





# Contents

1 About This Report	002
2 From the Chairman	004
3 Communication with Stakeholders	007



4 About Phison	011
4.1 Business Model	017
4.2 Global Operations	023
4.3 Operation Challenges	026
4.4 Cooperation Based on Mutual Trust	027
4.5 Customer Relationship Management	030
4.6 Honors and Awards	032



6 Innovative R&D	042
6.1 Innovative R&D Team	044
6.2 R&D Accomplishments	045
6.3 Intellectual Property Management	046
6.4 Future Research Directions	047



8 Environmental Responsibility	070
8.1 EHS Policy	072
8.2 ISO Committee	077
8.3 Green Products	081
8.4 Green Supply Chain Management	084



5 Corporate Governance	034
5.1 Board of Directors and Supervisors	035
5.2 Internal Control System	038
5.3 Ethical Management	039
5.4 Remuneration Committee	040
5.5 Risk Management	041



7 Truly Caring for Employees	048
7.1 Employee Overview	049
7.2 Employee Policy	054
7.3 Compensation and Welfare	055
7.4 Cultivation and Education	062
7.5 Employee Communications	065
7.6 Workplace Health and Safety	067



9 Spreading Goodwill	086
9.1 Charitable Donations	087
9.2 Caring for Local Communities	090
9.3 Supporting Disadvantaged Groups	091
Appendix	094

# 1 About This Report

## Reporting Period and Publication

Welcome to read the "Phison Electronics Corp. 2014 Corporate Sustainability Report". This report is to be published by Phison Electronics Corp. ("Phison"). Disclosure period is from January 1, 2014 to December 31, 2014. If anything falls outside of this period then it is noted as such as in the report. In the future, this corporate sustainability report will be published every year as a key component in the fulfillment of the company's corporate social responsibility. This report is released in both Chinese and English. For the accessibility and readability of all stakeholders, this report can be downloaded from the Phison corporate website ( Website address: [www.phison.com](http://www.phison.com) ).

## Report Basis and Scope

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

## Global Guidelines and Frameworks Reference

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

## Reporting Principles

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

All of the information and data in this report were provided by the relevant administrative, sales, finance and R&D departments. The financial report and accounting information are all publicly available information certified by chartered accountants, wherein the 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!

## Contact Information:

Phison Electronics Corp. Green and Sustainability Management Committee  
 Contact: Liu Hsiu-chin, Director  
 E-Mail: [csr@phison.com](mailto:csr@phison.com)  
 Address: No.1 and 1-1, Qun Yi Rd., Jhunan, Miaoli,  
 Taiwan 350, R.O.C.  
 TEL: 886-37-586-896  
 FAX: 886-37-587-699  
 Website: [www.phison.com](http://www.phison.com)





## 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 15 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

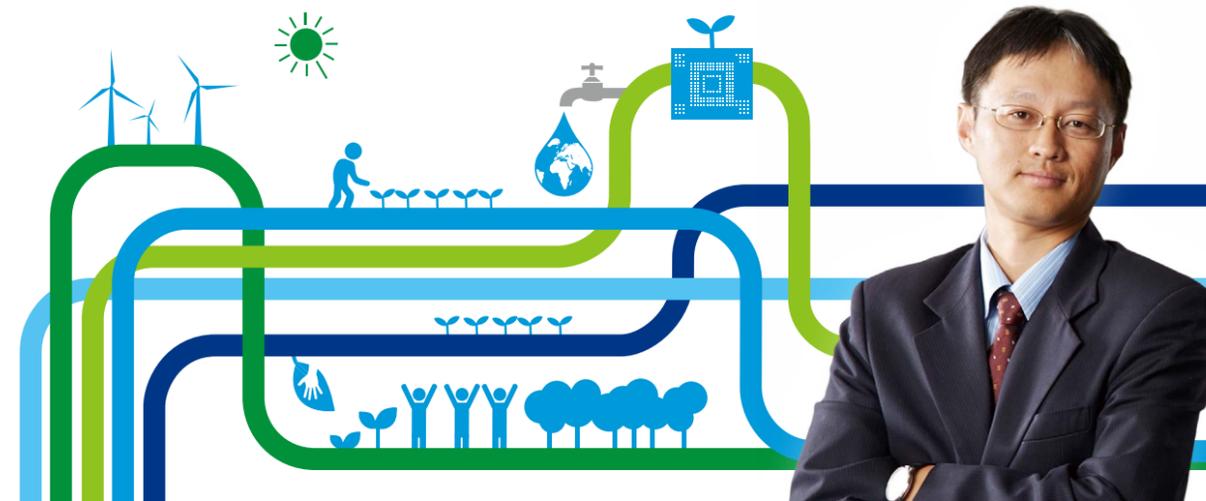
We are a publicly listed company and investors choose to invest us because we are a profitable company with excellent prospects. Where do the profits come from? This is what transparency in corporate governance is intended for. We do not publish any erroneous information that may mislead investors and 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.

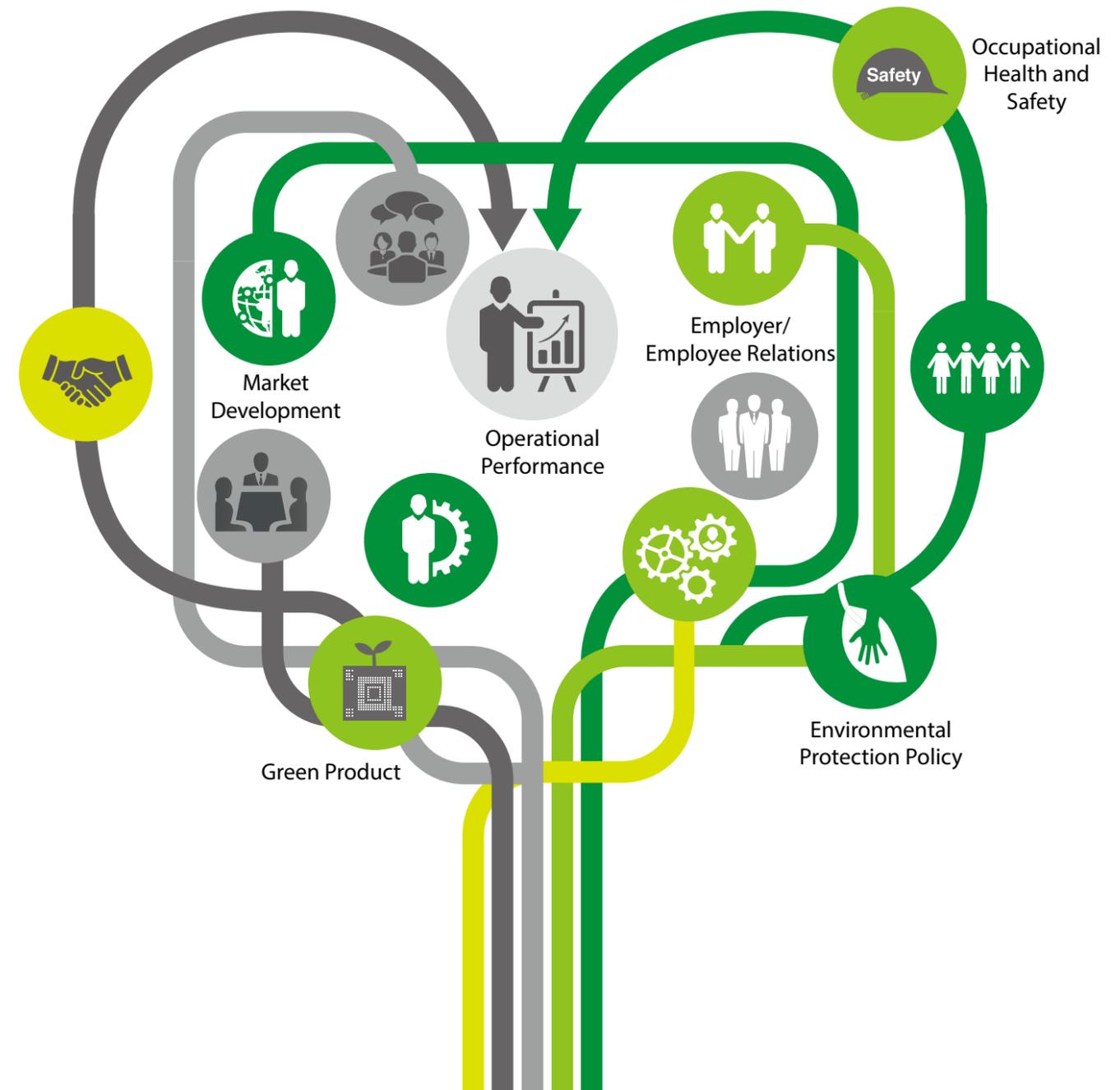
Phison employees know that they must uphold our corporate culture by not indulging in red tape, avoiding excess, rejecting kickbacks, curbing power and money games, working hard, and understand the meaning of gratitude. We often tell our employees that the only relationship in the world where there is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



