correction of any defects and irregularities in internal control systems and prepare follow-up reports at least on a quarterly basis until such time as correction is made, to ensure that the relevant departments have taken appropriate corrective measures in a timely manner.

## 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. There were no violations in 2015.

### 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 2015

■ Review manager performance evaluation and annual incentive bonus disbursement plan.

■ Review director and supervisor's remuneration as well as executive's and employees profit sharing scheme in 2014.

■ Regular manager performance evaluation and annual salary adjustment and disbursement plan.

■ Partial revision of the "Employee Promotion Management Regulations", "Salary Management Regulations".

■ Review directors', supervisors' and managers', performance, incentive bonus, and disburse director's and supervisor's remuneration as well as executive's and employee's profit-sharing bonus in 2014.

■ To approve the new articles of Regulations for "Employee Salary Advances".

■ The Company proposed to amend the Articles of the Corporation regarding Employees' compensation and Compensation allocation ratio of directors and supervisors.

■ Discussion of Remuneration Committee work plan in 2016.
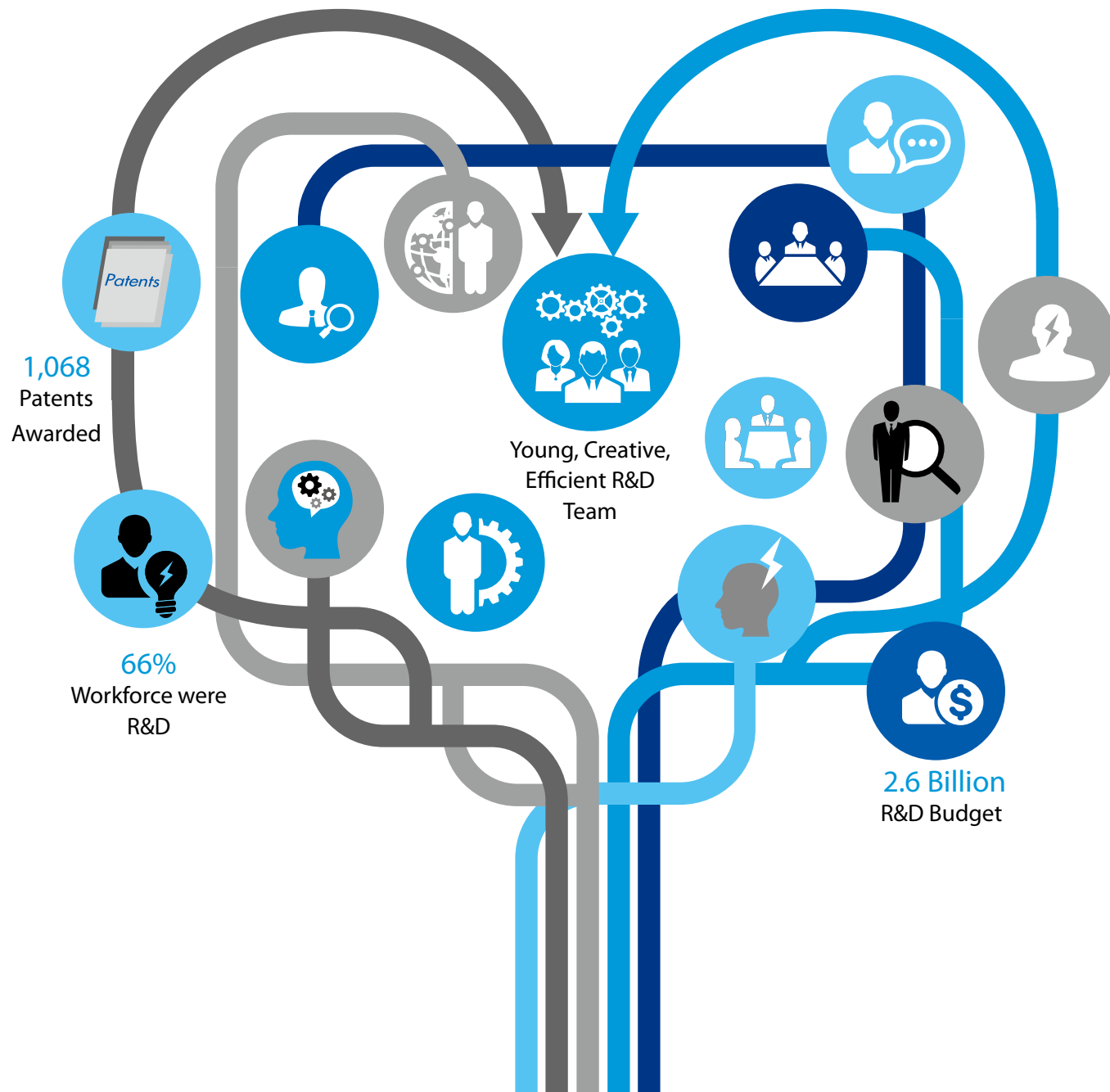
## 5.5 Risk Management



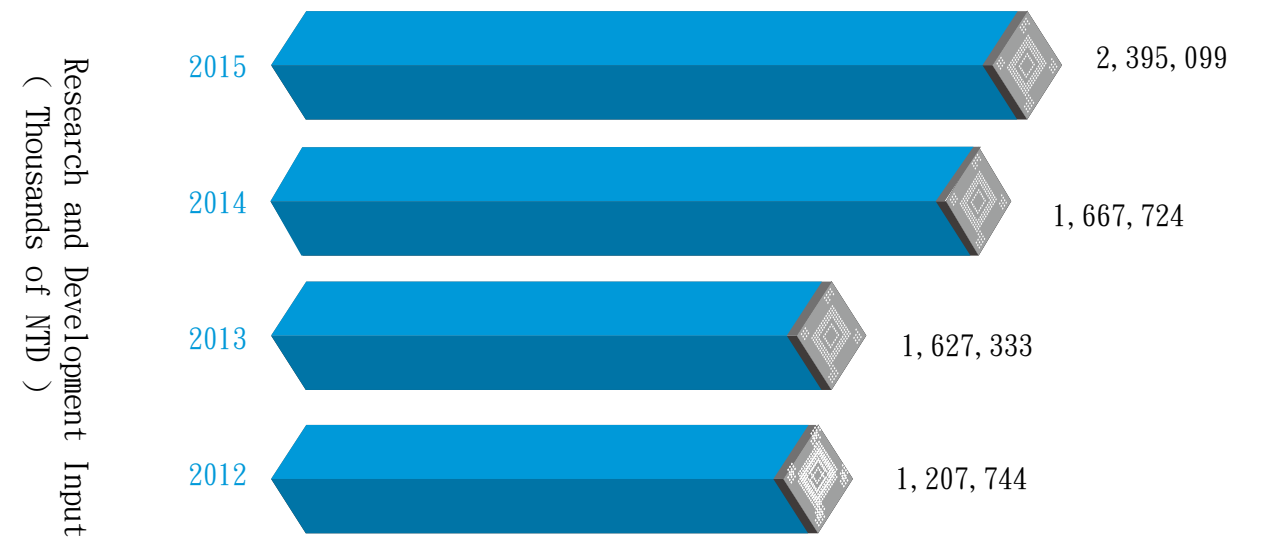### Risk Assessment and Management

**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 Innovative R&D

1,068 Patents Awarded

66% Workforce were R&D

Young, Creative, Efficient R&D Team

2.6 Billion R&D Budget

## 6 Innovative R&D

Research and Development Input ( Thousands of NTD )

2015　2,395,099
2014　1,667,724
2013　1,627,333
2012　1,207,744

| Year | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| R&D Expenses | 1,207,744 | 1,627,333 | 1,667,724 | 2,395,099 |
| Revenue | 33,091,069 | 32,173,947 | 33,074,698 | 37,178,103 |
| R&D input / Revenue | 3.65% | 5.06% | 5.04% | 6.44% |

Unit: Thousands of NTD

Phison is mainly engaged in the development, design, manufacture and sale of high-tech data storage devices such as flash memory controller IC, USB flash drives, flash memory cards, SSD, eMMC etc. The core technology of USB flash drives, flash memory cards and products incorporated with NAND flash memory is flash memory controller IC and the integration technology for firmware/hardware. As Phison excels at both flash memory controller IC design and system application integration, we can provide technical total solutions from chips to final products. Our unique and exceptional market competition strategy means we can quickly develop very competitive products that support the flash memory specifications of large vendors while offering high compatibility and product differentiation.

## 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.

Young    Creative    Efficient
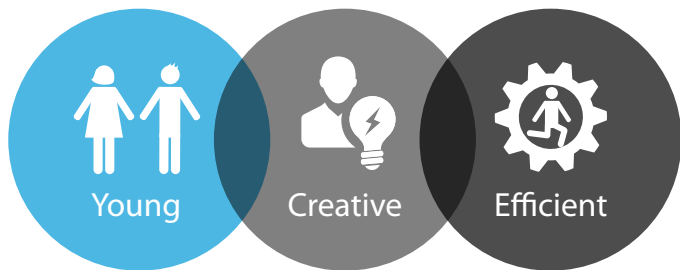
We have over 674 professional researchers who cover 66% of total workforce in Phison; the average seniority is 4.17 years. This youthful, enthusiastic and creative engineering team includes 9 Ph.D. and 456 M.A. degree holders. The team possesses not only high-caliber quality but also extensive technical experience. Phison's founder has been engaged in NAND flash memory technology R&D since he was in college and he has accumulated 15 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.

Ph.D 1%
Vocational 4%
Under-graduate 27%
MA 68%
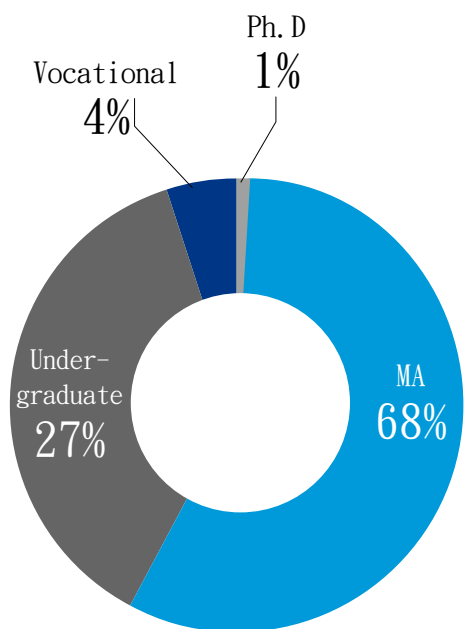
**Distribution of Academic Qualifications among R&D Personnel**

## 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 USB3.0 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 2015 | |
|---|---|
| | Build-in DSP and LDPC circuit in SSD controller IC, it supports next generation NAND flash with Read/Write performance enhanced and extends SSD life cycles; |
| | Develop a high-performance, low-power-consumption and error correction module circuit and support 3D flash memory; |
| | Develop an encryption and decryption circuit module which adopts high security algorithm and can enhance the operating performance; |
| | Build-in DSP and LDPC circuit in eMMC controller IC, it supports next generation NAND flash with Read/Write performance enhanced and extends eMMC life cycles; |
| | Develop eMMC controller IC compatible with the latest specification eMMC5.2; |
| | Develop high-performance PCIe Gen3 PHY that supports high-speed data transfer in long distance with low-power consumption; |
| | Develop a simplified structure SATA SSD with low- power consumption and high performance. |

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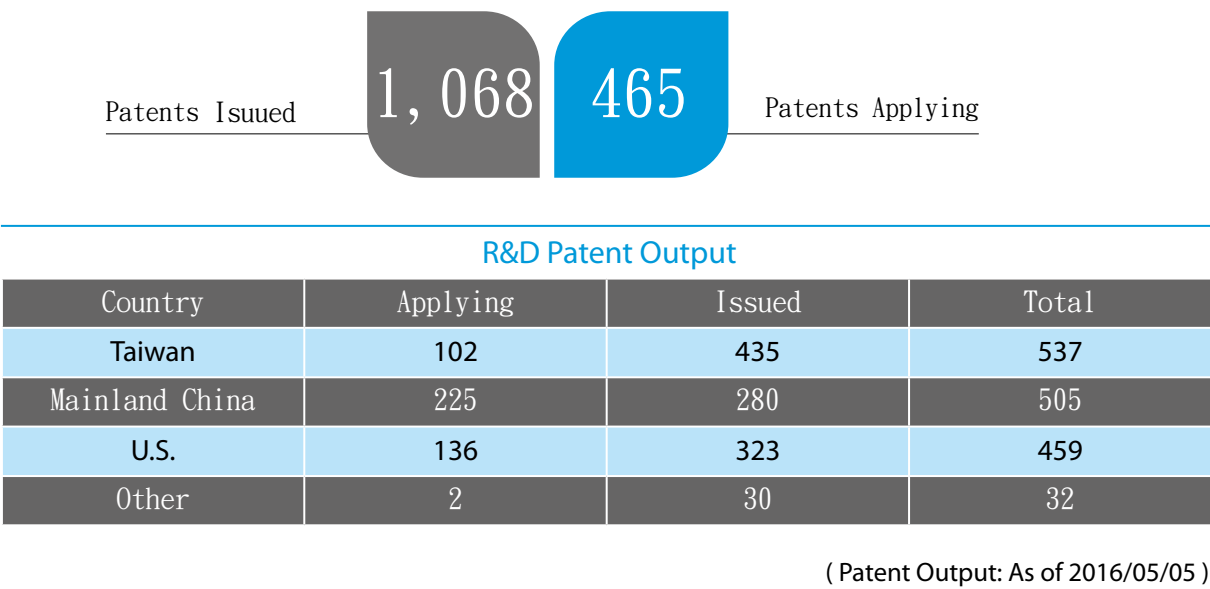
Source: "Living up to its own expectations; how Phison achieved profits of NTD31.8 billion in ten years"
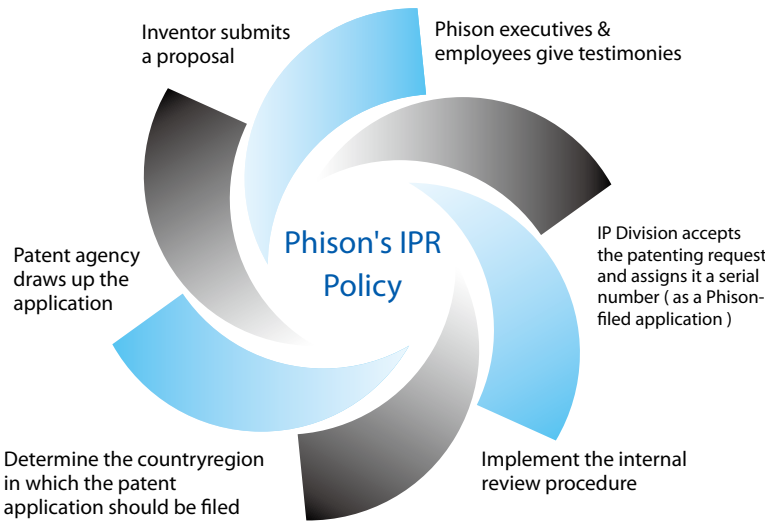
## 6.3 Intellectual Property Management

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.