# 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.

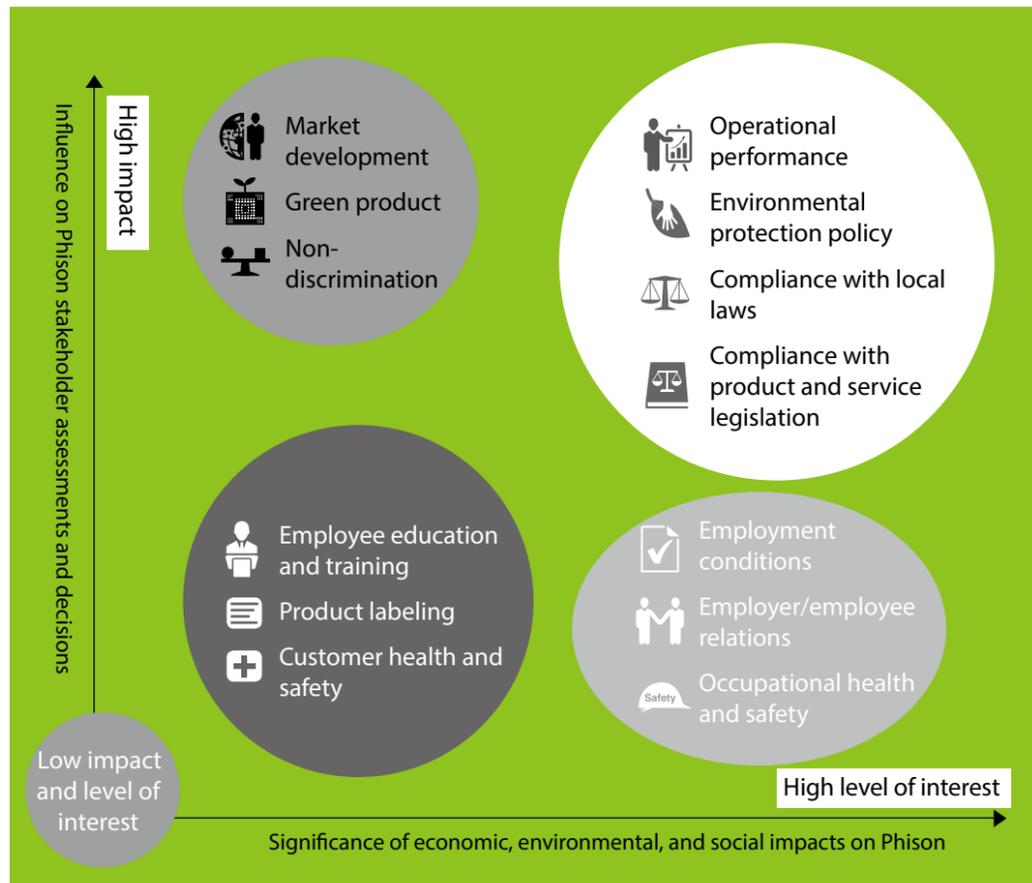
<b>Step 1</b> Refer to GRI Guidelines	With reference to the Global Reporting Initiative's Guidelines, the company drew up a list of issues that may impact on the organization's financial status, the environment and society, whereby to produce a materiality analysis questionnaire.	
<b>Step 2</b> Conduct 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.
<b>Step 3</b> 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.	
<b>Step 4</b> 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.	<ul style="list-style-type: none"> <li>Employee suggestion box ( any time )</li> <li>Forum ( ad hoc )</li> <li>New Employee satisfaction survey ( quarterly )</li> <li>Public notice ( any time )</li> <li>Chairman's mail box ( on demand )</li> <li>Inter-department communication meetings ( on demand )</li> <li>Company events ( ad hoc )</li> </ul>	Define the relevant HR policies and management activities. Learn about issues important to Phison employees and their expectations through policy formulation and management.
Customer	Sales Division	<ul style="list-style-type: none"> <li>Telephone and e-mail ( daily )</li> <li>Customer satisfaction survey ( annual )</li> <li>Customer service hotline ( on demand )</li> </ul>	The main customer contact window. Learn about issues important to Phison customers and their expectations through long-term communication and interaction with the customer.
Supplier	Quality Assurance Division Plant management Dept. Production Division	<ul style="list-style-type: none"> <li>Supplier online platform ( any time )</li> <li>Supplier evaluation ( every 6 months )</li> </ul>	Formulate supplier-related policies and guidelines. Learn about the nature of supplier products and services through two-way communications.
Investor	Shareholders Service Dept. Finance & Accounts Dept.	<ul style="list-style-type: none"> <li>General shareholders' meeting ( annual )</li> <li>Extraordinary shareholders' meeting ( ad hoc )</li> <li>Institutional investor conference ( ad hoc )</li> <li>Investor mailbox ( any time )</li> </ul>	To learn what's more important to general shareholders in the future development of Phison via periodical/ irregular shareholders' meeting, publication of annual reports, the investors' mailboxes, and information disclosure with transparency
Government agencies	IP/Legal office Administration Division	<ul style="list-style-type: none"> <li>Law, regulation and public hearings ( ad hoc )</li> <li>Official correspondence ( ad hoc )</li> </ul>	Comply with regulations and guidelines issued by government agencies. Also engage in ad hoc communication with government agencies to learn about the direction of regulations amendment.
Local community	Administration Division	<ul style="list-style-type: none"> <li>Local community complaints ( any time )</li> <li>Participation in community events ( ad hoc )</li> <li>Hosting of charity events ( ad hoc )</li> </ul>	The main contact window for communicating with local people, learn what issues at Phison the local community concern about by communication and discussion.



### Materiality Analysis Matrix



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



### Response to The Top 10 Sustainability Issues

Sustainability Issue	Inner	Outer	Response Chapter	Description	Stakeholders	Performance
Operational performance	AB	D		Operational performance and investment profit / loss	Employee Investor	Revenue of \$33 billion, net profit after tax of \$3.2 billion, total assets of \$22.8 billion, EPS of \$17.48. 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 billion to be invested in 2015 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 2014.
Non-discrimination	AB	D		Policies and measures for preventing all kinds of discrimination	Employee	All forms of discrimination are explicitly banned in our labor policy and "Prevention and grievance handling guidelines for sexual harassment and gender-based discrimination" have been drawn up.
Employment conditions	AB	D	7. Truly Caring for Employees	Describe labor policy, type of employment and labor statistics	Employee	Labor policy and work rules defined. Employees' type of employment and manpower statistics are also presented in "7.1 Employee Overview".
Employer/employee relations	AB			Labor protection policy and practices	Employee	Human rights and employee rights declaration drawn up for occasional review and supervision by authorized units are also disclosed in "7.2 Employee Policy".

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

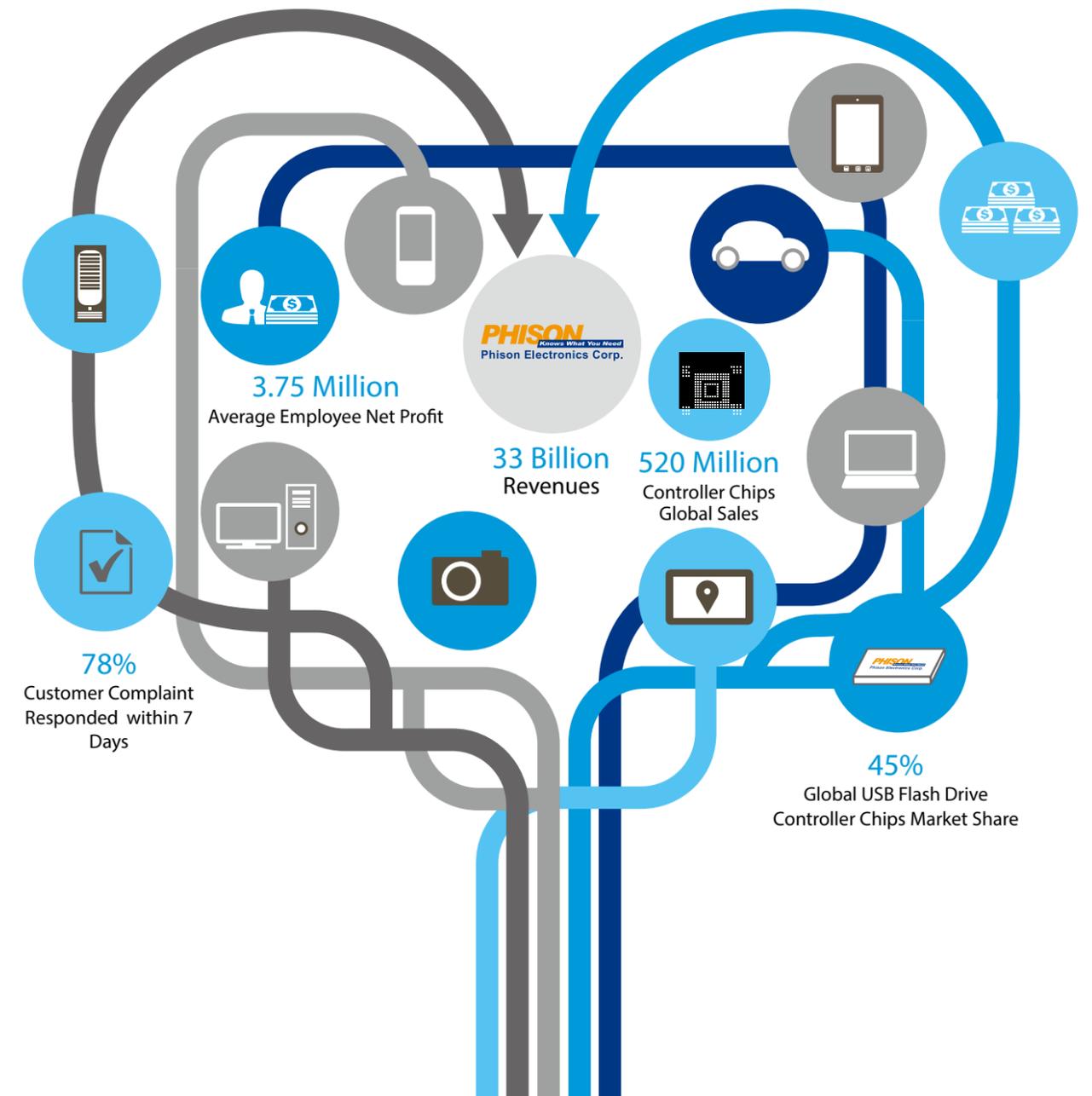
Sustainability Issue	Inner	Outer	Response Chapter	Description	Stakeholders	Performance
Occupational health and safety	AB	E	7. Truly Caring for Employees	Prevention and management of accidents, disasters and occupational disease	Employee	The OHSAS 18001 occupational health and safety management system was introduced to effectively manage potential environmental risks in the workplace and to ensure that employees can enjoy a safe, healthy working environment.
Environmental protection policy	AB	CEF	8. Environmental Responsibility	Describe environmental protection-related policies or management practices	Supplier Government	Phison has set up an ISO Committee to implement environmental protection policies and measures, including EHS policy, ISO 14001 environmental management system, greenhouse gas inventory, green products and green supply chain management.
Green product	AB	DEF		Environmental impact of products and services	Customer Supplier	Phison provides clients with complete customization solutions including green design, green purchasing, green manufacturing, green logistics, recycling and audit evaluation. Phison does comprehensive environmental impact evaluation of products and services.
Compliance with related product and service regulations	AB	EF		Have there been any violations of environmental regulations which products and services should comply with previously?	Customer Supplier Government	Phison complies with international environmental regulations such as WEEE, RoHS and REACH, and has also received SONY GP&OEM GP certification. There were no violations in 2014.

● 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 2014 Phison Sustainability Report. These will be re-examined to carry out issue adjustment and performance reviews in the next sustainability report. This will help drive corporate self-inspection and improvements, and makes Phison meet stakeholders' expectations.

## 4 About Phison

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



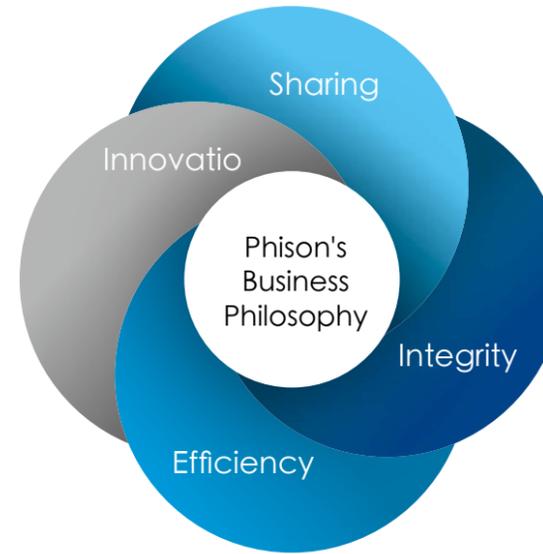
# 4 About Phison



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\$33,074,398,000
Number of Employees	852

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 2014, our controller chips global sales exceeded 520 million and revenue reached NT\$33billion. This meant that on average, each employee created 3.75 million in net profit. Phison is now the leader in controller ICs for USB flash drives, SD ( Secure Digital ) memory cards, eMMC ( Embedded Multimedia Card ) , PATA ( Parallel Advanced Technology Attachment ) , SATA ( Serial Advanced Technology Attachment ) , SSDs ( Solid State Disk ) and PCIe ( Peripheral Component Interconnect Express ) .