Patents Isuued   **1,068**   **465**   Patents Applying

### R&D Patent Output

| Country | Applying | Issued | Total |
|---|---|---|---|
| Taiwan | 102 | 435 | 537 |
| Mainland China | 225 | 280 | 505 |
| U.S. | 136 | 323 | 459 |
| Other | 2 | 30 | 32 |

( Patent Output: As of 2016/05/05 )

| 2015 Patent Ranking | No. 43 on Taiwan's "Top 100 Utility Patent Applicants" list | No. 56 on Taiwan's "Top 100 Patent Awardees" list |
|---|---|---|
| | No.73 on Taiwan's "Top 100 Patent Applicants" list | No. 45 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.

**Phison's IPR Policy**

- Inventor submits a proposal
- Phison executives & employees give testimonies
- IP Division accepts the patenting request and assigns it a serial number ( as a Phison-filed application )
- Implement the internal review procedure
- Determine the countryregion in which the patent application should be filed
- Patent agency draws up the application

## 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 2016 | |
|---|---|
| | To develop USB3.0 Pen drive with high performance in random write; |
| | To develop SD/microSD memory cards with high performance in random write; |
| | To develop UFS Unipro flash memory controller IC; |
| | Develop a circuit module with a flash memory core management that can simplify the firmware operation process, improve data transfer efficiency and reduce power consumption; |
| | Integrate Host site to develop a high performance and low-power consumption SSD; |
| | Keep developing innovative and advanced products with the market trend in SSD product and embedded flash memory modules. |

### 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 techinical 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 NTD31.8 billion in ten years"

# 7 Truly Caring for Employees

**100%** Employee Complaints Resolved

**5.8years** Average Seniority

**3,221** Total Trainees

**274** Training Sessions

**97%** Employee Representatives on Health and Safety Committee

Employee is The Most Important Stakeholder for Phison
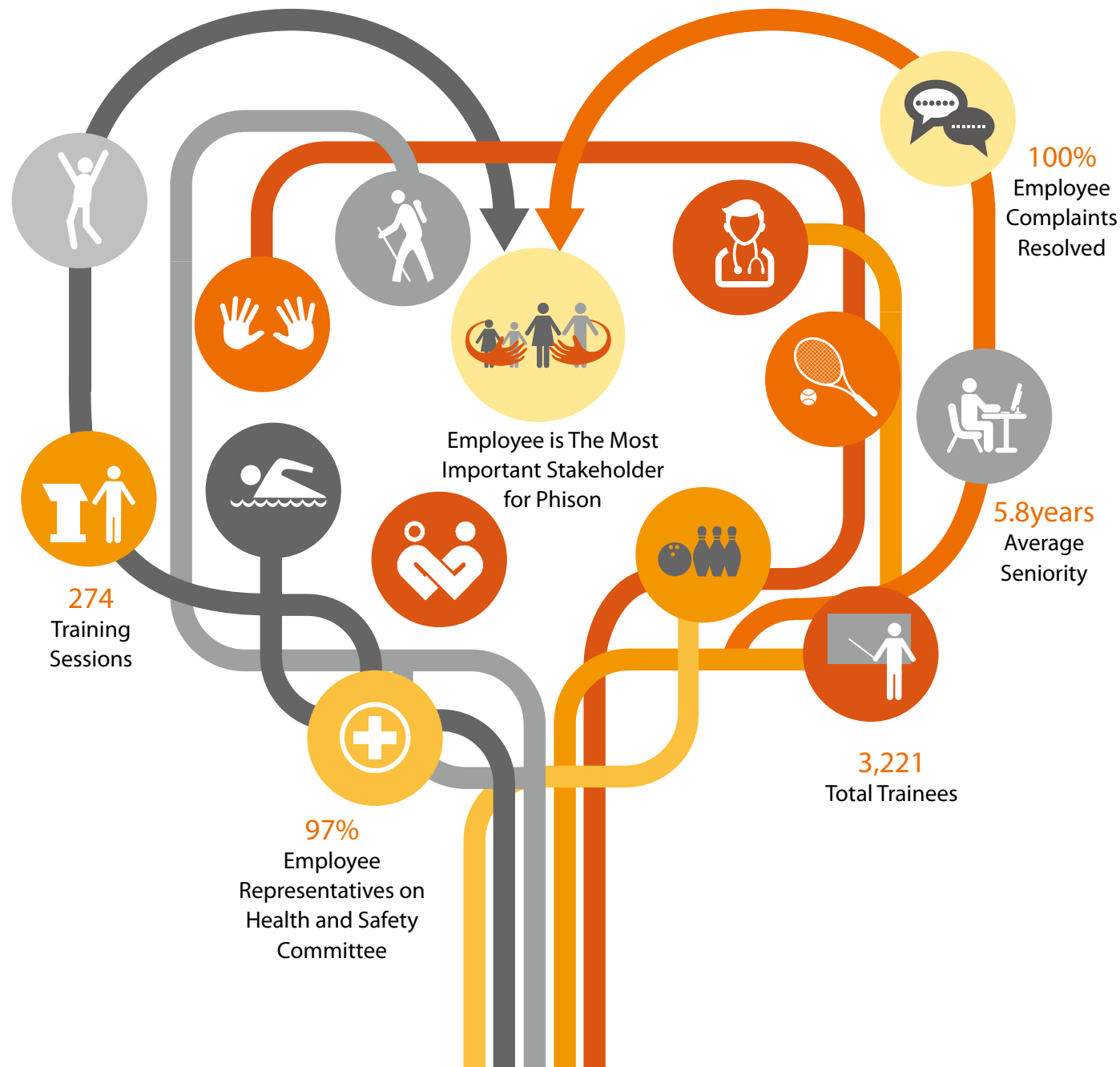
# 7 Truly Caring for Employees

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**

2011: 552
2012: 670
2013: 762
2014: 852
2015: 1,027



| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Over 51 | 1% | 1% | 1% | 1% | 1% |
| 31-50 years | 80% | 74% | 68% | 69% | 74% |
| Under 30 | 19% | 25% | 31% | 30% | 25% |

■ Under 30  ■ 31-50 years  ■ Over 51
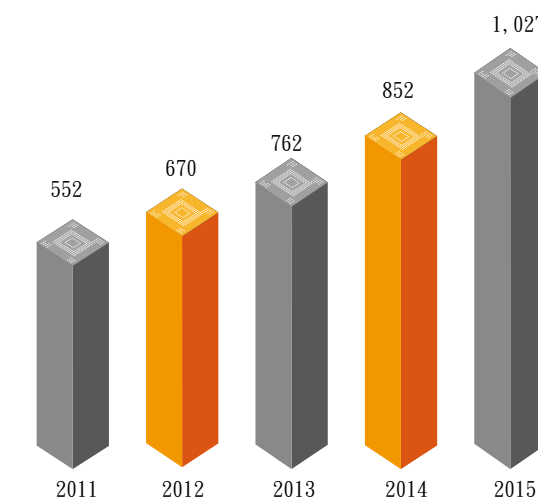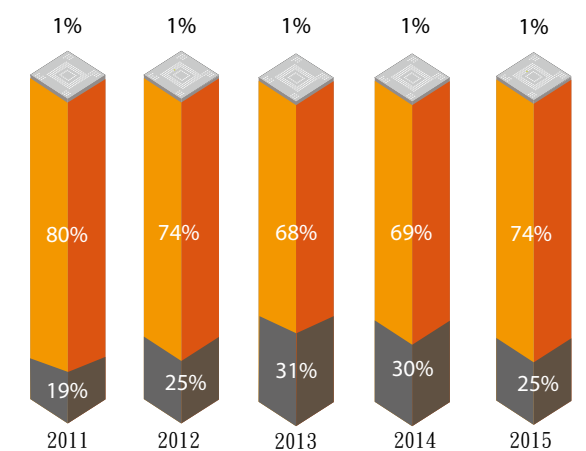
**Employee Age Distribution**
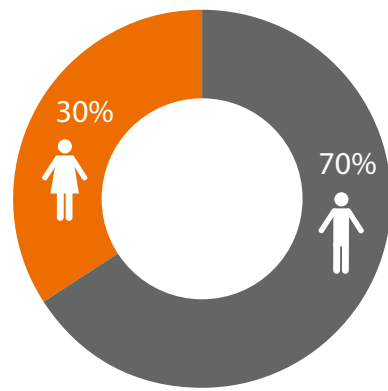
## Employee Gender Distribution

30%
70%
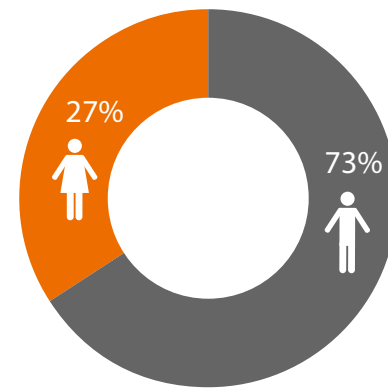
## Management Gender Distribution

27%
73%

| Year | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Gender | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Emplo-yee Number | 344 | 208 | 427 | 243 | 500 | 262 | 576 | 276 | 717 | 310 |
| Emplo-yee Ratio% | 62 | 38 | 64 | 36 | 66 | 34 | 68 | 32 | 70 | 30 |
| Manage-ment Number | 67 | 37 | 79 | 38 | 87 | 42 | 97 | 41 | 108 | 39 |
| Manage-ment Ratio% | 64 | 36 | 68 | 32 | 67 | 33 | 70 | 30 | 73 | 27 |
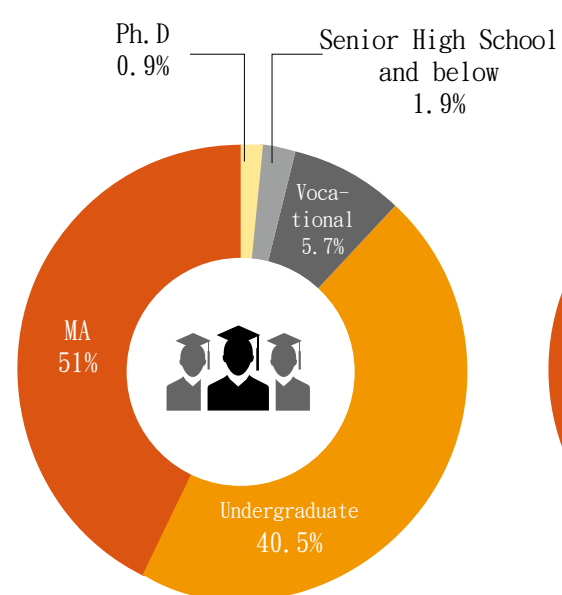
### Distribution of Employee Academic Background

Ph. D 0.9%
Senior High School and below 1.9%
Vocational 5.7%
MA 51%
Undergraduate 40.5%
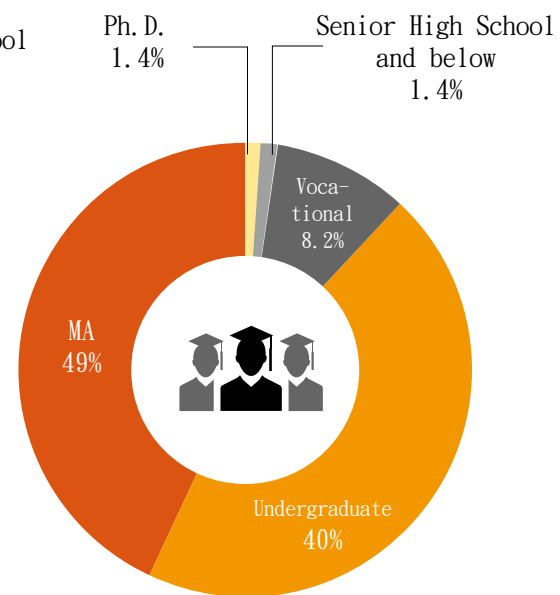
### Distribution of Management Academic Background

Ph. D. 1.4%
Senior High School and below 1.4%
Vocational 8.2%
MA 49%
Undergraduate 40%