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

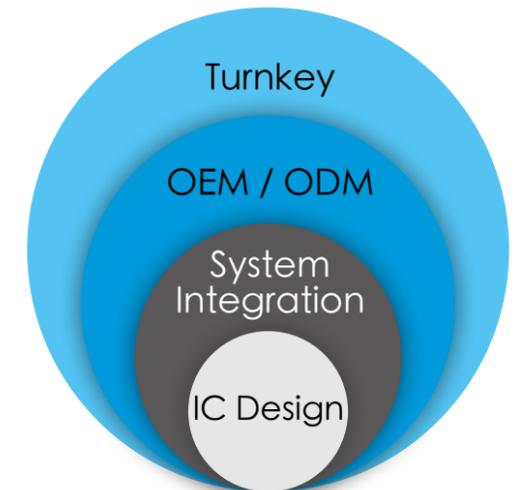
### Phison Core Value

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

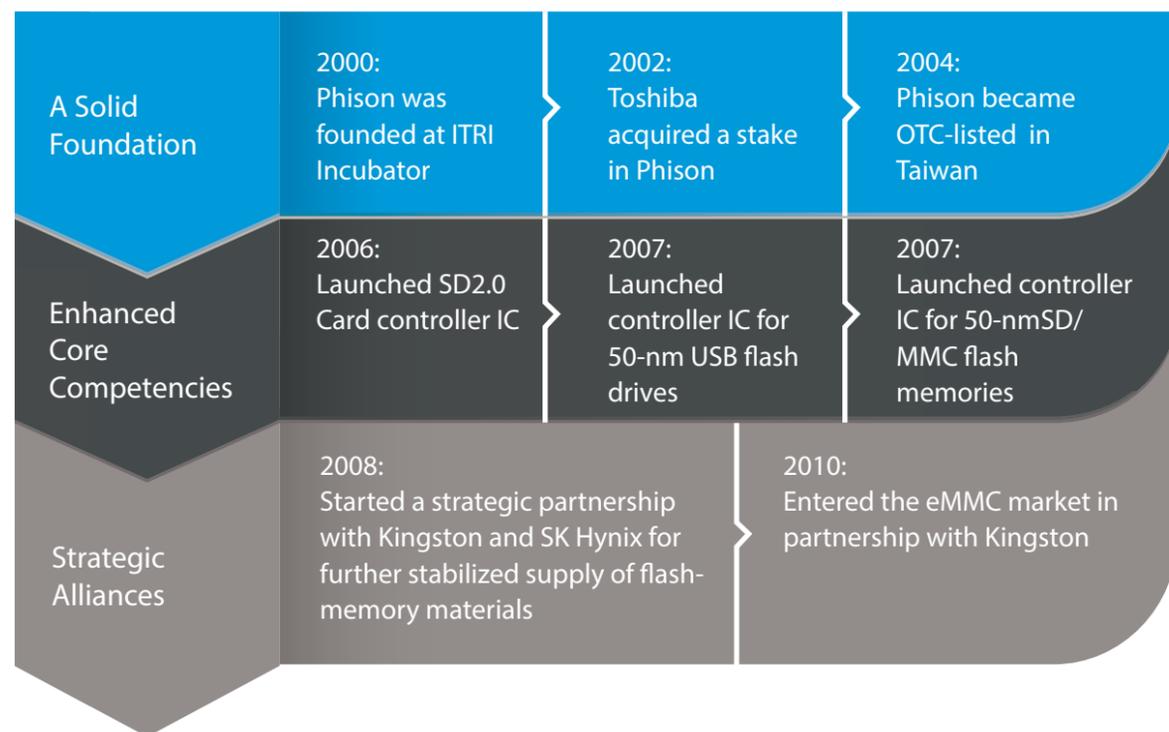
Flash Memory Controller ICs

NAND Flash Memory System Products

NAND Flash Solution



Phison Milestones



2015 Strategic Objective - Development Upgrading Year



In 2014, Phison continued to strengthen R&D investment, strategic alliance, and as well as vertical integration to lead corporation of market players.

In 2015, Phison is sustained continues investment for manufacturing research & development, especially in series of SSD & eMMC.

— Chairman Pua Khein Seng

4.1 Business Model



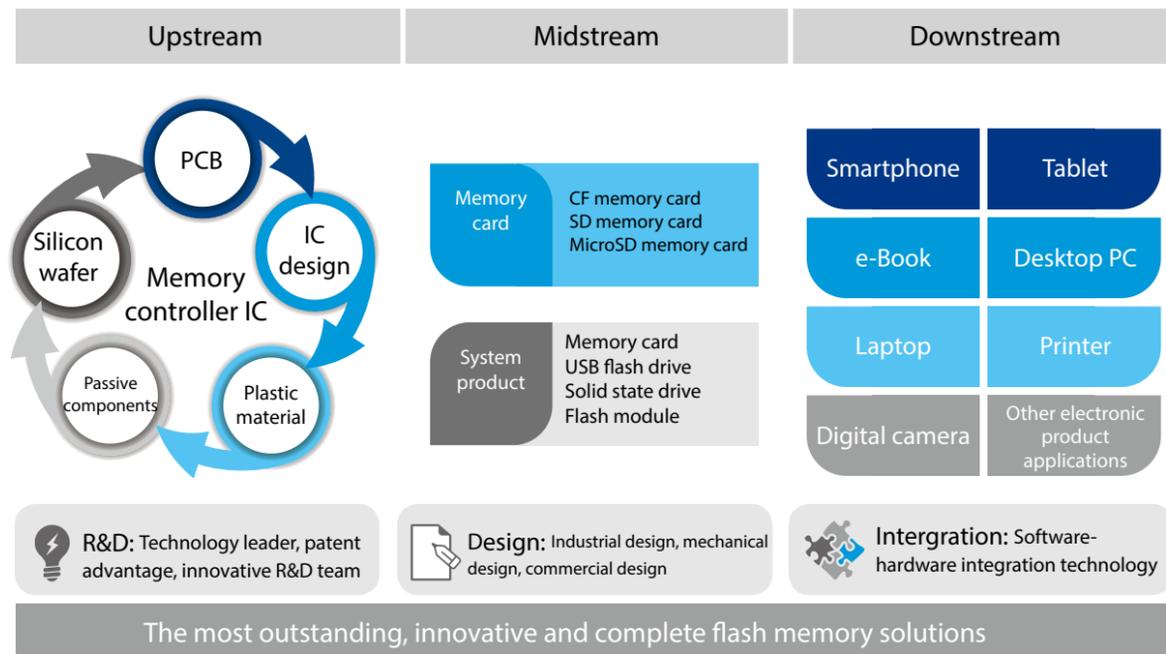
Item	2012	2013	2014
Revenue	33,091,069	32,173,947	33,074,698
Operating cost	28,063,153	26,454,018	27,485,126
Gross profit	5,027,916	5,719,929	5,589,572
Income tax expense	369,690	587,107	530,795
Employee compensation and welfare	1,401,641	1,699,702	1,864,308
Total Assets	17,360,165	19,880,811	22,808,545

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.

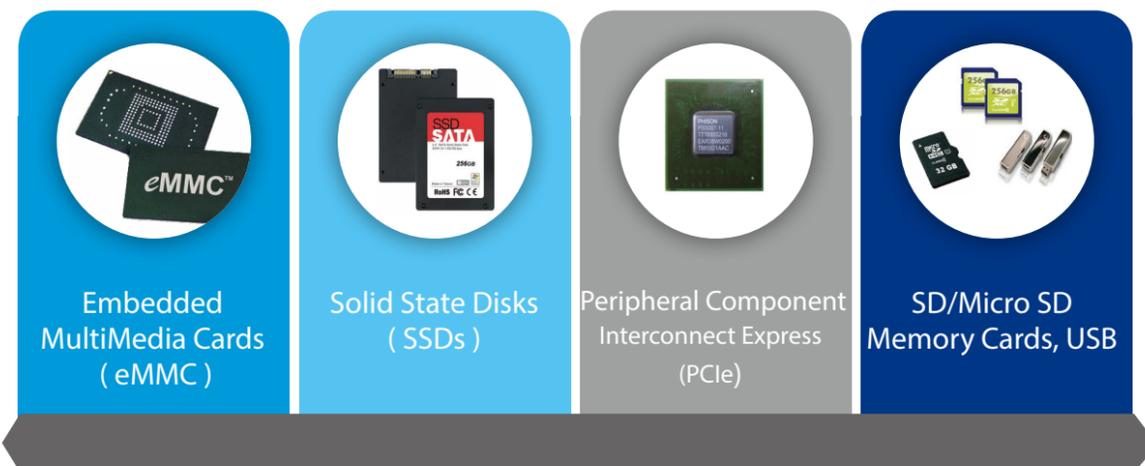
Phison Value Chain



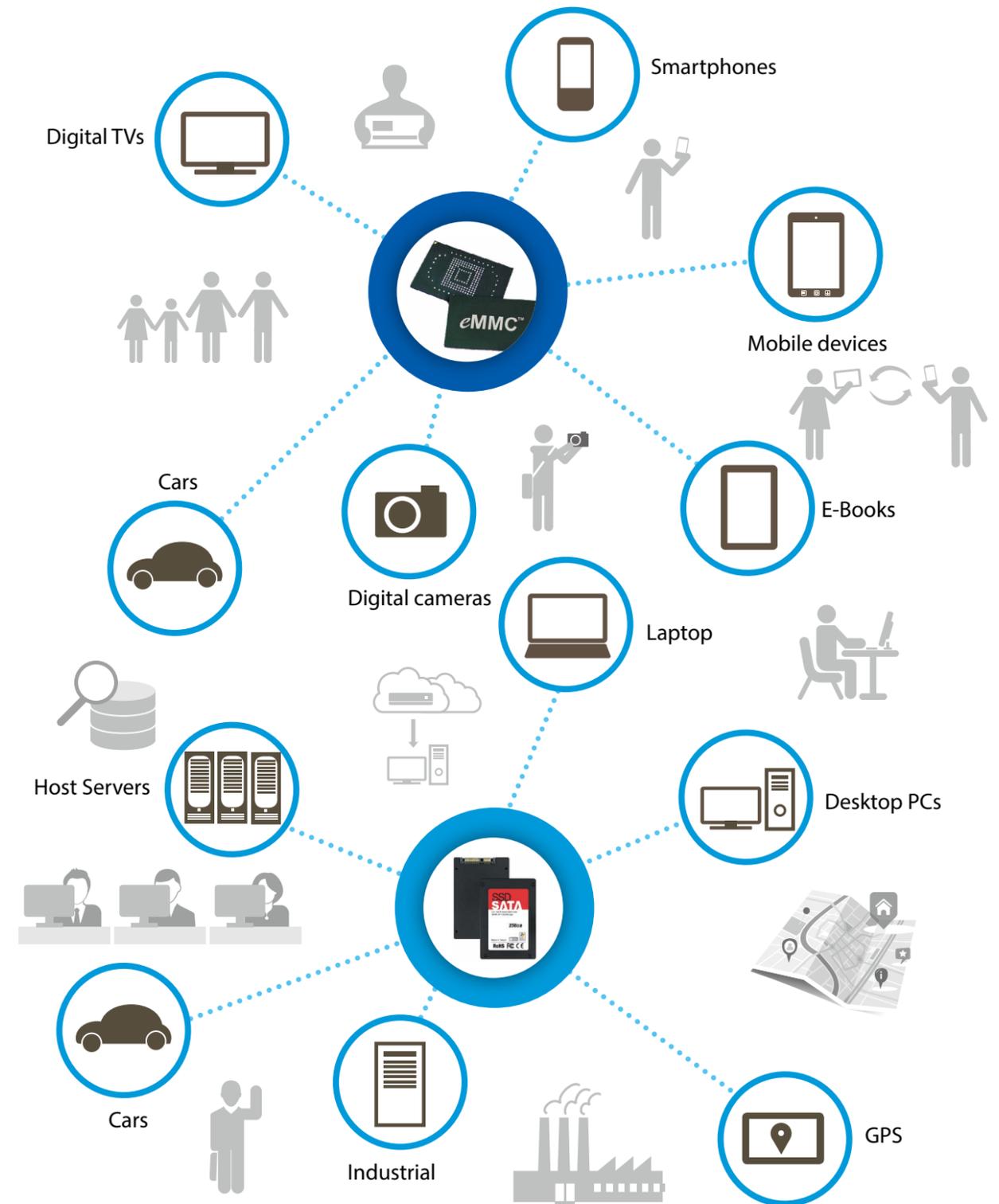
Business Overview

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 memory card.