## New Employee Demographics

2%  4%  2%
9%
5%
24%
7%
2%
76%
69%

- R & D
- Sales
- Production
- Administrat

42% | 13.5% | 34.3% | 10.2% | 0%
Under 30 | 31-50 years | Over 51
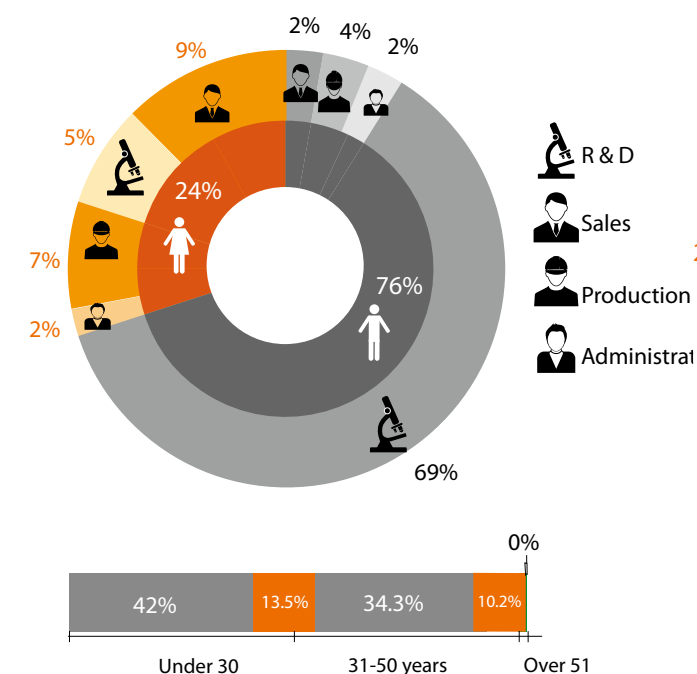
## Employee Turnover Demographics

6%
36%
41%
59%
23%
2%
9%
3%  8%  13%

14% | 11% | 43.7% | 29.7% | 1.6%
Under 30 | 31-50 years | Over 51
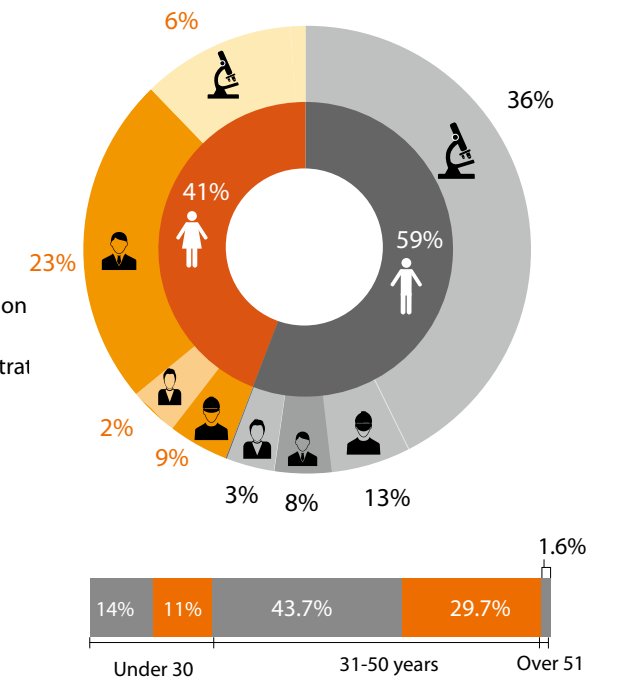
### Average Seniority at Each Grade

| | Male | Female | |
|---|---|---|---|
| | 4.7 years | 4.3 years | R & D |
| | 5.8 years | 4.6 years | Sales |
| | 7.2 years | 5.7 years | Production |
| | 7.2 years | 6.9 years | Administrationl |
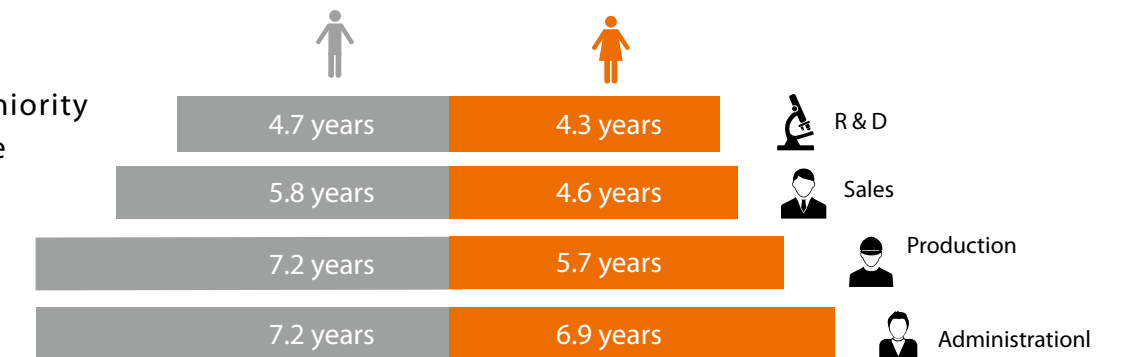
## Employee Turnover Rate

| Year | | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gender | | Male | Female | Total | Male | Female | Total | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Employee Turnover Rate | Resignations | 30 | 17 | 47 | 26 | 11 | 37 | 29 | 22 | 51 | 29 | 25 | 54 | 38 | 26 | 64 |
| | Total Workforce | 344 | 208 | 552 | 427 | 243 | 670 | 500 | 262 | 762 | 576 | 276 | 852 | 717 | 310 | 1,027 |
| | Ratio % | 8.72 | 8.17 | 8.51 | 6.09 | 4.53 | 5.52 | 5.80 | 8.40 | 6.69 | 5.03 | 9.06 | 6.34 | 5.30 | 8.39 | 6.23 |

Employee Turnover Rate: Resignations / Total Workforce x 100%

## Ratio of Local People in High-level Management

| Year | Taiwanese | Foreigner | Total |
|------|-----------|-----------|-------|
| 2015 | 82% | 18% | Total 17 |
| 2014 | 79% | 21% | Total 14 |
| 2013 | 79% | 21% | Total 13 |
| 2012 | 77% | 23% | Total 10 |
| 2011 | 70% | 30% | Total 9 |
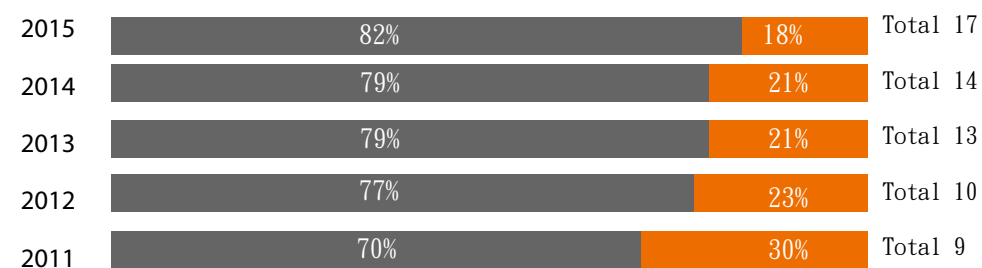
Note : Chairman/President are Malaysian Chinese.　■ Taiwanese　■ Foreigner

## Type of Employment

| Year | | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|------|------|------|--------|----------|------|--------|----------|------|--------|----------|------|--------|----------|------|--------|----------|
| Type | | Male | Female | Disabled | Male | Female | Disabled | Male | Female | Disabled | Male | Female | Disabled | Male | Female | Disabled |
| General employee | Number | 277 | 170 | 2 | 349 | 204 | 2 | 412 | 217 | 6 | 476 | 232 | 6 | 573 | 258 | 6 |
| | Ratio% | 50.18 | 30.80 | 0.36 | 52.09 | 30.45 | 0.30 | 53.94 | 28.48 | 0.79 | 55.87 | 27.23 | 0.71 | 55.79 | 25.12 | 0.59 |
| Low-level manager | Number | 29 | 17 | 0 | 35 | 20 | 0 | 43 | 24 | 0 | 49 | 19 | 0 | 72 | 24 | 1 |
| | Ratio% | 5.25 | 3.08 | 0 | 5.22 | 2.99 | 0 | 5.64 | 3.15 | 0 | 5.75 | 2.23 | 0 | 7.01 | 2.34 | 0.10 |
| Mid-level manager | Number | 31 | 16 | 0 | 34 | 13 | 0 | 34 | 12 | 0 | 40 | 16 | 0 | 56 | 19 | 1 |
| | Ratio% | 5.62 | 2.90 | 0 | 5.07 | 1.94 | 0 | 4.59 | 1.57 | 0 | 4.69 | 1.88 | 0 | 5.45 | 1.85 | 0.10 |
| Senior manager | Number | 6 | 4 | 0 | 8 | 5 | 0 | 8 | 6 | 0 | 8 | 6 | 0 | 10 | 7 | 0 |
| | Ratio% | 1.09 | 0.72 | 0 | 1.19 | 0.75 | 0 | 1.05 | 0.79 | 0 | 0.94 | 0.70 | 0 | 0.97 | 0.68 | 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 | 967 | 0 | 57 | 1,024 |
| Fixed-term contracts | 0 | 3 | 0 | 0 | 3 |
| Total | 0 | 970 | 0 | 57 | 1,027 |

- Indefinite contract: Non-fixed-term contract signed with full-time 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 | | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|------|------|------|--------|-------|------|--------|-------|------|--------|-------|------|--------|-------|------|--------|-------|
| 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 | 2 | 2 | 0 | 3 | 3 | 2 | 13 | 15 | 0 | 8 | 8 |
| | Approvals | 72 | 40 | 112 | 100 | 51 | 151 | 118 | 77 | 195 | 135 | 86 | 221 | 149 | 85 | 234 |
| | Ratio% | 0 | 5 | 1.79 | 0 | 3.92 | 1.32 | 0 | 3.90 | 1.54 | 1.48 | 15.12 | 6.79 | 0 | 9.41 | 3.42 |
| Rate of reinstatement after parental leave | Returning number | 0 | 1 | 1 | 0 | 2 | 2 | 0 | 0 | 0 | 0 | 6 | 6 | 1 | 9 | 10 |
| | Expected to return number | 0 | 1 | 1 | 0 | 3 | 3 | 0 | 1 | 1 | 1 | 8 | 9 | 1 | 14 | 15 |
| | Ratio% | 0 | 100 | 100 | 0 | 66.67 | 66.67 | 0 | 0 | 0 | 0 | 75 | 66.67 | 100 | 64.29 | 66.67 |
| Parental leave retention rate | Rate of retention 1 year after reinstatement | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 2 | 2 | 0 | 0 | 0 | 0 | 5 | 5 |
| | Returns from parental leave from last year | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 2 | 2 | 0 | 0 | 0 | 0 | 6 | 6 |
| | Ratio% | 0 | 0 | 0 | 0 | 100 | 100 | 0 | 100 | 100 | 0 | 0 | 0 | 0 | 83.33 | 83.33 |

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 2015.

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 2015;
- No incidents of discrimination involving Phison were reported in 2015.

**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 2015.

**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 2015.

**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 2015.

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, 2015 employee and directors' compensation amount were 9.81% and 0.75% 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.

Work Ethics | Adaptability | Dedication to Work, Team Spirit and Organization Identification | Social Skills | Analytical & Judgment Skills | Professional Expertise

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 2015, 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 |
|---|---|---|---|
| ■ Allowances for weddings, funerals and other occasions; ■ Birth allowance; ■ Multi-divisional parties; ■ Allowance toward post-Chinese New Year, "back-to-work" parties; ■ Company-subsidized incentive travel programs; ■ Reimbursement for medical services ( e.g., hospitalization ). | ■ Moon Festival Party; ■ Phison Family Day Campaign; ■ Leisure symposium; ■ Domino Trail; ■ Grants for employee clubs. | ■ Festival and year-end bonuses; ■ Festival gifts; ■ Birthday bonus; ■ Employee welfare payments ( for specific purposes ) . | ■ Training reimbursements; ■ Tuition assistance for child dependants. |

**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$^2$ 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 empolyee 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 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 |


Phison employees plant trees in collaborative efforts with customers


Grown vegetables and fruit


A joyful harvest


Organic fruits and vegetables


Mountaineering  Club


Combat Aerobics Club practice session


Badminton Club


Golf 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 2015, more than 4,000 Phison employees and their families took part in various company events.

## Activities Organized by the Welfare Committee in 2015

| 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 travekogue 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 | Hosted a dominoes competition to build up team rapport and demonstrate the creativity of the Phison team. |
| | Foosball tournaments in conjunction with other plants to demonstrate the passion and vitality of Phison employees. |
| Festivities | Employees are invited to eat, drink and be merry together for the Mid-Autumn Festival BBQ Night and share in the festive fun. |

## 2015 Phison Employee Activities in Review


Phison Year End Party


Phison Family Day


Whiskey Course


Domino Trail


Moon Festival Party


Decoupage DIY Course

## 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

**3,221**
Participants

Signed Up for
Employee Training
Programs in 2015

**2,211**
Hours

Employee Training
Programs Took
Place

**274**
Sessions

Employee
Training were
Held

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".