Phison Products



Phison Products in Everyday Life



eMMC Memory Card

Embedded MultiMedia Card ( eMMC )

An eMMC mainly serves as a small-sized component of lightweight, compact mobile devices such as cell phones ( including smartphones ), tablets and laptops.

The eMMC solution's simplified memory is combined with a multi-chip packaging technology — which packages ICs for NAND Flash memory and its controller into the same chip — to reduce the number of components so there is more space left on each PCB.

The high-capacity, high-flexibility eMMC bolsters efficiency not only in read/write, boot and sleep modes, but also in dual channel data transmission, multiple magnetic domains and system security.

Phison knows that the security and privacy of data on memory devices is 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 by AES 256 ( Advanced Encryption Standard ) to ensure the security of digital content stored in memory. AES is the block 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.



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



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





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

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

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

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

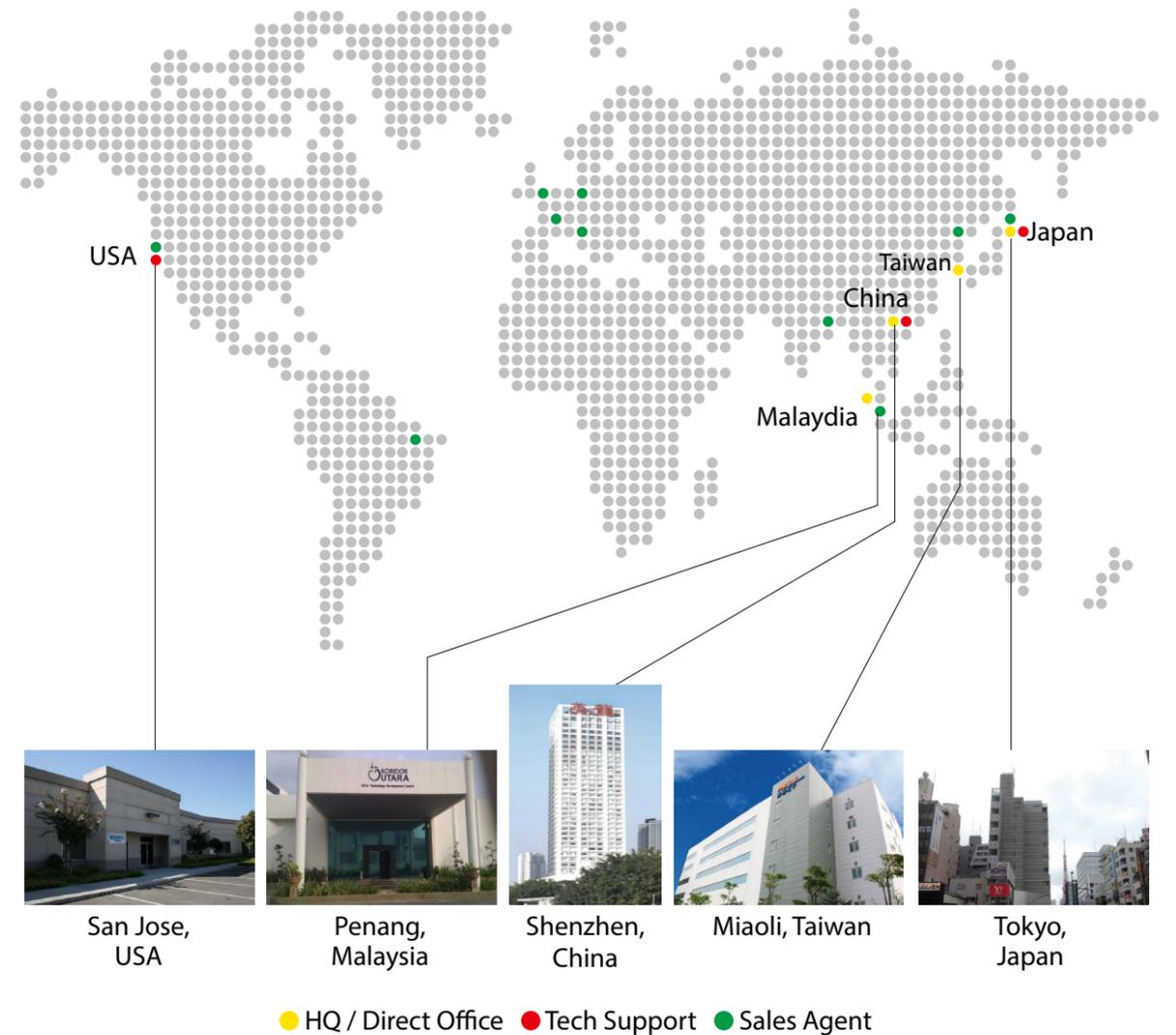
Phison could not concentrate exclusively on systems nor controller ICs. If Phison didn't make controller ICs, why would Toshiba bother backing us? We would have no value. Toshiba backed us because if we can turn a profit then we can continue to develop controller ICs. That means we can then turn around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

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

## 4.2 Global Operations

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

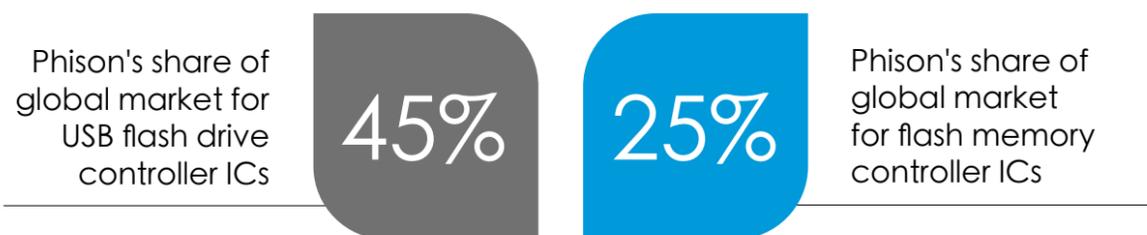
Global Operations Map



Distribution of major sales regions	
Sales regions	2014
Taiwan	42.85%
Asia	29.70%
Europe	14.95%
North America	9.6%
Oceania	1.74%
Central and South America	1.00%
Africa	0.16%

In 2014, the overall value of SSD-related controller ICs and end product shipments grew by 104% year over year. The overall value of embedded flash memory product controller IC modules also grew by around 18% year over year. We have continued to increase our products' share of market sales and this shows that Phison has adapted to the shift in NAND application products. We hope to continue to successfully expand new product markets in the future and continue to increase our market share.

### Share of the Global Memory Market

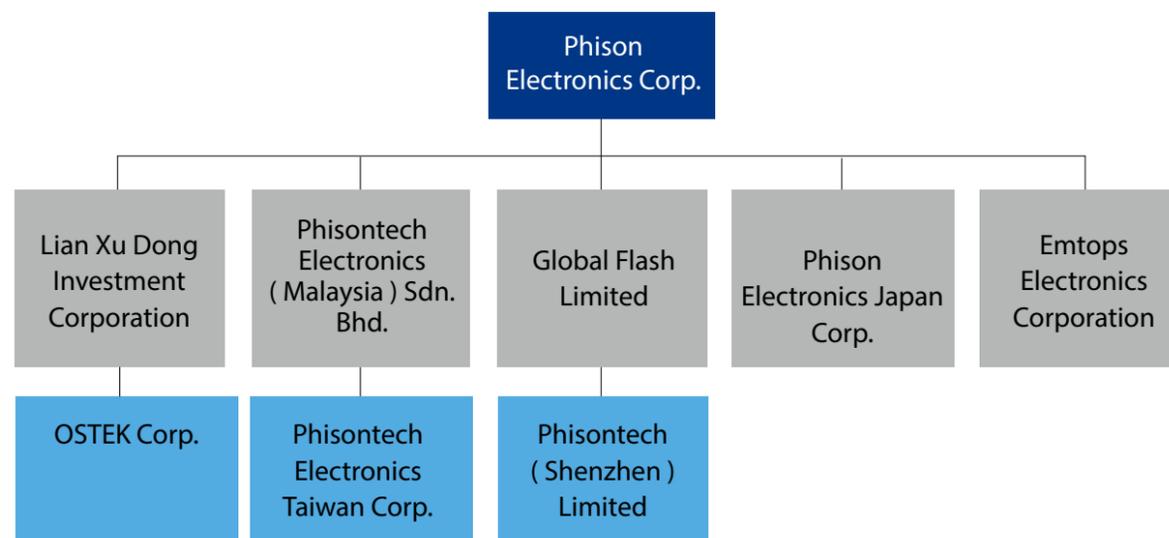


Research by the iSuppli market research firm showed that in 2012, global shipments of flash memory and USB flash drive controller ICs were 1.13 billion pieces and 360 million pieces respectively. Phison's flash memory card controller ICs accounted for 25% of the market while USB flash drive controller 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 expert foreign manufacturers.



### Investments and Affiliates

Phison Affiliate Organizational Chart



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



#### 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.

# TOSHIBA

Shareholding of Phison stock : 10.95%

#### Partner - Toshiba

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

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

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



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

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

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



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 is an industry leader in terms of brand recognition, channel strategy and purchasing power. Kingston also possesses extensive manufacturing capacity and comprehensive global distribution channels. This has helped to ensure a steady supply of flash memory and also helped to develop product sales channels and business promotion.

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

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

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

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

### 4.5 Customer Relationship Management

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



#### Customer Satisfaction

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

Up to the year of 2014, 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

78%

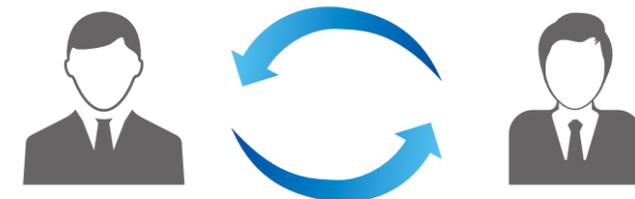
88%

Customer complaints were responded to within 7 days

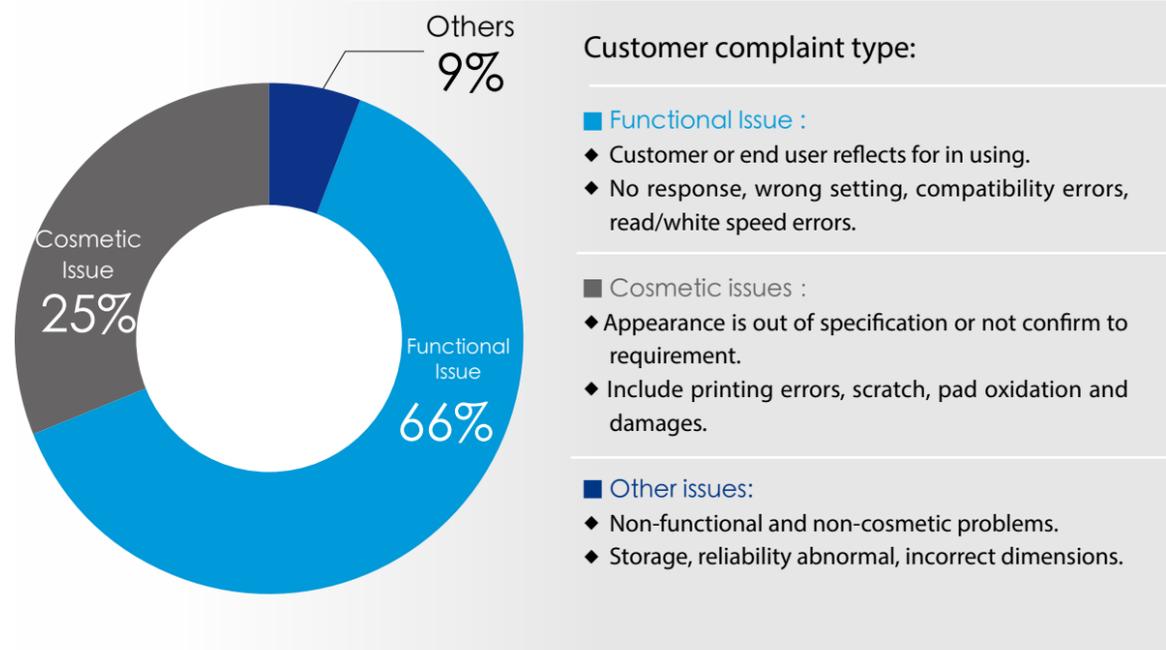
### Customer Complaints

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 2014, 78% 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



### 2014 Customer Complaint Types



### 4.6 Honors and Awards

#### 2014 Honors



Award	
	The 2rd Kim Gui Award, Shareholder Remuneration Award and Capitalization Award in Taipei Exchange
	Sony Partner Award 2014
	Panasonic 2014 Good Supplier Award
	Toshiba 2014 Award Greatest Sales Contribution
	Toshiba 2014 Award Best Partner
	<b>Social Welfare</b>
	■ Certificate of Appreciation: Yu An Children's Home
	■ Certificate of Appreciation: Hwa Yen Development Center
	■ Certificate of Appreciation: Liver Disease Prevention & Treatment Research Foundation
	■ Certificate of Appreciation: Boyo Social Welfare Foundation
	■ Certificate of Appreciation: Eden Social Welfare Foundation

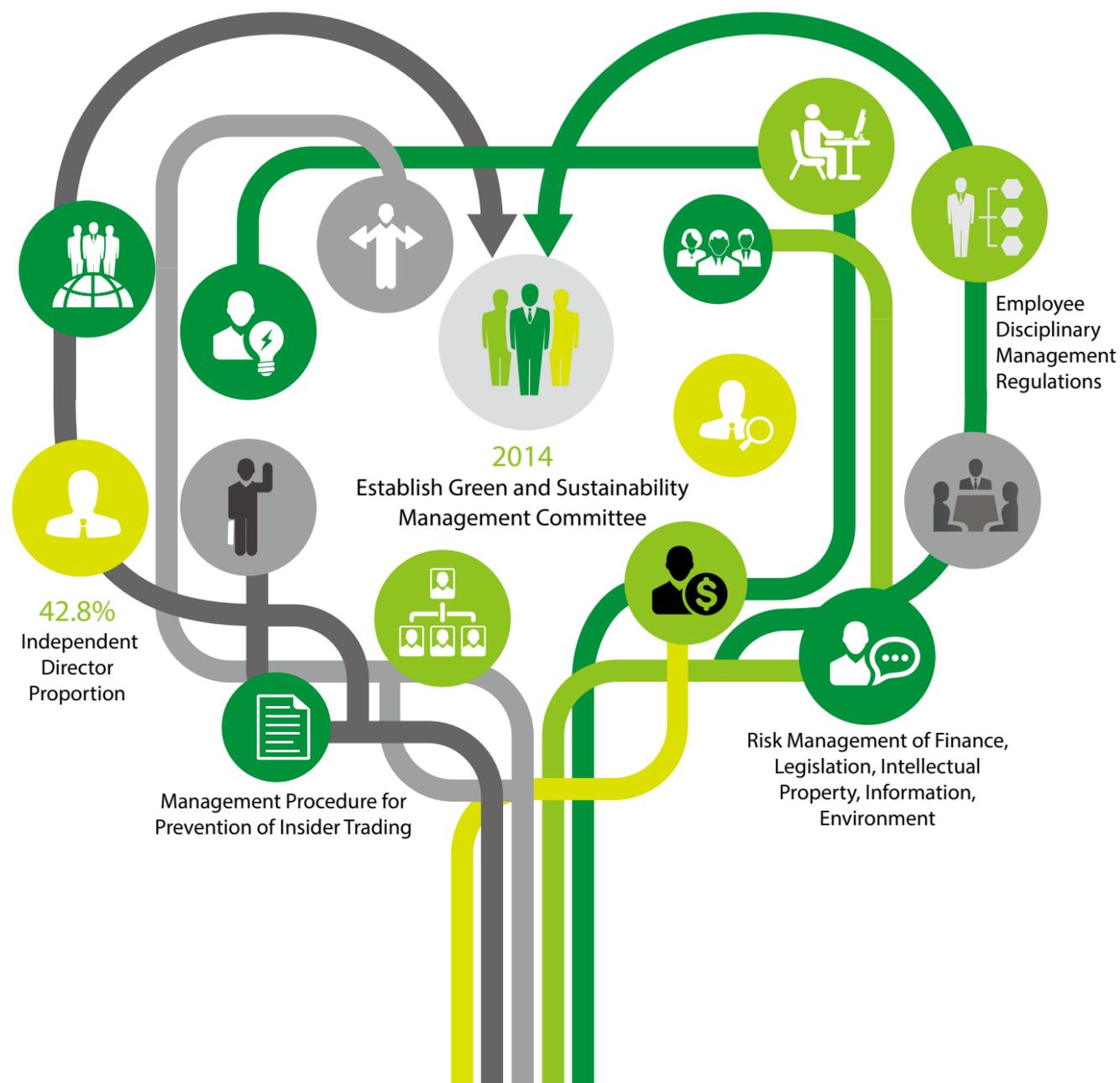
### Participation in Industry Associations

Year of Entry	Organization	Membership Type
2012-2014	Mobile Industry Process Interface Alliance	Member
2010-2014	Universal Flash Storage Association	Board member
2009-2014	SD Card Association	Board member
2008-2014	Solid State Drive Alliance	Board member
	The IEEE Standard Association	Corporate Membership
2007-2014	Joint Electron Device Engineering Council	Member
	Solid State Technology Association	Member
	Non-Volatile Memory Host Controller Interface	Working group member
2006-2014	Open NAND Flash Interface	Board member
2004-2014	The Peripheral Component Interconnect Special Interest Group	Member
	USB Implementers Forum	Member



# 5 Corporate Governance

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



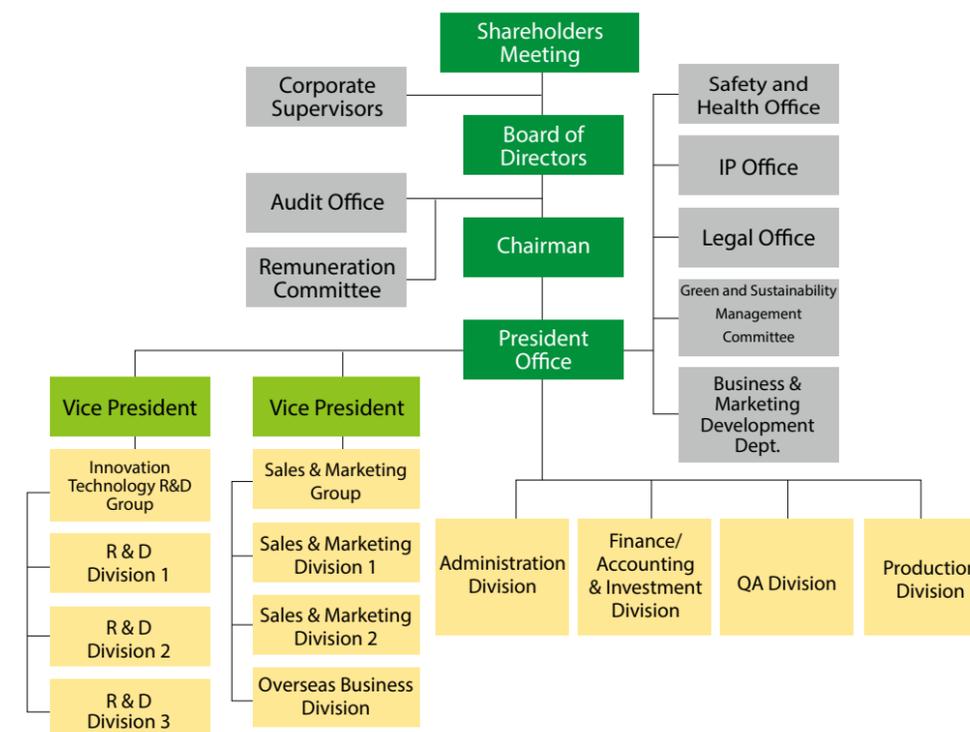
## 5 Corporate Governance

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 employee's remuneration and other tangible incentives as well as to provide supervisors 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

2015/04/04

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%
Nan Shan Life Insurance Company Ltd.	9,500,000	4.81%
Cathay Life Insurance Co., Ltd.	7,645,000	3.87%
Yang Jiunn Yeong	4,679,114	2.37%
Pua Khein Seng	4,557,972	2.31%
Fubon Life Insurance Co., Ltd.	4,400,000	2.23%
Old Labor Pension Fund	3,922,000	1.99%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	3,873,000	1.96%
Aw Yong Chee Kong	3,688,745	1.87%

2014 Board of Directors' Gender and Age Distribution

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



Board of Directors' Academic Background, Roles and Continuing Education

Title	Name	Gender	Academic Background	Current/Acting Roles	Continuing education for directors
Chairman	Pua Khein Seng	Male	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	CEO, Phison Electronics Corp. Director, Flexmedia Electronics Corp. Chairman, Lian Xu Dong Investment Corporation Director, Kingston Technology Corp. Chairman, Phisontech Electronics Taiwan Corp. Director, Global Flash Limited	Trade Secrets Protection (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. Director, Lian Xu Dong Investment Corporation Director, Phisontech Electronics (Malaysia) Sdn. Bhd. Director, Phisontech Electronics Taiwan Corp.	Trade Secrets Protection (3 hours)
Director	Kuang T.H.	Male	Greenwich University Kogen Singapore Pte Ltd	Vice-President, Phison Electronics Corp. Director, Microtops Design Corporation Chairman, Emtops Electronics Corporation Director, Phison Electronics Japan Corp.	Trade Secrets Protection (3 hours)
Director	Hsu Chih Jen	Male	Department of Information Science, Chung Yuan Christian University Deputy Manager, Winbond Electronics Corp.	Vice-President of Technology, Phison Electronics Corp. Director, Phisontech Electronics Taiwan Corp.	Trade Secrets Protection (3 hours)
Director	Chen An Zhong	Male	Master Degree of E.E., University of Florida, U.S.A	Technical Manager, Phison Electronics Corp.	Trade Secrets Protection (3 hours)
Director	Toshiba Corporation Representative: Hiroto Nakai	Male		Director and Supervisor, Toshiba Memory Semiconductor Taiwan Corp. Director and Supervisor, Toshiba Digital Media Network Taiwan Corporation 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.	Trade Secrets Protection (3 hours) Continuing education class by Hiroto Nakai, corporate representative
Independent Director	Yoshiaki Uchida	Male	Bachelor of Electronic Engineering, Tokyo University, Japan ( B.E. in Electrical Engineering, The University of Tokyo )	Senior Consultant, Fledge Technologies, Inc.	Trade Secrets Protection (3 hours)
Independent Director	Wang Zhen Hua	Male	President, Quanta Computer Inc. CEO, Quanta Computer Inc.	Chairman, Janus Technologies Inc. Director, Ichia Technologies Inc. Legal representative of director, Elite group Computer Systems Co., Ltd.	Trade Secrets Protection (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 Independent Director, Join-Well Technology Co., Ltd. Supervisor, Microelectronics Technology Inc.	Trade Secrets Protection (3 hours)

Title	Name	Gender	Academic Background	Current/Acting Roles	Continuing education for directors
Corporate Supervisor	Wang Hwei 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 Deputy Chairman of Professional Ethics Committee of National Federation of Certified Public Accountant Associations of the Republic of China	President of Moores Rowland CPAs Head of Taiwan Region, Praxity Global Alliance of Independent Firms Supervisor, GIGABYTE Technology Corp. Independent Director, INPAQ Technology Co., Ltd.	Trade Secrets Protection ( 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.	Trade Secrets Protection ( 3 hours )
Corporate Supervisor	Shen Yang Bin	Male	Ph.D. in Finance, Louisiana State University Chief Secretary, Yuan Ze University EMBA CEO, College of Management, Yuan Ze University Dean of College of Management, Yuan Ze University	Associate Professor of Finance, College of Management, Yuan Ze University Supervisor, Richtek Technology Corporation Independent Director, Forward Electronics Co., Ltd. Independent Director, Dah Chung Bills Finance Corp. Independent Director, ICP DAS Co., Ltd.	Trade Secrets Protection ( 3 hours )
Corporate Supervisor	Chen Jun Xiu	Male	MA in Business Management from Binghamton University, State University of New York Vice-President, Dad International	Independent Director, Waffer Technology Corp. Independent Director, National Aerospace Fasteners Corporation	Trade Secrets Protection ( 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 applicable laws, regulations, and bylaws. The Audit Office under the board of directors mainly assists the Board and managers in inspecting and reviewing defects in the internal control systems as well as measuring operational effectiveness and efficiency, and shall make timely recommendations for improvements to ensure the sustained operating effectiveness of the systems and to provide a basis for review and correction.