**Making Training Courses More Relevant to Corporate Strategies**

| | |
|---|---|
| **In-service/Professional Skills Training** | Division-specific training programs are designed to narrow the gap between competencies of employees and those required for their positions. |
| **Hierarchy-based Training Programs for Management/ Development** | With the organizational needs in mind, training programs for low- and mid-level managers are introduced to ensure consistent management, and eventually achieve Phison's annual performance goals. |
| **Secondary Skills Development Courses** | The trainees are expected to be communication-savvy and inspired, with their work-related skills sharpened simultaneously. |
| **Language Courses** | The trainees are expected to communicate with international customers with a better command of foreign languages and greater efficiency, so Phison can further expand its global operations. |

### Target and Performance

| Target and performance | Sessions | Hours | Trainees | Budget and cost（NTD） |
|---|---|---|---|---|
| 2016 Objectives | 281 | 943 | 3,235 | $5,587,150 |
| 2015 Objectives | 270 | 938 | 3,318 | $4,075,520 |
| 2015 Outcome | 274 | 2,211 | 3,221 | $2,071,256 |

### Strategic Training Objectives and Key Performance Indicator for 2015

| Training Category | Curriculum | Trainees | Total hours | Budget Ratio |
|---|---|---|---|---|
| In-service/Professional Skills Training | ● Professional skills training<br>● Advanced quality control<br>● Safety & Health | 2,220 | 1,527 | 42.9% |
| Hierarchy-based Training Programs for Management/ Development | ● Innovative and improved managerial practice<br>● High- performance interviews with efficiency and improvement<br>● Management related training | 127 | 37 | 13.1% |
| Secondary Skills Development Courses | ● Successful presentation design and logical self-expression training<br>● Excellent customer relationship management<br>● Good communication skills and solidarity consensus<br>● Job analysis and improvement<br>● R&D project schedule and cost management<br>● Job management and communication improvement<br>● Enhance effectiveness of communication<br>● Developing influences on upward management<br>● Skills of business English presentation<br>● Self-inspiration training | 721 | 257 | 28.7% |
| Language Courses | ● English<br>● Japanese | 153 | 390 | 15.3% |

## Average Training Hours per Function

| Function | Average training hours per employee per year ( Male ) | Average training hours per employee per year ( Female ) |
|---|---|---|
| R&D | 13.22 | 15.65 |
| Sales | 20.25 | 17.07 |
| Production | 7.15 | 16.74 |
| Administration | 15.74 | 17.08 |

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 Inventory Management Department ( 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 | 11.63 | 22.05 |
| Grassroots employee | 13.46 | 15.63 |

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.
- Two 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



**172** Complaints Accepted

**172** 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 | 35 | 35 |
| Ad hoc meetings | 39 | 39 |
| Sexual harassment complaints mailbox | 0 | 0 |
| Chairman's Mailbox | 0 | 0 |
| Employee Assistance Program ( EAPs ) - Psychological counseling hotline | 98 | 98 |
| Total | 172 | 172 |

## 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 2015. 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

Employee    5    Management

Note: The ratio of employee and management representatives is 1:1
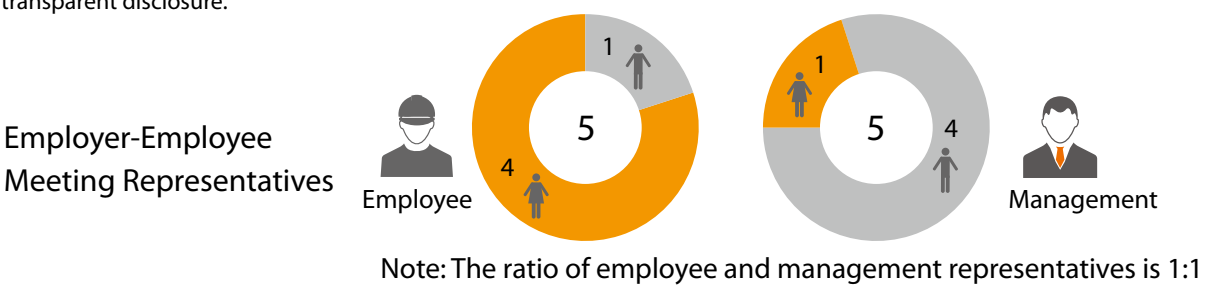
### 2015 Employer-Employee Meeting Motions

| Joint Decision | Motion ( 1 ) : Recommendation outdoor car park poles conspicuous change color. |
| | Motion ( 2 ) : 5/26 Whiskey class lecture plan. |
| Communication/ Discussions | Motion ( 3 ) : The second half of the activities undertaken public relations firm named. |
| | Motion ( 4 ) : Distress grant project matters. |
| Reaching a Conclusion Based on Information Transparency | Motion ( 5 ) : Amendment to Work Rules 16 Clause 4 - Marriage Leave "During the leave instructions". |
| | Motion ( 6 ) : Amendment to Work Rules 18 Clause 2 Item 4- Memorial Day. |

## 7.6 Workplace Health and Safety

**97%** Employee representatives on Health and Safety Committee

**98** Employees using EAPs Services

**98** Complaints Resolved (EAPs)

### 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 2015, there were a total of 32 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 2015, the service was used by 98 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.
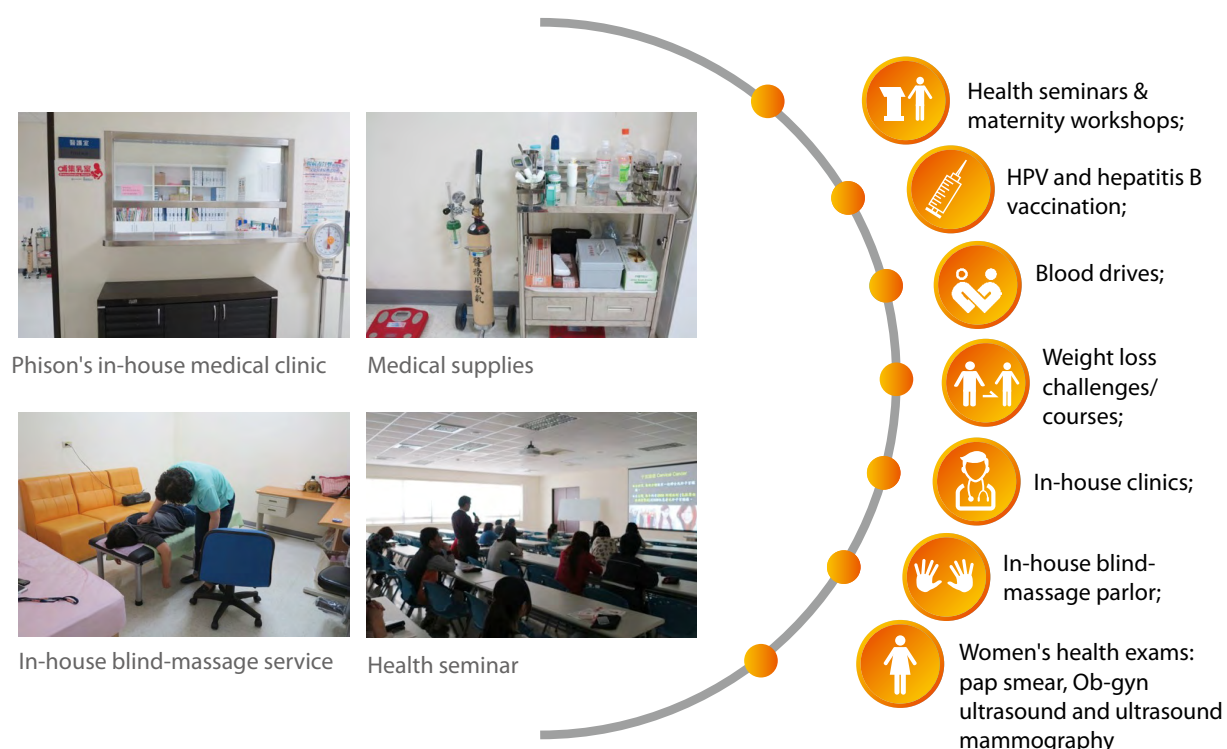
Non-scheduled counseling interviews also set up a mechanism for helping employees deal with special situations. The Hsinchu City Lifeline has now become a bridge between the company and employees. It has no doubt won over our employees in recent years and has to date successfully helped employees resolve 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.

Phison's in-house medical clinic


Medical supplies


In-house blind-massage service


Health seminar

- Health seminars & maternity workshops;
- HPV and hepatitis B vaccination;
- Blood drives;
- Weight loss challenges/ courses;
- In-house clinics;
- In-house blind-massage parlor;
- Women's health exams: pap smear, Ob-gyn ultrasound and ultrasound mammography

## 2015 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 2015 were in compliance with regulatory standards.

| Class | Classes | Participants |
|---|---|---|
| CPR+AED | 2 | 45 |
| Skin care: whitening and sun block | 1 | 19 |
| Tips for eating out and light meal production | 1 | 26 |
| Non-staple food choice and add principle | 1 | 12 |
| Sports injury prevention and treatment | 1 | 12 |
| Point massage and health-preserving | 1 | 23 |
| Scalp care and maintenance | 1 | 16 |
| Herb-cooked introduction | 1 | 10 |
| Total | 9 | 163 |

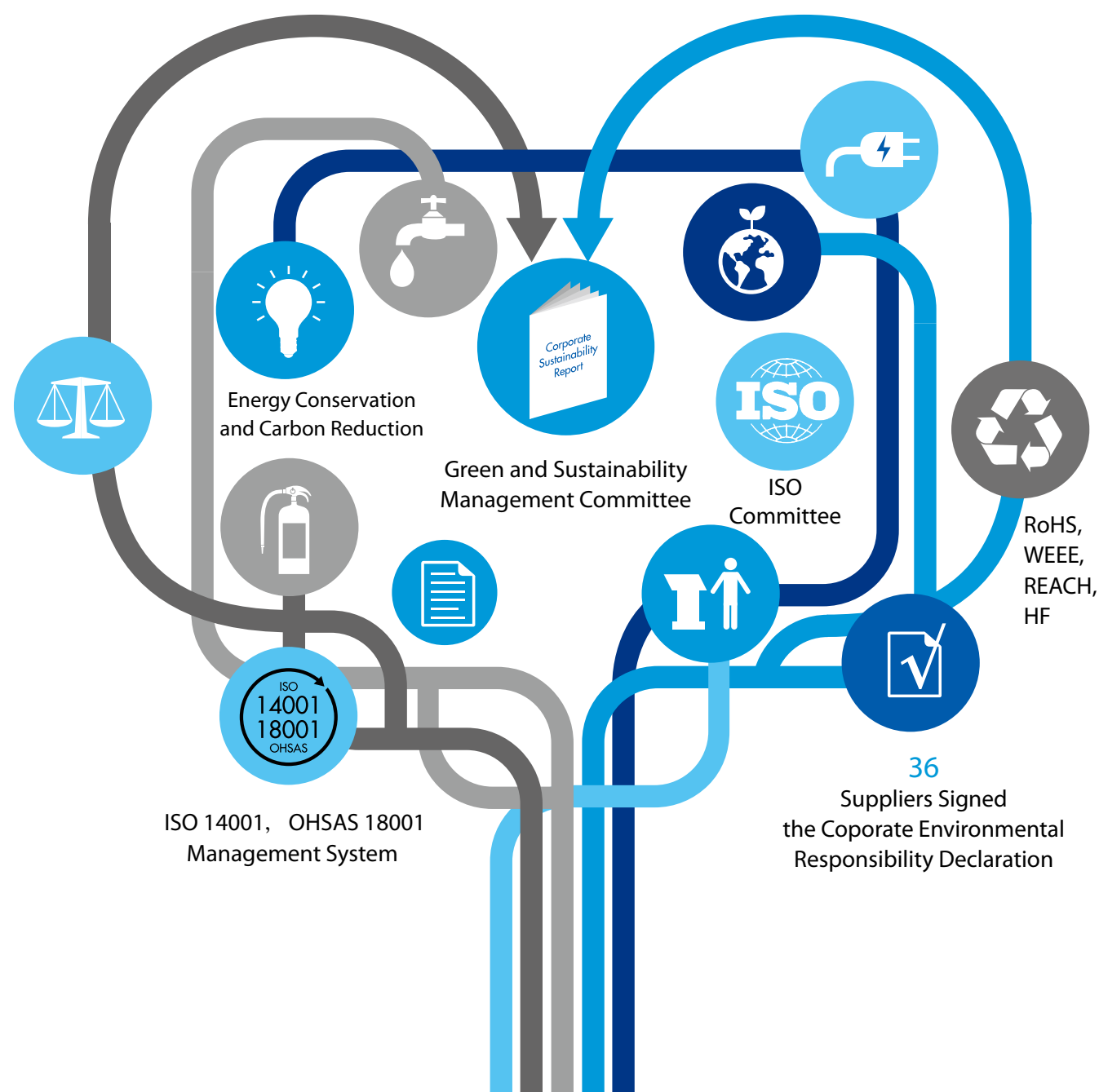## Occupational Disease, Lost Day Rate, Absentee Rate

| Year | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 1 | 4 | 0 | 0 | 27 | 3.88 | 3 | 3.81 | 1.88 | 2.81 |
| Lost day rate | 0.30 | 2.09 | 0 | 0 | 5.87 | 1.57 | 0.56 | 1.43 | 0.29 | 0.97 |
| Absentee days | 121.13 | 682.50 | 163.31 | 401.00 | 185.69 | 343.81 | 355.75 | 383.94 | 304.50 | 699.69 |
| Absentee rate | 294.40 | 2858.40 | 340.66 | 1412.49 | 323.22 | 1109.79 | 534.60 | 1151.78 | 379.22 | 1922.65 |

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 x200,000*
- Lost day rate = Total work days lost / Total work hours x 200,000*
- Absentee rate = Total absentee days / Total work hours × 200,000*
*Calculations based on 50 weeks a year and 40-hour working weeks for every 100 employees

## Injury Rate

| Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Total work hours | 856,613 | 1,098,834 | 1,281,072 | 1,461,994 | 1,687,328 |
| Injured workers | 3 | 0 | 4 | 7 | 6 |
| Deaths | 0 | 0 | 0 | 0 | 0 |
| Lost working days ( Male ) | 1 | 0 | 42 | 3 | 3 |
| Lost working days ( Female ) | 4 | 0 | 5 | 4 | 4 |
| Total working days lost | 5 | 0 | 47 | 7 | 7 |
| Injury rate | 0.70 | 0 | 0.62 | 0.96 | 0.71 |

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 2010-2015 period were due to accidents during the commute.

# 8 Environmental Responsibility

Energy Conservation
and Carbon Reduction

Green and Sustainability
Management Committee

ISO
Committee

RoHS,
WEEE,
REACH,
HF

ISO 14001, OHSAS 18001
Management System

**36**
Suppliers Signed
the Coporate Environmental
Responsibility Declaration

# 8 Environmental Responsibility

## 2016 Targets for Environmental Safety and Health

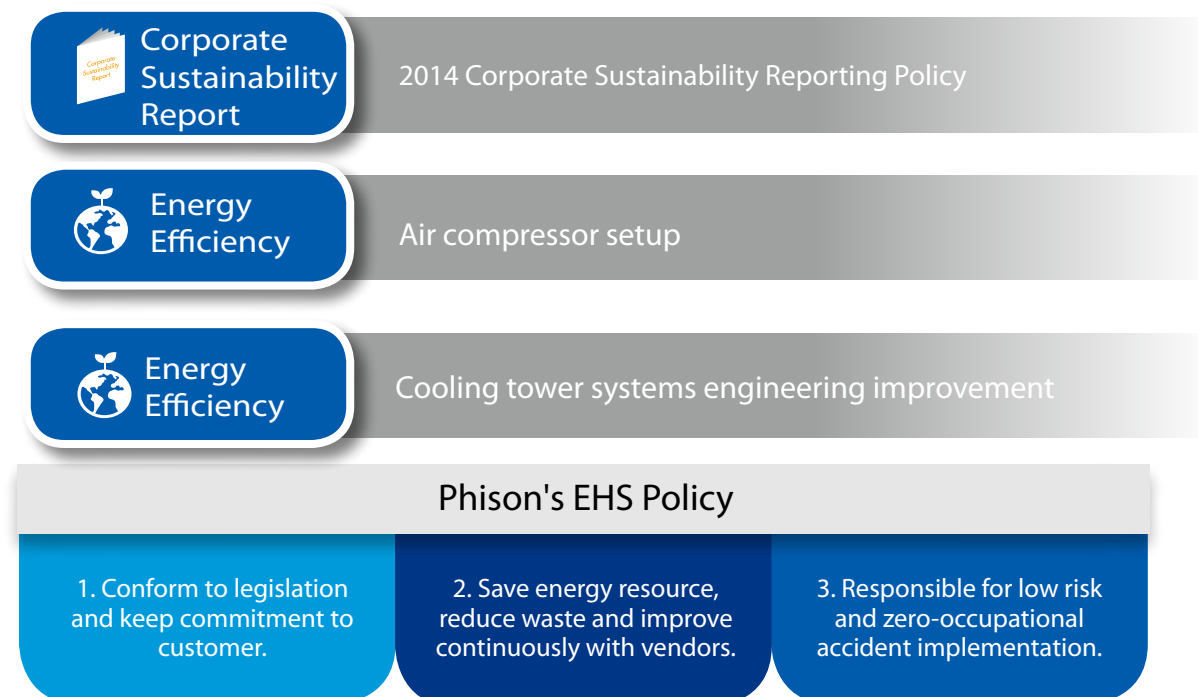| Energy Efficiency | Carbon reduction - new parking use of LED lights |
| --- | --- |
| Performance Check | Performance Check: fire extinguishers |
| Corporate Sustainability Report | 2015 Corporate Sustainability Reporting Policy |

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 2015

**Corporate Sustainability Report** — 2014 Corporate Sustainability Reporting Policy

**Energy Efficiency** — Air compressor setup

**Energy Efficiency** — Cooling tower systems engineering improvement

#### Phison's EHS Policy

| 1. Conform to legislation and keep commitment to customer. | 2. Save energy resource, reduce waste and improve continuously with vendors. | 3. Responsible for low risk and zero-occupational accident implementation. |

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 2015.

ISO 14001 Environmental management system

OHSAS18001, Occupational health and safety management system

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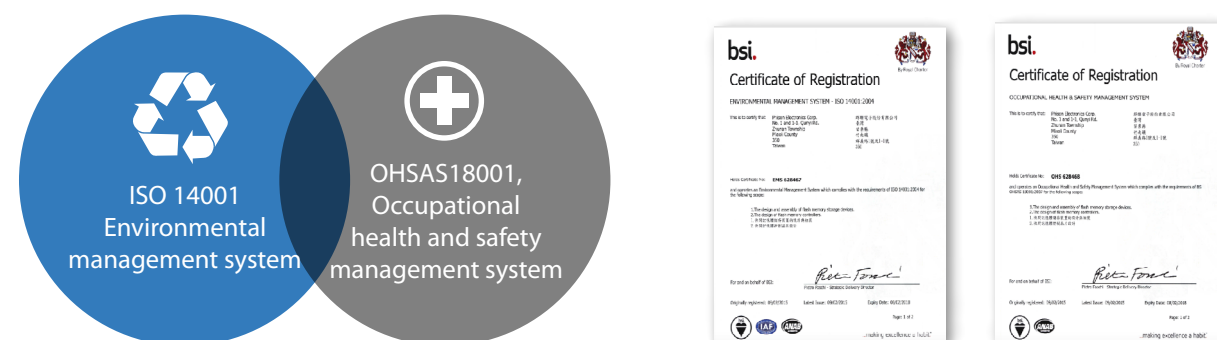
### Energy Management Policy
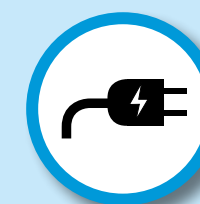
#### Electricity Consumption
- All electrical devices in Phison's office areas shall be turned off right after use;
- Every piece of Phison's equipment is operated in line with the maintenance efforts to bolster efficiency and reduce power use;
- When the testing procedure stops, the power of relevant 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.
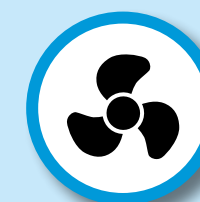
#### Air-conditioning
- Temperatures in office areas and meeting rooms should be set at an appropriate level, with the last person leaving the aforesaid areas required to turn off the air-conditioner;
- To ensure efficient air-conditioning, efforts are needed to keep the air-conditioner filters in all 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.
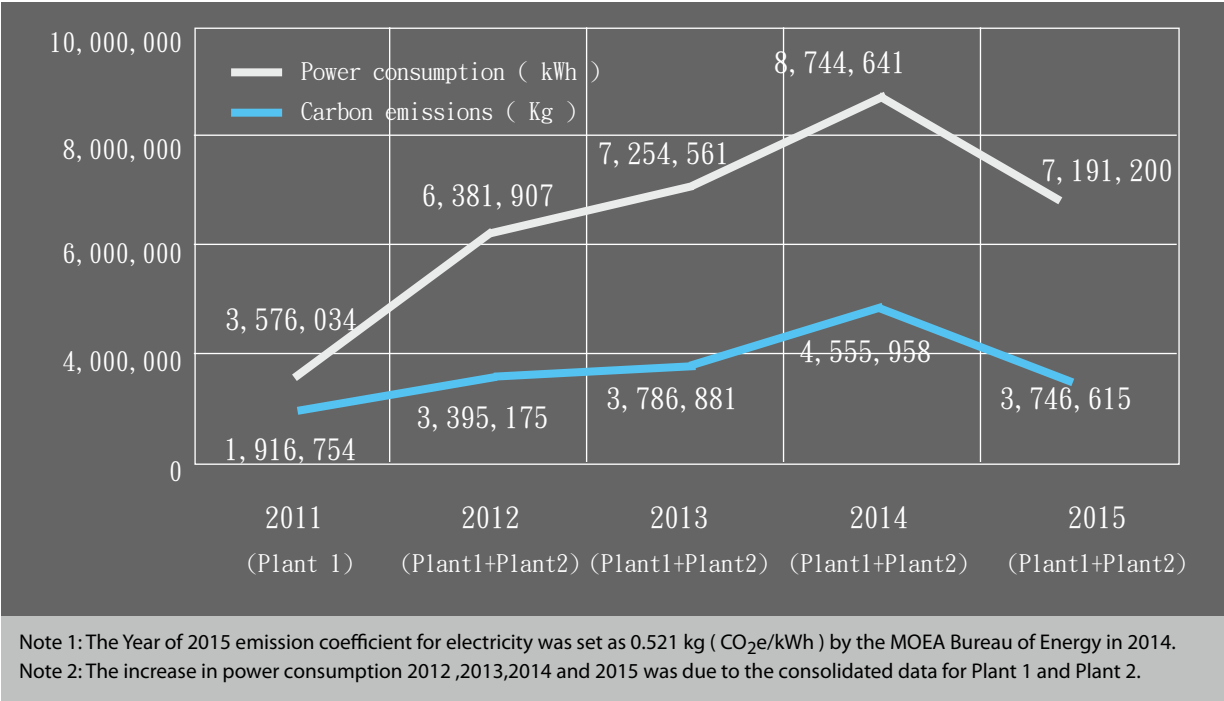
#### Water Resource Management
- All waste water is discharged through legitimately registered sewage ducts to Kuan-Yuan Science Park Administration's treatment plant;
- Phison's Jhunan branch doesn't generate any production-related waste water because it comprises simple assembly, packaging, maintenance 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 $CO_2$ emissions. In 2015, Phison's contractors generated totally 41,881.20 kilograms of $CO_2e$ during transportation.
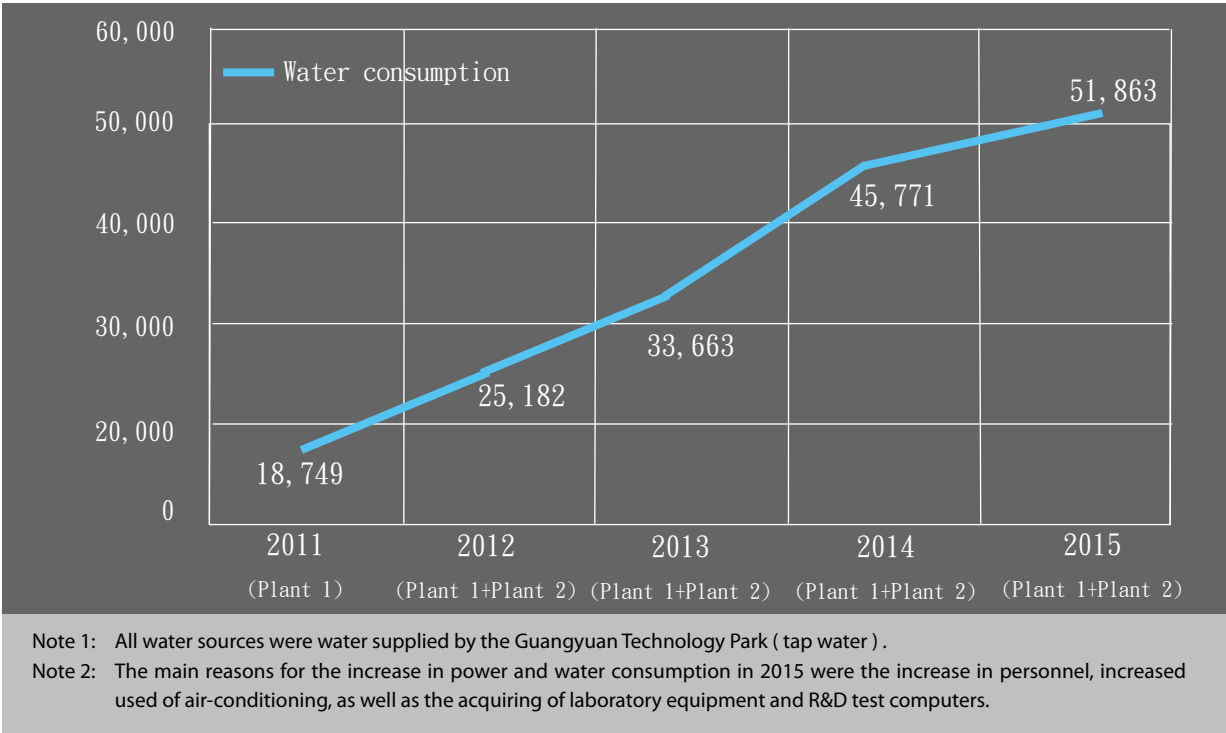
## Historic Power Consumption and Carbon Emissions



Note 1: The Year of 2015 emission coefficient for electricity was set as 0.521 kg ( $CO_2$ e/kWh ) by the MOEA Bureau of Energy in 2014.
Note 2: The increase in power consumption 2012 ,2013,2014 and 2015 was due to the consolidated data for Plant 1 and Plant 2.

## Water Consumption



Note 1:　All water sources were water supplied by the Guangyuan Technology Park ( tap water ) .
Note 2:　The main reasons for the increase in power and water consumption in 2015 were the increase in personnel, increased used of air-conditioning, as well as the acquiring of laboratory equipment and R&D test computers.

## Direct and Indirect Energy Usage in 2015

| Energy type | Energy purpose | Energy used | Consumption | Megajoules ( MJ ) |
|---|---|---|---|---|
| Direct energy | Official vehicles | Petrol | 7,102.834 L | 231,666.673 M J |
| | Emergency generator | Diesel | 900 L | 31,612.518 M J |
| Indirect energy | Plant-wide power consumption | Electricity | 7,191,200 kWh | 25,888,320 M J |

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 ) x3.6 MJ

Unit of conversion:

1 Million Calories = 4.18155 MJ
1 L of petrol = 7,800 Kcal ( 7.8 MJ )
1 L of diesel = 8,4000 Kcal ( 8.4 MJ )
1 kWh = 3.6 MJ
Source: MOEA Bureau of Energy/ Taiwan Power Corp.

## Chemicals, Noise Pollution and Waste Management

**Chemical Control**
- Containers of hazardous chemical substances are properly labeled with the storage location— among other important information required by laws — clearly specified.

**Noise Pollution Control**
- Phison investigates workplace noise at regular intervals in an EHS effort to better assess the work environment and employees' exposure to occupational noise.

**Waste Control**
- 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;
- 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.