#### Internal Control Process



### 5.3 Ethical Management

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

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

At the same time, Phison has formulated an "Employee Code of Conduct", "Work Rules" and "Disciplinary Management Regulations" as part of its Employment Contract to prevent dishonest behavior. Apart from requiring all employees to notify the company of any professional ethics issues such as existing or potential conflicts of interest, employees and upper level supervisors must also regularly review their own compliance.

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 2014.

#### 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 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 2014

- 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 2013.
- Regular manager performance evaluation and spring incentive bonus disbursement plan.
- According to "Governing the issuance and exercise rules of Employee Stock Option Certificates in 2014", the first Issuance of employee stock warrants managerial officers and subscription price plan.
- Regular manager performance evaluation and annual salary adjustment and disbursement plan.
- Partial revision of the "Employee Promotion Management Regulations", "Salary Management Regulations"
- Election the Chairman and Convener of The Remuneration Committee.
- 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 2013.
- Regular manager performance evaluation and employee's profit-sharing adjustment and disbursement plan in 2014.
- Discussion of Remuneration Committee work plan in 2015.

### 5.5 Risk Management

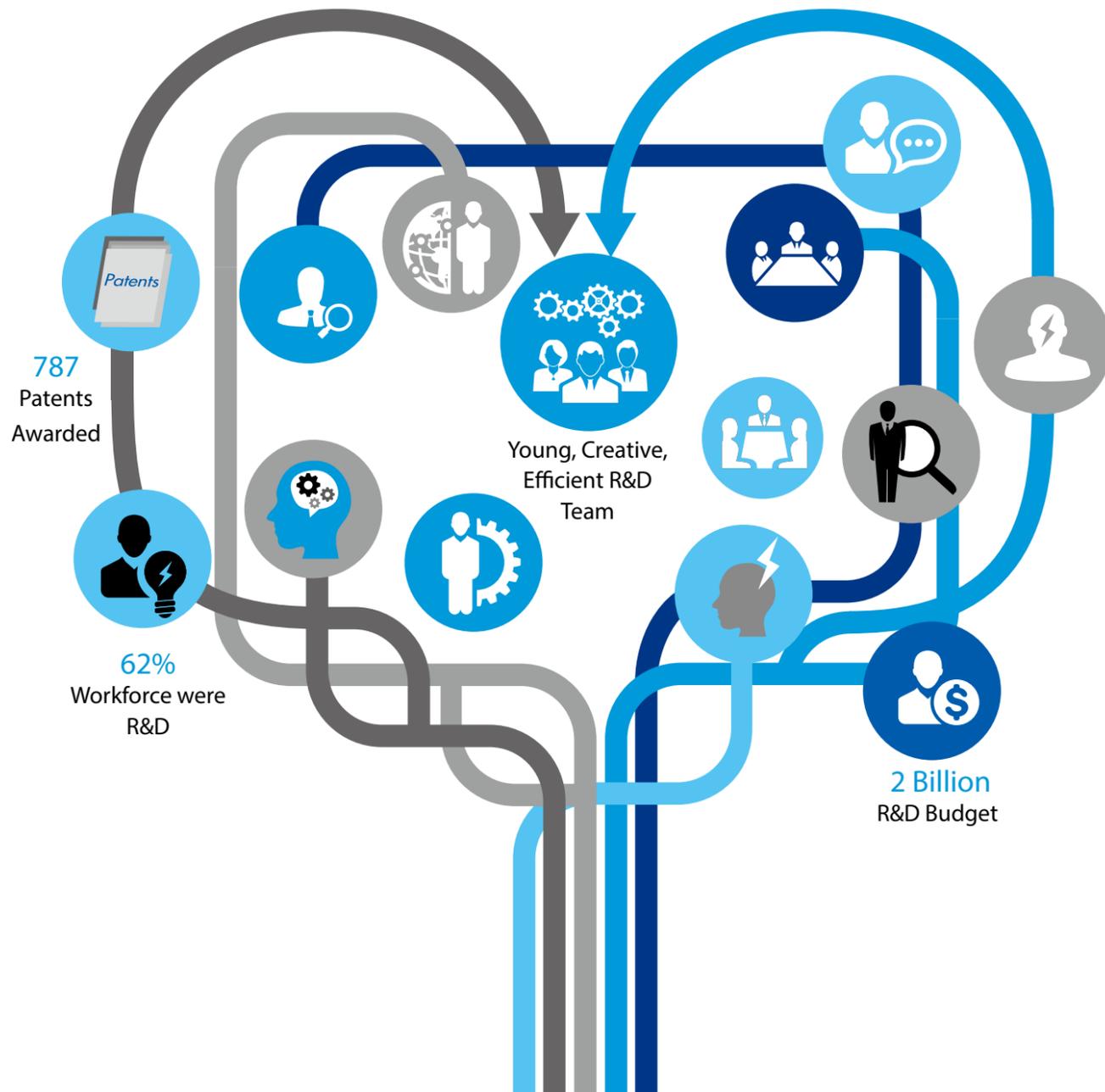


#### Risk Assessment and Management

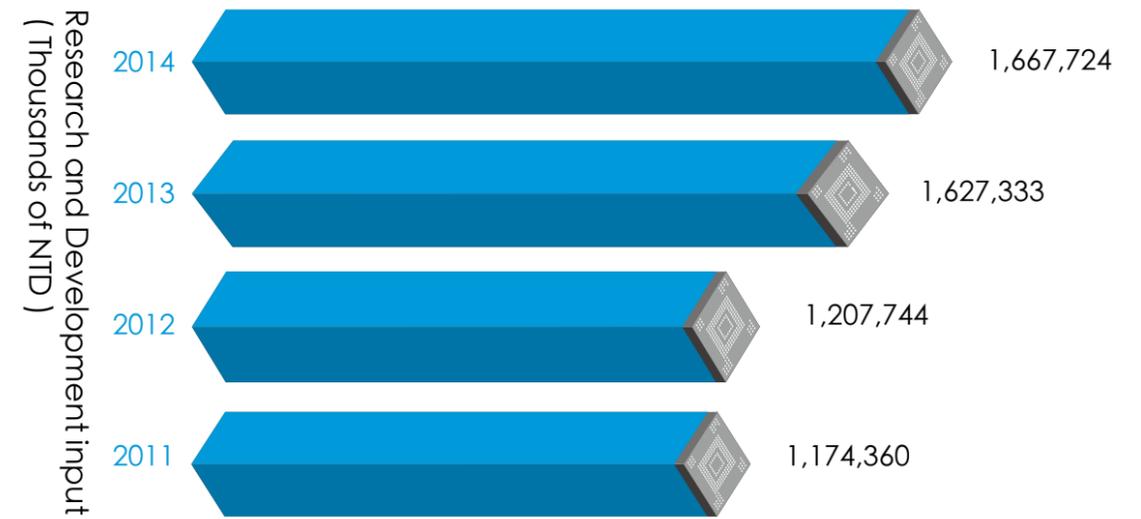
- Financial Risks (Finance & Accounts Dept.)**
  - Evaluate the impact of interest/exchange rate fluctuations and inflation on income statements;
  - Evaluate company policies regarding highly risky or highly leveraged investments, lending activities, endorsements and derivatives transactions; examine 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

- 6.1 Innovative R&D Team
- 6.2 R&D Accomplishments
- 6.3 Intellectual Property Management
- 6.4 Future Research Directions



## 6 Innovative R&D



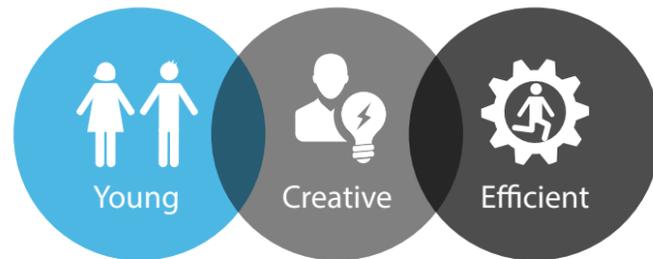
Year	2011	2012	2013	2014
R&D Expenses	1,174,360	1,207,744	1,627,333	1,667,724
Revenue	32,345,861	33,091,069	32,173,947	33,074,698
R&D input / Revenue	3.63%	3.65%	5.06%	5.04%

Unit: Thousands of NTD

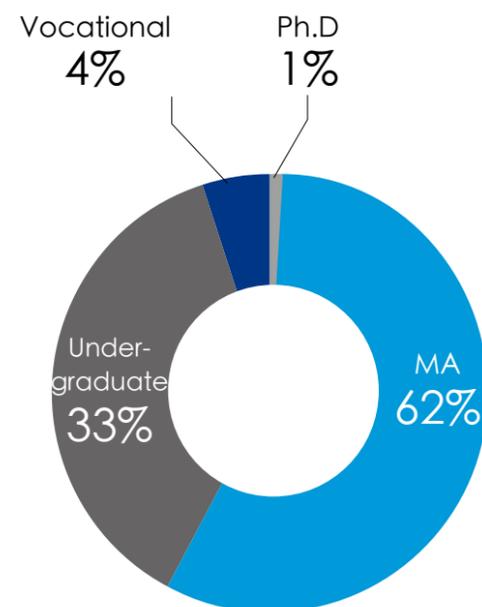
Phison is mainly engaged in the development, design, manufacture and sale of high-tech data storage devices such as flash memory controller IC, USB flash drives and flash memory cards. The core technology of USB flash drives, flash memory cards and products incorporated with NAND flash memory is flash 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.



We have over 500 professional researchers who cover 62% of total workforce in Phison; the average seniority is 4.75 years. This youthful, enthusiastic and creative engineering team includes 7 Ph.D. and 327 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 13 years of expertise and experience. The team he leads not only inherits his expertise but also dedicates to teamwork. In addition, the team maintains their strenuous and persistent attitude to develop new products and realize the various technical requirements generated by product diversity. By responding rapidly to the market and quickly releasing new, innovative technologies and products, they make Phison become the technology leader among the competitors.