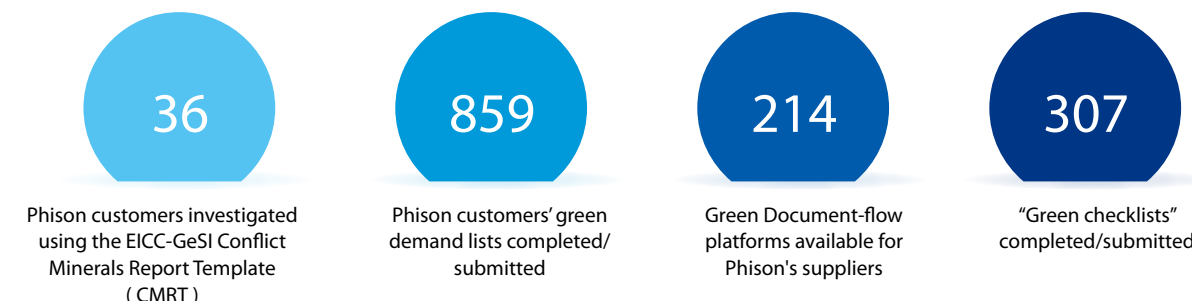## 2015 Waste Plastic Packaging Recycling Statistics

2015 Waste Plastic Packaging Recycling Statistics

**628,981**

### Waste Disposal Method and Total Volume

| Waste Category | | Handling | Year | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2011 | 2012 | 2013 | 2014 | 2015 |
| General industrial waste | Domestic waste | Incineration | Around 60-75 tons per year | | | | |
| | Recycling | Recycling and reuse | 19.6 tons | 30.4 tons | 36.6 tons | 44 tons | 30 tons |
| | Waste recycling | Recycling and reuse | 40 tons | 28.5 tons | 30 tons | 40 tons | 15 tons |
| Hazardous industrial waste | | Recycling or reuse | Approximately 0-10kg 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 2015, Phison recycled packaging ( anti-static ) materials returned by vendors.

### 2015 Environmental Protection Expenditure

| Environmental protection expenditure items | Investment ( NTD ) |
|---|---|
| Green Purchasing | $24,924,576,771 |
| Environmental management system verification costs | $125,250 |
| Environmental protection education and training costs | $105,781 |
| Water cooler, discharge water and waste disposal costs | $1,104,389 |
| Total environmental expenditure | $24,925,912,191 |

## 8.2 ISO Committee

**36**
Phison customers investigated using the EICC-GeSI Conflict Minerals Report Template ( CMRT )

**859**
Phison customers' green demand lists completed/ submitted

**214**
Green Document-flow platforms available for Phison's suppliers

**307**
"Green checklists" completed/submitted

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

ISO Committee

Aw Yong Chee Kong representative of Admin. Division & president

| Committee Member at Admin. Division | Committee Member at Quality Assurance Division | Committee Member at Marketing & Sales Division | Committee Member at Production Division | Committee Member at R&D Division |

### 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.

## 2015 Issue Handling

| NO | 2015 issues handled | Result |
|----|---------------------|--------|
| 1 | 36 customers underwent EICC/GeSI conflict minerals investigation | Compliance with customer requirements |
| 2 | 859 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 | 214 current suppliers to download from green document platform | To maintain the timeliness of documents downloaded |
| 6 | Green surveys sent out to 307 people | Compliance with objectives |

## Green Accomplishments

| Year | Green accomplishments |
|------|----------------------|
| 2015 | Hosted ISO and CSR new version standard seminar in March 2015 |
| | Suppplier Work Request Form had implemented to improve the feedback efficiency for customer equirement |
| 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 |
| 2010 | EHS management program: Investigation of eco-friendly raw materials ( Estimated recycling rate of up to 75% ) |
| | EHS Management program: Vendor ESH management and social responsibility survey ( 9 vendors, 12 partners ) |
| | Sony GP certification |
| | Introduction of raw material GP classification |

## 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 2015 inventory results showed that Scope 2 externally purchased electricity was the main source of GHG emissions at over 97% of all emissions. Scope 1 accounted for just 3%.Total emissions amounted to 3,870 tons, far lower than the annual emission limit of 25,000 tons $CO_2e$ 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
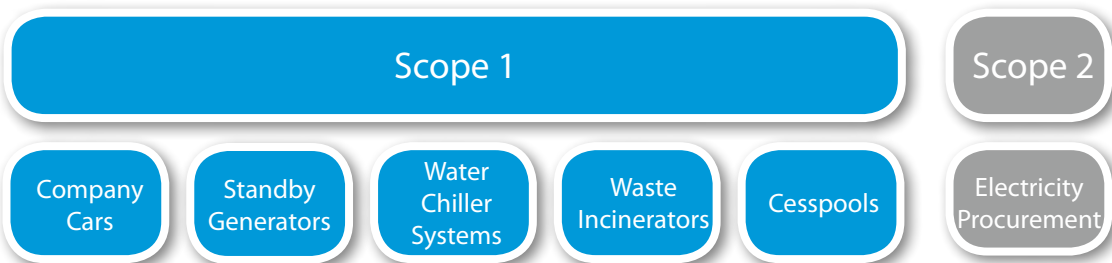


## 2015 Greenhouse Gas Emissions

| Greenhouse Gas | $CO_2$ | $CH_4$ | $N_2O$ | HFCs | PFCs | $SF_6$ | Total |
|----------------|--------|--------|--------|------|------|--------|-------|
| Direct emission Scope 1 | 91.75 | 31.42 | 0.48 | 0 | 0 | 0 | 123.65 |
| Indirect emissions Scope 2 | 3,746.62 | 0 | 0 | 0 | 0 | 0 | 3,746.62 |
| The power emission coefficient in 2014 was 0.521 kg $CO_2e$/kWh Unit: Tons of $CO_2e$/year | | | | | | | 3,870.27 |

## GHG Emissions



● Dircet emissions
● Indircet emissions
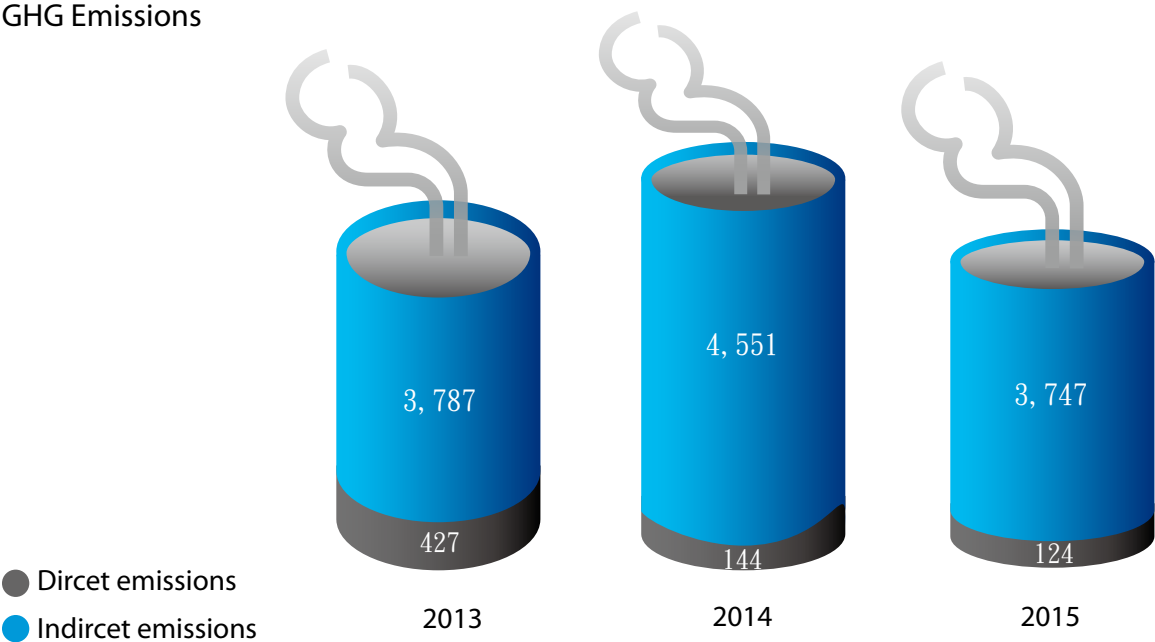
| Year | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|
| | Emissions | Ratio | Emissions | Ratio | Emissions | Ratio |
| Direct emissions - Scope 1 | 427 | 10% | 144 | 3% | 124 | 3% |
| Indirect emissions - Scope 2 | 3,787 | 90% | 4,551 | 97% | 3,747 | 97% |
| Total GHG emissions ( Tons CO$_2$e/year ) | 4,214 | | 4,695 | | 3,871 | |

| Greenhouse gas emissions from employee business trips ( official vehicles ) | | | |
|---|---|---|---|
| Year | 2013 | 2014 | 2015 |
| CO$_2$ | 15.40 | 13.55 | 16.07 |
| CH$_4$ | 0.14 | 0.12 | 0.12 |
| N$_2$O | 0.44 | 0.39 | 0.48 |
| Total | 15.98 | 14.06 | 16.67 |
| | | | Unit: Tons of CO$_2$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 2015, 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.
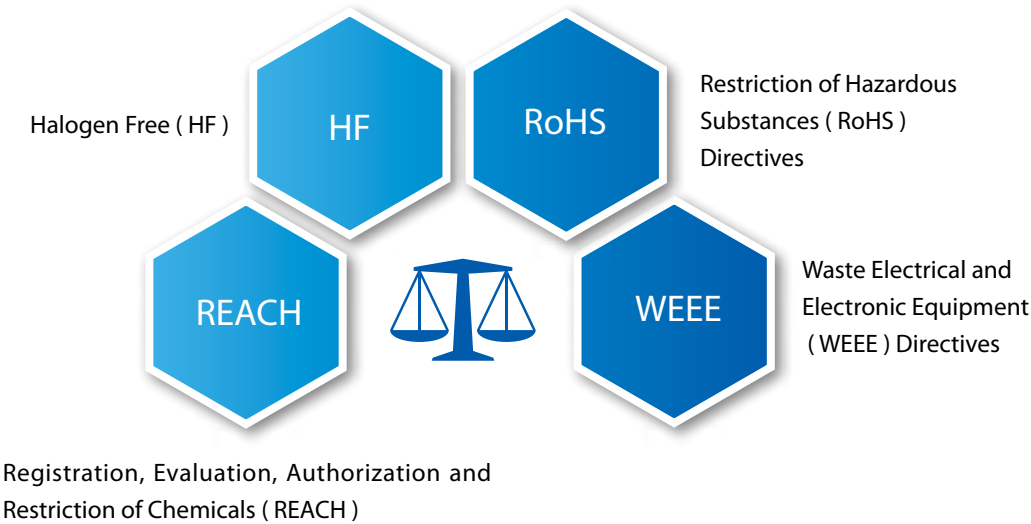


### Phison's Energy-efficient Products
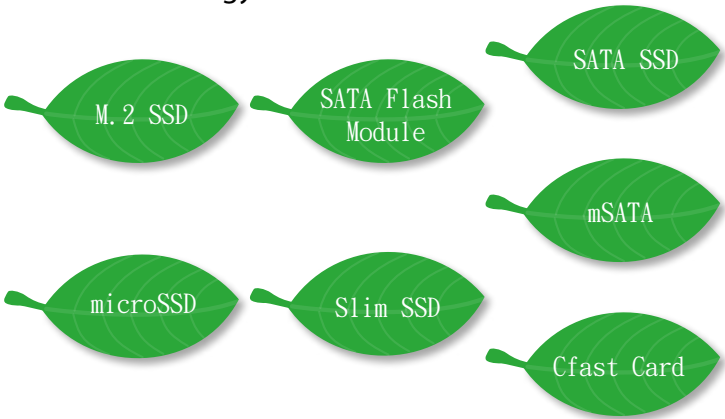


Device Sleep (DEVSLP) mode
Phison's DEVSLP-compatible SATA SSD stays connected even when most of power was cut off. It prevents electricity waste, and prolong battery life in portable systems.In DEVSLP mode, Phison's SSD can only consume less 5mW which is much lower than general device in standby mode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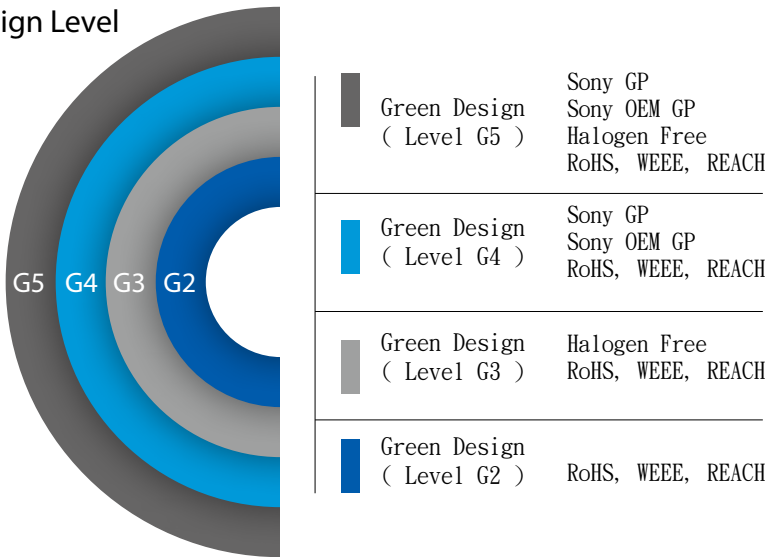
## International Environmental Legislation

HF

Halogen Free ( HF )

RoHS

Restriction of Hazardous Substances ( RoHS ) Directives

REACH

WEEE

Waste Electrical and Electronic Equipment ( WEEE ) Directives

Registration, Evaluation, Authorization and Restriction of Chemicals ( REACH )

## 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

G5  G4  G3  G2

| Green Design ( Level G5 ) | Sony GP Sony OEM GP Halogen Free RoHS, WEEE, REACH |
| Green Design ( Level G4 ) | Sony GP Sony OEM GP RoHS, WEEE, REACH |
| Green Design ( Level G3 ) | Halogen Free RoHS, WEEE, REACH |
| Green Design ( Level G2 ) | RoHS, WEEE, REACH |

## 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% |

USB2.0 HB100 XGB XX XXXX
RF security tag included
Box of 5 units

ECMMD8GHB100

RoHS

Venture

## 8.4 Green Supply Chain Management

**115** suppliers signed agreements ensuring compliance with the hazardous substance-free requirement.

**36** Phison suppliers that signed the Agreement of Corporate Environmental Responsibility

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 115 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 2015, 36 suppliers have signed and returned the declaration.

In addition, 86% 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.
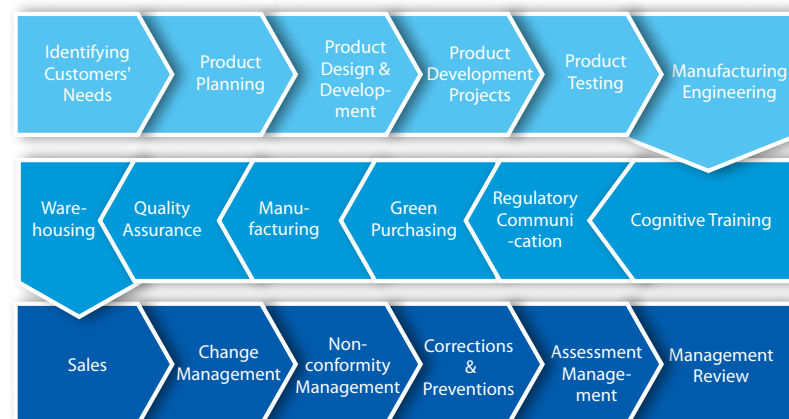
### Supplier Signed the Quality and Purchasing Contract Rate

14%

86%

■ Signed(215) ■ Not signed (34)
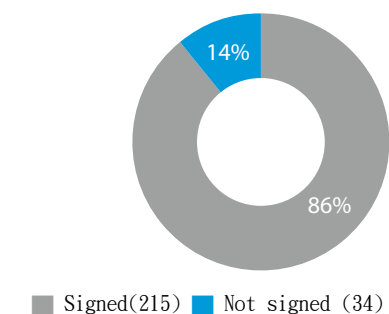
For supplier evaluation, an audit is carried out every six months to regularly assess how well supplier quality, pricing, delivery, management, process and technologies conform to Phison requirements and rules. At the same time, suppliers must provide documentation on "Hazardous Substance Management 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.

Identifying Customers' Needs → Product Planning → Product Design & Development → Product Development Projects → Product Testing → Manufacturing Engineering

Ware-housing → Quality Assurance → Manu-facturing → Green Purchasing → Regulatory Communi-cation → Cognitive Training

Sales → Change Management → Non-conformity Management → Corrections & Preventions → Assessment Manage-ment → Management Review

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 real-time 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 132 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

Overseas 22%

Domestic 78%
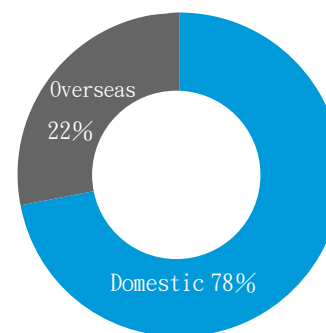
**Local Purchasing Policy**

Due to factors such as location, cooperativeness, timeliness and place of manufacture attributes, the ratio of local purchasing is relatively high.

### Raw Materials Weight and Proportion
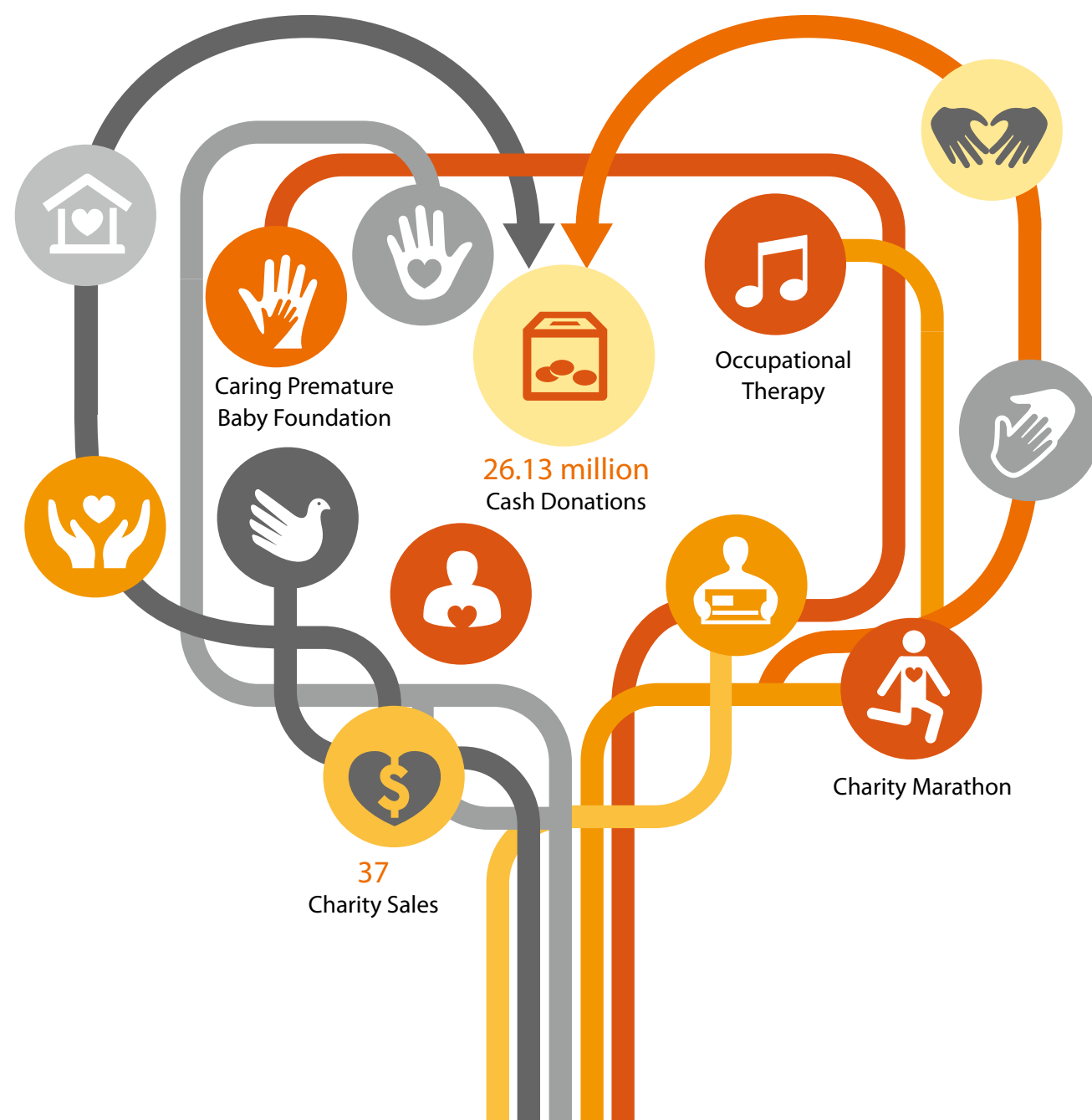
Casing 14.51%

Packaging 33.02%

Electronic parts 52.47%
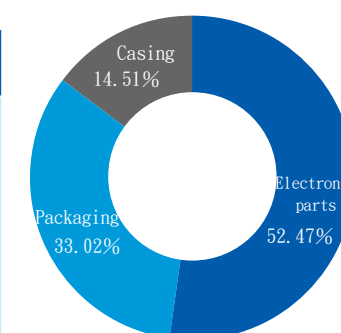
| Raw Materials Weight and Proportion | |
|---|---|
| Raw Material | Weight |
| Electronic parts | 105.75 tons |
| Packaging | 66.55 tons |
| Casing | 29.25 tons |
| Total | 201.55 tons |

# 9 Spreading Goodwill

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

Caring Premature
Baby Foundation

Occupational
Therapy

**26.13 million**
Cash Donations

Charity Marathon

**37**
Charity Sales

# 9 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

NT$ 12.06 million — Total amount of Phison's cash donations to academic institutions

NT$ 14.07 million — Total amount of Phison's cash donations to social welfare organizations

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 |
|---|---|---|
| 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 |
| 2014 | Bureau of Social Affairs of Kaohsiung City Government | NT$3 million Donation for the incident of Kaohsiung gas explosion. |
| | Zhu Ming Teaching Foundation, AISEC, Epoch, CSMOT, CPMAH, WLEF, NTHU, Spring Foundation of NCTU, NTUT, Ming Chuan, NTUA, NTUST etc. | Promoting the communication between industries and universities, sponsorship of various activities and seminars, supports of school societies in order to encourages students to cultivate love-and- charity mindedness, and actively participate in public, cultural affairs as well as international exchange. |
| | Friends of the Police Association, CWLF, NTUH, CCF, Eden, Syin-Lu, Hwa Yen, Hsin Miao, Holy Family for Special Education, Yu An Children's Home, Liver Disease Prevention & Treatment Foundation etc. | Phison has donated fundings to support the police , in order to prevent crime committing, and strengthen law enforcement and cooperation between police and citizens. Moreover, Phison has also donated emergency-assistance grants to NTUH for Liver Disease Prevention & Treatment Foundation as well as free liver health screening. Inaddition, Phison has supported charity donation, increased the expenditure of social welfare in order to improve care environments |
| | National Chiao Tung University | To express gratitude to his alma mater, Phison's founder has donated endowments to NCTU year by year for the renovation of the Jan Qi Biomedical Engineering Building on the Bo-ai Old Campus. |

### 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 2015

| Type | Recipient | Total ( NTD ) |
|---|---|---|
| Academic | National Chiao Tung University - Program | 3,817,000 |
| | National Chiao Tung University - Seminar | 3,625,000 |
| | Epoch Foundation | 1,336,000 |
| | National Tsing Hua University | 690,000 |
| | Spring Foundation of NCTU | 530,000 |
| | SINOCON Industrial Standards Foundation | 500,000 |
| | Zhu Ming Teaching Foundation | 330,000 |
| | National Hsinchu University of Education | 320,000 |
| | Chinese Professional Management Association of Hsinchu | 200,000 |
| | Taiwan Techmakers Association | 200,000 |
| | Taipei Medical University | 150,000 |
| | National Taiwan Sprot University | 100,000 |
| | National Chengchi University | 72,000 |
| | Chinese Institute of Automation Engineers | 50,000 |
| | National Taiwan University | 40,000 |
| | National Taipei University of Technology | 30,000 |
| | Ming Chuan University | 30,000 |
| | Miaoli Sanyi Ciao Cheng Elementary School Parents Association | 26,000 |
| | National Cheng Kung University Foundation | 13,000 |
| Total amount of academic donations | | 12, 059, 000 |

## Total Social Donations in 2015

| Type | Recipient | Total ( NTD ) |
|---|---|---|
| Social | National Taiwan University Hospital Hsinchu Branch | 3,167,619 |
| | Criminal Investigation Bureau | 2,430,100 |
| | The Child Welfare League Foundation | 1,398,500 |
| | Miaoli County Friends of Police Association | 1,200,000 |
| | Taiwan Health Foundation | 1,142,000 |
| | Miaoli County Government | 1,100,000 |
| | Hsinchu County Police Bureau | 782,858 |
| | Taiwan Fund for Children and families , Miaoli Branch Office | 600,000 |
| | Taiwan Fond for Children and Families, Hsinchu Country Branch Office | 450,000 |
| | Syin-Lu Social Welfare Foundation | 300,000 |
| | Boyo Social Welfare Foundation | 300,000 |
| | Eden Social Welfare Foundation, Hsinchu Branch Office | 250,000 |
| | Hsin Miao Development Center | 220,000 |
| | Yu An Children's Home, Miaoli County | 200,000 |
| | Holy Family for Special Education | 200,000 |
| | Premature Baby Foundation | 150,000 |
| | Huashan Foundation | 100,000 |
| | Hsinchu City Government | 50,000 |
| | Liver Disease Prevention & Treatment Foundation | 30,000 |
| Total amount of social donations | | 14, 071, 077 |

## 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, 2011-2015

| 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 | Pre-school 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 | Disadvanted 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 37 charity sales were hosted in 2015.

| Charity sales groups | Charity sales merchandise |
|---|---|
| Hsin Miao Development Center | Foods, commodities |
| Huashan Foundation | Foods, commodities, yearly raised festival gift |
| Hwa Yen Development Center | Potted orchids, life articles, commodities |
| Yu An Children's Home | Foods, moon cakes gift boxes& commodities |
| Autism Foundation | Foods& commodities |
| Miaoli TFCF | Raising college-cum-senior high school scholarships |
| Holy Family for Special Education | Handmade dumplings, snack,commodities |
| Syin-Lu Foundation | Raised piggy banks, Foods& commodities |
| Hsinchu TFCF | Raise scholarships, Foods& commodities |

## 2015 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 |
| Hsinchu TFCF | 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 2014, Phison hosted charity marathon campaign and offered disadvantaged groups benefits. Moreover, Phison provided them with free stalls as well as booth and gave subsidies to those disadvantaged groups involved in order to enhance better understanding, acceptance and support among the general public. In this way, charitable habit can be formed and the spread of warm love to local community can be anticipated.