Distribution of Academic Qualifications among R&D Personnel

### 6.2 R&D Accomplishments

The Phison R&D team has been devoted to becoming one of the world's top three designers and providers of Flash memory controller IC and Flash memory peripheral application systems. In 2013, Phison successfully developed Flash memory controller IC and software control systems for computer interfaces such as USB3.0, SD4.0, eMMC5.0, SATAIII, PCIe ( Peripheral Component Interconnect-Express ) .

Successful Technology Development in 2014	PCIe Gen3 PHY ( for next-generation, faster-than-ever data transmission interface ) ;
	Handheld device-compatible UFS Gear 3 PHY with unprecedented performance and energy efficiency;
	eMMC5.0: a next-generation memory system;
	A multi-core flash controller IC with enhanced data rate;
	An ultra-efficient error correction module that integrates DSP and LDPC ( with the state-of-art flash memory manufacturing process in mind ) ;
	High-speed UHS-II SDXC controller IC and memory cards;
	1TB high-speed storage controller IC and SSD;
Exceed 400 Mb/s data transfer rate for USB 3.0 controller IC and USB.	

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

I believe that while 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.

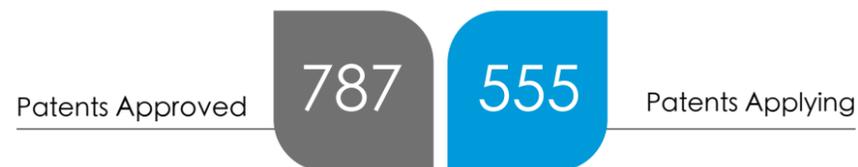
Therefore, Phison focus all of our resources on our core business according to the above-mentioned principle. However, we do not just stick blindly to our core business. If there is no prospect in flash, we would not insist on it. Actually, there are still five to ten golden years left for flash. Smartphones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

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



### 6.3 Intellectual Property Management

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



#### R&D Patent Output

Country	Applying	Approved	Total
Taiwan	161	313	474
Mainland China	235	204	439
U.S.	157	241	398
Other	2	29	31

( Patent Output: As of 2015/03/30 )

2014 Patent Ranking	No. 44 on Taiwan's "Top 100 Utility Patent Awardees" list	No. 58 on Taiwan's "Top 100 Utility Patent Applicants" list
		No. 61 on Taiwan's "Top 100 Patent Awardees" list

### Patent Development Process

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



### 6.4 Future Research Directions

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

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

R&D Goals for 2014
To develop SSD controller IC hat combines with DSP and LDPC (with enhanced data rate and extended product life cycle);
To develop PCIe NVM1.22 circuit module compatible with high-speed SSD;
To develop high-speed UHS-II SDXC controller IC and memory cards;
To develop high-performance and low-power- consumption error correction module compatible with 3D flash memory.
To develop encryption and decryption module with safer encryption algorithm to enhance operating rate
To develop flash memory management core circuit module , firmware process simplification, and data transfer efficiency as well as power consumption reduction.



### The Foundation of Phison

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

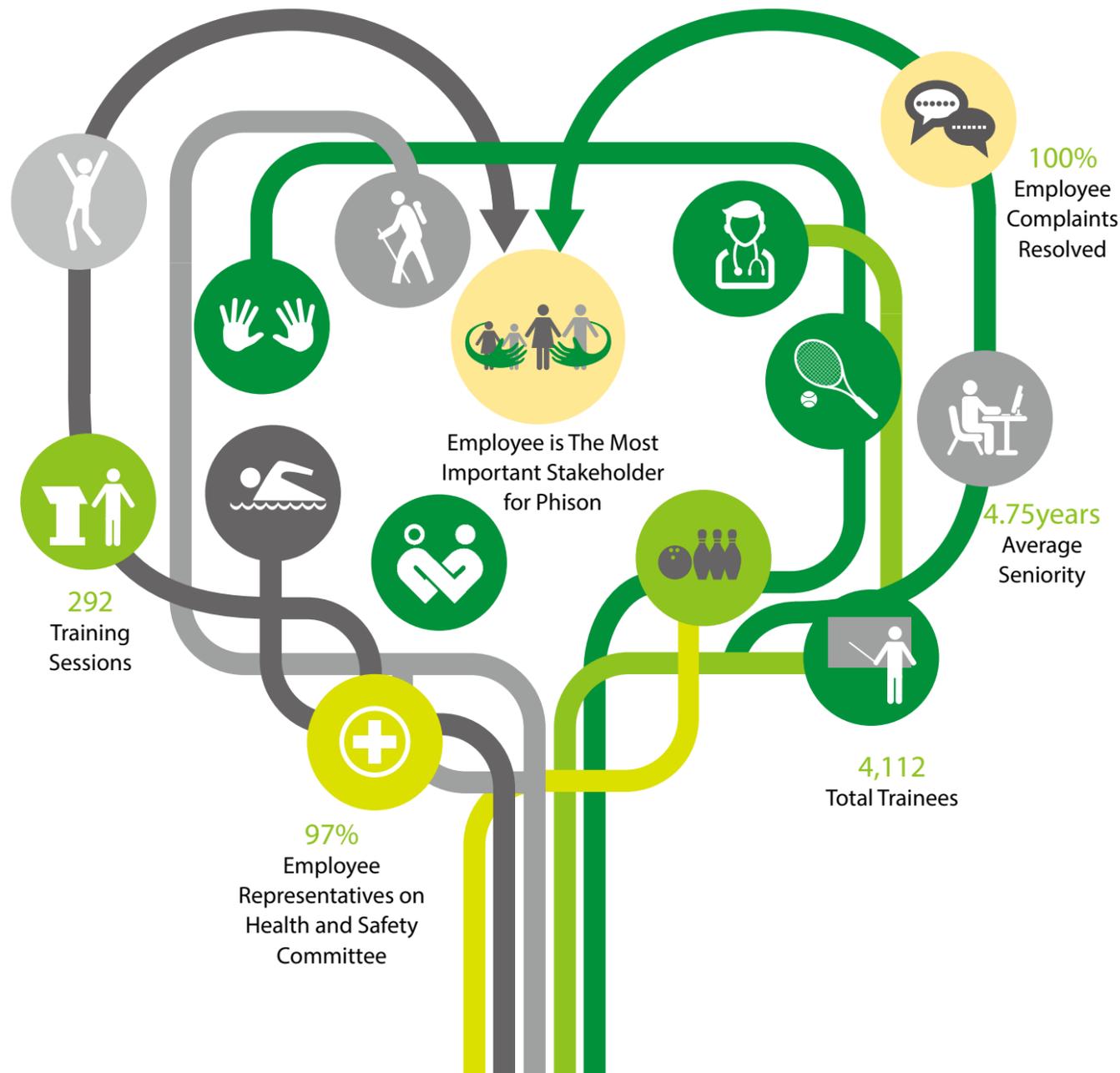
If I have the patent, perhaps I won't sue you, but I do have the right to sue. There are all kinds of patents out there. You might have something he doesn't have, and vice versa. Usually, a settlement happens as long as the litigation begins. It's very hard to put a company out of business through patent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

In reality, patent applications cost a lot of money. Phison spends over NT\$2 million a year on patent applications alone. 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 is that? 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 technique, 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

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

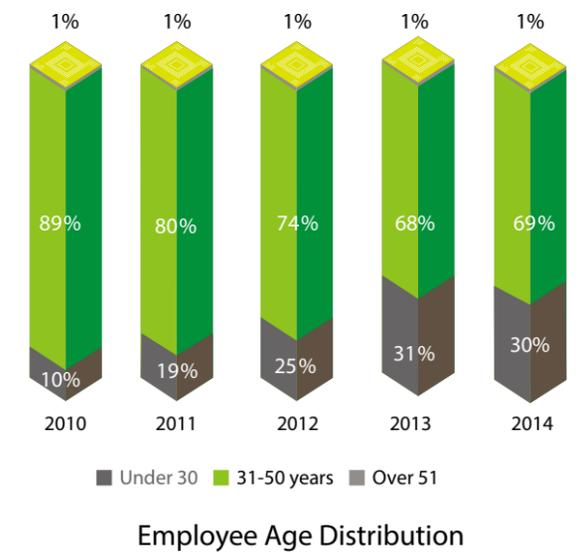
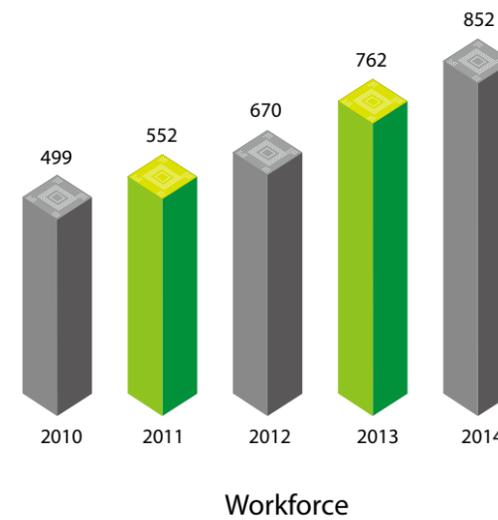


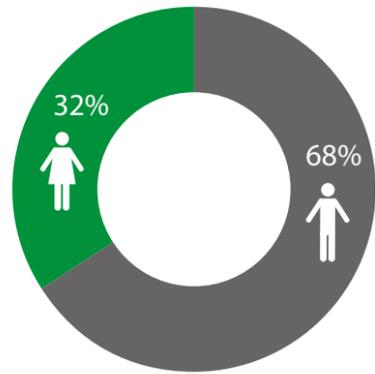
## 7 Truly Caring for Employees

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.

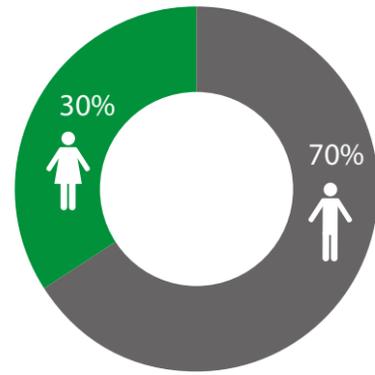
Every employee is an indispensable member of the Phison family. In this warm, loving family, everyone is sibling alike and they encourages and assists each other. The simple mercenary relationship between the company and employees without mutual trust and common values can not establish firm loyalty 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



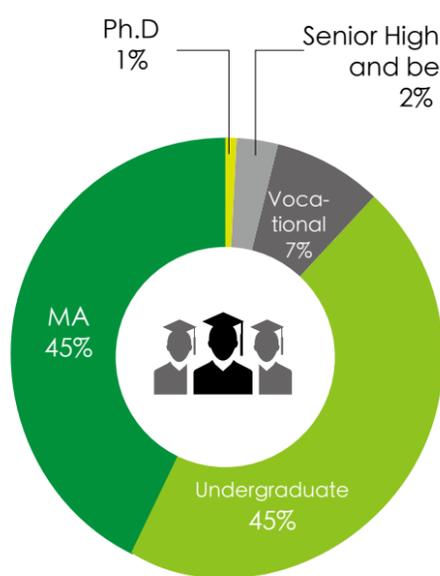


Employee Gender Distribution

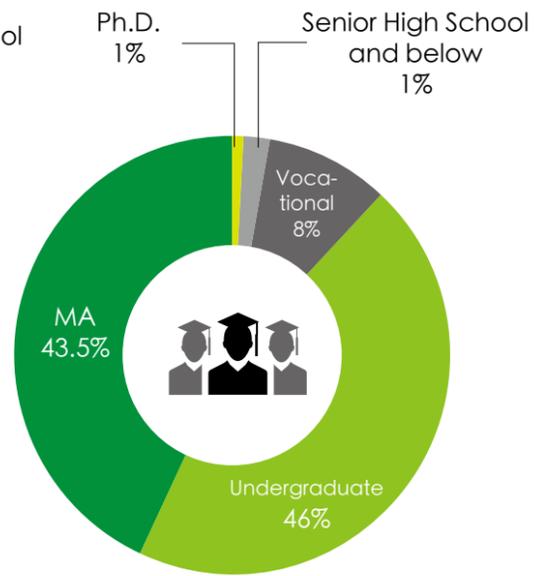


Management Gender Distribution

Year	2010		2011		2012		2013		2014		
Gender	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
Employee	Number	324	175	344	208	427	243	500	262	576	276
	Ratio%	65	35	62	38	64	36	66	34	68	32
Management	Number	56	33	67	37	79	38	87	42	97	41
	Ratio%	63	37	64	36	68	32	67	33	70	30