## 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 |
| 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 e-Sustainability Initiative |
| eMMC | Embedded MultiMedia Card |
| LDPC | Low-Density Parity-Check |
| MLC | Multi-Level Cell |
| 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 |
| DSP | Digital signal processing |
| UFS | Universal Flash Storage |
| 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 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 |
| Cfast Card | CompactFast Card |
| M.2 SSD | M.2 NGFF SSD<br>NGFF, Next Generation Form Factor |
| IOPS | Input/Output Operations Per Second |

## GRI G4 Guideline Index

### General Standard Disclosures

| Strategy and Analysis | | Disclosed Chapter | Page |
|---|---|---|---|
| G4-1 | Provide a statement from the most senior decision-maker of the organization | 2 From the Chairman | 004 |
| G4-2 | Provide a description of key impacts, risks, and opportunities. | 4.3 Management Challenges<br>5.5 Risk Management | 026<br>041 |

| Organizational Profile | | Disclosed Chapter | Page |
|---|---|---|---|
| G4-3 | Name of the organization. | 1 About This Report | 002 |
| G4-4 | Primary brands, products, and/or services. | 4.1 Business Model | 017 |
| G4-5 | Location of the organization's headquarters. | 1 About This Report | 002 |
| G4-6 | Number of countries where the organization operates, and names of countries. | 4.2 Global Operations | 023 |
| G4-7 | Nature of ownership and legal form. | 4 About Phison | 013 |
| G4-8 | Markets served. | 4.2 Global Operations | 023 |
| G4-9 | Scale of the organization. | 4 About Phison | 013 |
| G4-10 | Number of employees. | 4 About Phison | 013 |
| G4-11 | Percentage of total employees covered by collective bargaining agreements. | Phison don't have trade union. | |
| G4-12 | Organization's supply chain. | 4 About Phison | 013 |
| G4-13 | Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain. | No significant changes. | |
| G4-14 | Whether and how the precautionary approach or principle is addressed by the organization. | 8 Environmental Responsibility | 070 |
| G4-15 | List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses. | No related event. | |
| G41-6 | List memberships of associations (such as industry associations) and national or international advocacy. | 4 About Phison | 013 |

| Identified Material Aspects and Boundaries | | Disclosed Chapter | Page |
|---|---|---|---|
| G4-17 | List all entities included in the organization's consolidated financial statements or equivalent documents. | 4 About Phison | 013 |
| G4-18 | Explain the process for defining the report content and the Aspect Boundaries. | 1 About This Report | 002 |
| G4-19 | List all the material Aspects identified in the process for defining report content. | 3 Communication with Stakeholders | 007 |
| 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-editting. | |
| 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 |
| G4-25 | Report the basis for identification and selection of stakeholders with whom to engage. | 3 Communication with Stakeholders | 007 |
| G4-26 | Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | 5.1 Board of Directors and Supervisors | 035 |
| G4-27 | Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns. | 3 Communication with Stakeholders | 007 |

| Report Profile | | Disclosed Chapter | Page |
|---|---|---|---|
| G4-28 | Reporting period. | 1 About This Report | 002 |
| G4-29 | Date of most recent previous report. | 2014 | |
| G4-30 | Reporting cycle. | Annual | |
| G4-31 | Provide the contact point for questions regarding the report or its contents. | 1 About This Report | 002 |
| G4-32 | Report the 'in accordance' option the organization has chosen. | 1 About This Report | 002 |
| G4-33 | Report the organization's policy and current practice with regard to seeking external assurance for the report. | 1 About This Report | 002 |

| Governance | | Disclosed Chapter | Page |
|---|---|---|---|
| G4-34 | Report the governance structure of the organization. | 5 Corporate Governance | 034 |
| 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 |
| G4-42 | Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts. | 5.1 Board of Directors and Supervisors | 035 |
| G4-43 | Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics. | 5 Corporate Governance | 034 |
| G4-44 | Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. | 5 Corporate Governance | 034 |
| G4-45 | Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities | 1 About This Report | 002 |
| G4-46 | Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics. | 3 Communication with Stakeholders | 007 |

## General Standard Disclosures

### Governance

| | | Disclosed Chapter | Page |
|---|---|---|---|
| G4-47 | Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities. | 3 Communication with Stakeholders | 007 |
| G4-48 | Report the highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered. | 1 About This Report | 002 |
| G4-49 | Report the process for communicating critical concerns to the highest governance body. | 5 Corporate Governance | 034 |
| G4-50 | Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them. | 3 Communication with Stakeholders | 007 |
| G4-51 | Report the remuneration policies for the highest governance body and senior executives. | 5.4 Remuneration Committee | 040 |
| G4-52 | Report the process for determining remuneration. | 5.4 Remuneration Committee | 040 |
| 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 2015. | |
| 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 2015. | |
| 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 Empoyee 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 (continued)

| | | 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 2015. | |
| EN25 | Weight of transported, imported, exported, ot treted waste deemed hazarouds under the terms of the basel convention Annex I, II, and VII, and percentage of transported waste shipped 8.1 EHS Policy | ● | Phison has no offshore transport. Waste electronoc components and scraps are finally recycled or reused. | 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 2015. | |
| 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 2015. | |

### Labor Practices and Decent Work

| | | Status | Disclosed Chapter | Page |
|---|---|---|---|---|
| LA1 | Total number and rates of new empoloyee hiried 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 potenial negative impacts for labor practives in the supply chain and actions taken. | ● | No plans for labor practices in the supply chain 2015. | |
| LA16 | Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms. | ● | No labor practices related course in 2015. / 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. | |
| HR3 | Total number of incidents of discrimination and corrective actions taken. | ● | No human rights related training in 2015. / 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<br>8.4 Green Supply Chain Management | 054<br>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 2015. | |
| HR8 | Total number of incidents of violations involving rights of indigenous peoples and actions taken. | ● | No related event in 2015. | |
| 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 2015. | |
| HR11 | Significant actual and potential negative human rights impacts in the supply chain and actions taken. | ● | No relatd plan in 2015. | |
| HR12 | Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms. | ● | No human rights related grievance in 2015.<br>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 2015. | |
| 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 violation of laws related fines in 2015. | |
| SO9 | Percentage of new suppliers that were screened using criteria for impacts on society. | ● | No related plan in 2015. | |
| SO10 | Significant actual and potential negative impacts on society in the supply chain and actions taken. | ● | No related plan in 2015. | |
| 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 2015. | |

| 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 2015. | |
| 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 2015.<br>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 2015.<br>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 2015.<br>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 2015.<br>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 |

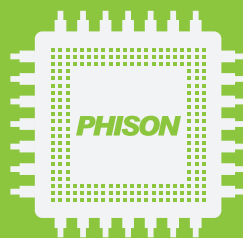| Type | The Ten Principles | Related Chapters of the Report | Page |
|---|---|---|---|
| Labor | The elimination of discrimination in respect of employment of occupation and employment. | 7.2 Employee Policy | 054 |
| Environment | Support a precautionary approach to environmental challenges. | 8.1 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<br>8.3 Green Products | 047<br>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<br>5 Corporate Governance | 007<br>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 |
| | Fundamental principles and rights at work | 7.2 Employee Policy | 054 |
| Labor practices | Employment and employment relationships | 7.1 Employee Overview<br>7.2 Employee Policy | 049<br>054 |
| | Conditions of work and social protection | 7.2 Employee Policy | 054 |
| | Social dialogue | 7.3 Compensation and Welfare<br>3 Communication with Stakeholders<br>7.5 Employee Communications | 055<br>007<br>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 |
| | Protection of the environment & diversity, and restoration of natural habitats | No related event and no operation in nature reserve. | |
| Fair operating practices | 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<br>6.3 Intellectual Property Management | 041<br>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 involvemnt 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 |
| | Technoloy development | 6 Innvative 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 |

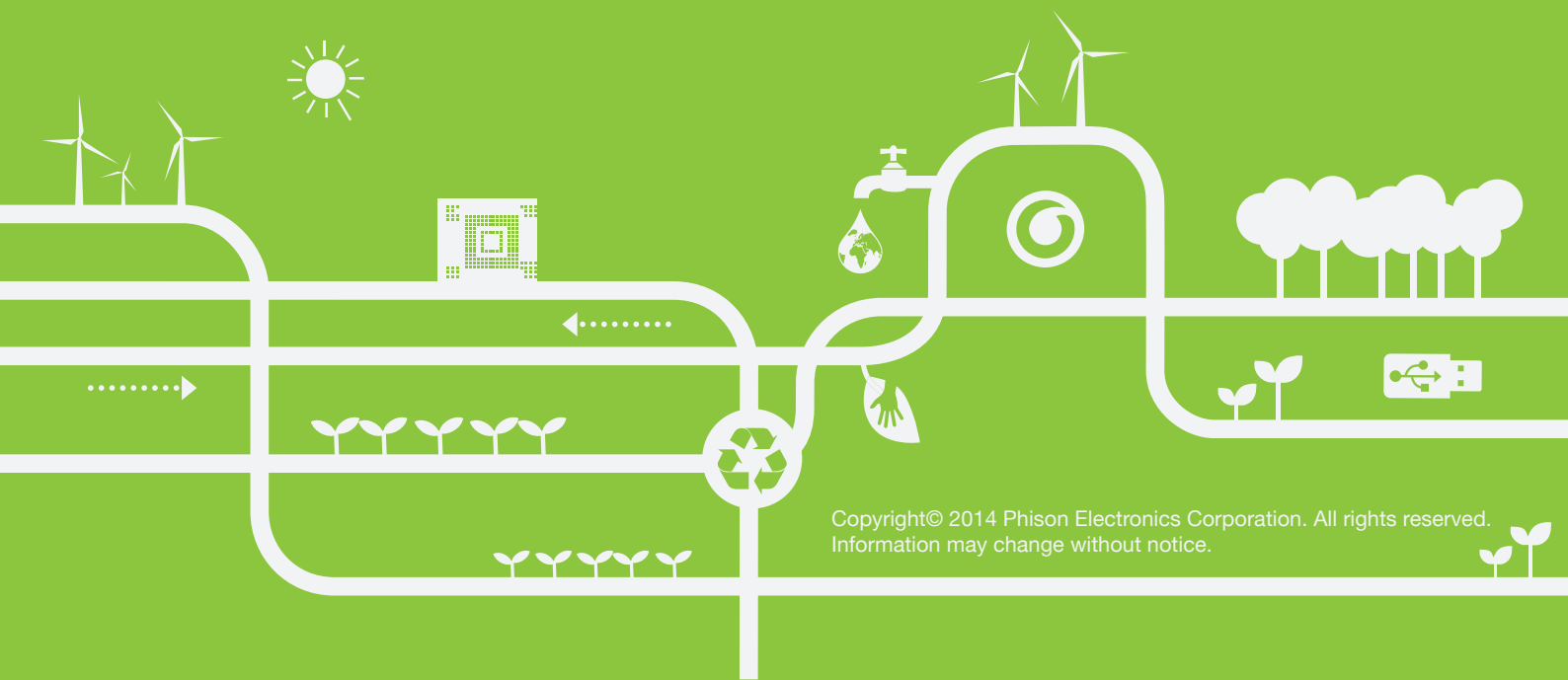# Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies

| Article | Content | Related Chapters | Page |
|---|---|---|---|
| Chapter I | 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.<br>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.<br>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:<br>1. Exercise corporate governance.<br>2. Foster a sustainable environment.<br>3. Preserve public welfare.<br>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.<br>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<br>5 Corporate Governance | 004<br>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.<br>The board of directors of a TWSE/GTSM listed company is advised to include the following matters in the company's performance of its corporate social responsibility initiatives:<br>1. Identifying the company's corporate social responsibility mission or vision, and declaring its corporate social responsibility policy, systems or relevant management guidelines;<br>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<br>3. Enhancing the timeliness and accuracy of the disclosure of corporate social responsibility information.<br>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.<br>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.<br>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<br>5.4 Remuneration Committee | 039<br>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 a proper environment management systems based on the characteristics of their industries. Such systems shall include the following tasks:<br>1. Collecting sufficient and up-to-date information to evaluate the impact of the company's business operations on the natural environment.<br>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.<br>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<br>8.3 Green Products | 077<br>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<br>8.3 Green Products | 077<br>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:<br>1. Reduce resource and energy consumption of their products and services.<br>2. Reduce emission of pollutants, toxins and waste, and dispose of waste properly.<br>3. Improve recyclability and reusability of raw materials or products.<br>4. Maximize the sustainability of renewable resources.<br>5. Enhance the durability of products.<br>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.<br>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:<br>1. Direct greenhouse gas emissions: emissions from operations that are owned or controlled by the company.<br>2. Indirect greenhouse gas emissions: emissions resulting from the generation of externally purchased or acquired electricity, heating, or steam.<br>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.<br>A TWSE/GTSM listed company, to fulfill its responsibility to protect human rights, shall adopt relevant management policies and processes, including:<br>1. Presenting a corporate policy or statement on human rights.<br>2. Evaluating the impact of the company's business operations and internal management on human rights, and adopting corresponding handing processes.<br>3. Reviewing on a regular basis the effectiveness of the corporate policy or statement on human rights.<br>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.<br>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.<br>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.<br>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.<br>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.<br>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.<br>TWSE/GTSM listed companies shall, by reasonable means, inform employees of operation changes that might have material impacts. | 7.5 Employee Communications | 065 |
| 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.<br>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<br>8.3 Green Products | 039<br>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.<br>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 26 | 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.<br>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.<br>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. | 8.4 Green Supply Chain Managemtnt | 084 |

| Article | Content | Related Chapters | Page |
|---|---|---|---|
| Article 27 | 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.<br>TWSE/GTSM listed companies are advised to, through commercial activities, non-cash property endowments, volunteering service or other charitable professional services, participate in events held by citizen organizations, charities and local government agencies relating to community development and community education to promote community development. | 9 Spreading Goodwill | 086 |
| Chapter 5 | Enhancing Disclosure of Corporate Social Responsibility Information | | |
| Article 28 | 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.<br>Relevant information relating to corporate social responsibility which TWSE/GTSM listed companies shall disclose includes:<br>1. The policy, systems or relevant management guidelines, and concrete promotion plans for corporate social responsibility initiatives, as resolved by the board of directors.<br>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.<br>3. Goals and measures for realizing the corporate social responsibility initiatives established by the companies, and performance in implementation.<br>4. Major stakeholders and their concerns.<br>5. Disclosure of information on major suppliers' management and performance with respect to major environmental and social issues.<br>6. Other information relating to corporate social responsibility initiatives. | 5 Corporate Governance | 034 |
| Article 29 | 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:<br>1. The policy, system, or relevant management guidelines and concrete promotion plans for implementing corporate social responsibility initiatives.<br>2. Major stakeholders and their concerns.<br>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.<br>4. Future improvements and goals. | 1 About This Report | 002 |
| Chapter 6 | Supplementary Provisions | | |
| Article 30 | 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. | 5 Corporate Governance | 034 |

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