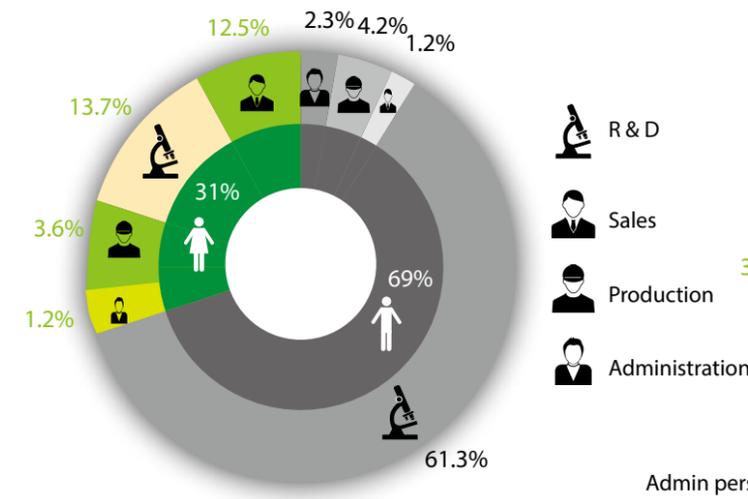


Distribution of Employee Academic Background

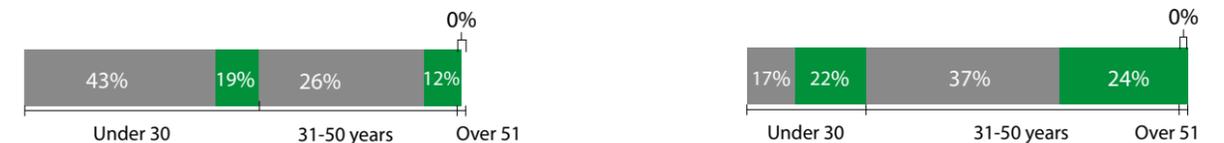
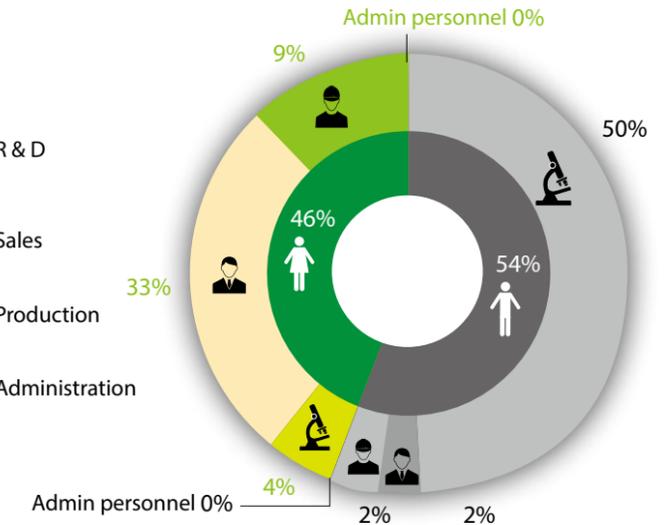


Distribution of Management Academic Background

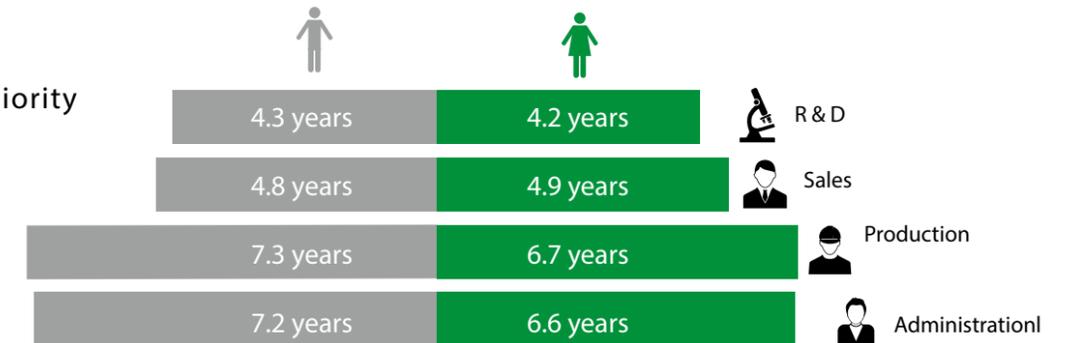
New Employee Demographics



Employee Turnover Demographics



Average Seniority at Each Grade



Employee Turnover Rate

Year	2010			2011			2012			2013			2014			
Gender	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	
Employee Turnover Rate	Resignations	17	15	32	30	17	47	26	11	37	29	22	51	29	25	54
	Total Workforce	324	175	499	344	208	552	427	243	670	500	262	762	576	276	852
	Ratio %	5.25	8.57	6.41	8.72	8.17	8.51	6.09	4.53	5.52	5.80	8.40	6.69	5.03	9.06	6.34

Employee Turnover Rate: Resignations / Total Workforce x 100%



### Ratio of Local People in High-level Management



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

### Type of Employment

Year	2010			2011			2012			2013			2014			
	Male	Female	Disabled	Male	Female	Disabled	Male	Female	Disabled	Male	Female	Disabled	Male	Female	Disabled	
General employee	Number	268	142	3	277	171	2	348	205	2	414	220	6	476	232	6
	Ratio%	53.71	28.46	0.60	50.18	30.98	0.36	51.94	30.60	0.30	54.33	28.88	0.79	55.87	27.23	0.70
Low-level manager	Number	18	15	0	29	17	0	35	20	0	43	24	0	49	19	0
	Ratio%	3.61	3.01	0	5.25	3.08	0	5.22	2.99	0	5.64	3.15	0	5.75	2.23	0
Mid-level manager	Number	33	14	0	32	16	0	36	13	0	35	12	0	40	16	0
	Ratio%	6.61	2.81	0	5.80	2.90	0	5.37	1.94	0	4.59	1.57	0	4.69	1.88	0
Senior manager	Number	5	4	0	6	4	0	8	5	0	8	6	0	8	6	0
	Ratio%	1.00	0.80	0	1.09	0.72	0	1.19	0.75	0	1.0%	0.79	0	0.94%	0.70	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	803	0	44	847
Fixed-term contracts	0	5	0	0	5
<b>Total</b>	<b>0</b>	<b>808</b>	<b>0</b>	<b>44</b>	<b>852</b>

- 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	2010			2011			2012			2013			2014			
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	
Parental leave application rate	Applicants	0	1	1	0	2	2	0	2	2	0	3	3	2	13	15
	Approvals	52	35	87	72	40	112	100	51	151	118	77	195	135	86	221
	Ratio%	0	2.86	1.15	0	5	1.79	0	3.92	1.32	0	3.90	1.54	1.48	15.12	6.79
Rate of reinstatement after parental leave	Returning number	0	0	0	0	1	1	0	2	2	0	0	0	0	6	6
	Expected to return number	0	0	0	0	1	1	0	3	3	0	1	1	0	8	9
	Ratio%	0	0	0	0	100	100	0.00	66.67	66.67	0	0	0	0	75	66.67
Parental leave retention rate	Rate of retention 1 year after reinstatement	0	0	0	0	0	0	0	1	1	0	2	2	0	0	0
	Returns from parental leave from last year	0	0	0	0	0	0	0	1	1	0	2	2	0	0	0
	Ratio%	0	0	0	0	0	0	0	100	100	0	100	100	0	0	0

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 2014.

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

- 
  - Phison signs formal labor contracts with every employee in support of workers' rights;
  - No incidents of forced labor involving Phison were reported in 2014;
  - No incidents of discrimination involving Phison were reported in 2014.
- 
  - 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 2014.
- 
  - 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 2014.
- 
  - As a part of the contract, every Phison supplier is required to conform to the Electronic Industry Code of Conduct ( EICC ) .
- 
  - As required by the Ministry of Labor, Phison neither hires child labor nor relevant violations in 2014.

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.

In accordance with the philosophy of shared value, Phison follows the principle of transparency in the handling of employee profit-sharing and Board compensation. Employee and Board profit-sharing plan in 2014 were 13.12% and 0.83% respectively of net profits after tax after deducting part of retained profits.

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.



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 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 2014, the plant was home to more than 13 clubs including basketball, badminton, football, mountaineering, swimming, softball, tennis, yoga and combat aerobics.

### Welfare and Subsidies

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

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

### Phison Happy Farm

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

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

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

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



Phison employees plant trees in collaborative efforts with customers



Grown vegetables and fruit



A joyful harvest



Organic fruits and vegetables

### Phison Clubs

 Basketball Club	 Badminton Club	 Swimming Club	 Foosball Club
 Volleyball Club	 Mountaineering Club	 Softball Club	 Tennis Club
 Yoga Club	 Combat Aerobics Club	 Ten-pin Bowling Club	 Golf Club
 Weight Loss Club			



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 2014, more than 4,000 Phison employees and their families took part in various company events.

### Activities Organized by the Welfare Committee in 2014

Category	Type
Leisure and recreational activities	Employees' healthy is valuable to Phison and encouraged to join in road running activities for a healthy life with their families.
	To give heed to the balance between work and life , Phison has hosted travelogue seminar with which employees can exchange traveling experiences.
	Hosted financial- management seminar, share finance planning with colleagues.
	The "Phison and People" newsletter is issued every half a year, as a communication media between the management and employees channel, and as a feedback from employees' article submission.
Team-building activities	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.
	Phison provides staffs with red bean dumpling soup during company- anniversary celebration.

### 2014 Phison Employee Activities in Review



Phison Bowl



Phison Family Day



Phison Family Day



Domino Trail



Moon Festival Party



Festival Party

### 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.



First-time moms



Parent-child Course



The quarterly employee orientation meeting



The quarterly employee orientation meeting

### 7.4 Cultivation and Education



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

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



### Target and Performance

Target and performance	Sessions	Hours	Trainees	Budget and cost ( NTD )
2015 Objectives	270	938	3,318	\$4,075,520
2014 Objectives	225	933	3,393	\$3,676,490
2014 Outcome	292	2,013	4,112	\$1918,082

### Strategic Training Objectives and Key Performance Indicator for 2014

Training Category	Curriculum	Trainees	Total hours	Budget Ratio
In-service/Professional Skills Training	<ul style="list-style-type: none"> <li>Professional skills training</li> <li>Advanced quality control</li> <li>Safety &amp; Health</li> </ul>	2,328	1,455	34.7%
Hierarchy-based Training Programs for Management/Development	<ul style="list-style-type: none"> <li>Innovative and improved managerial practice</li> <li>High- performance interviews with efficiency and improvement</li> <li>Management related training</li> </ul>	113	49	11.5%
Secondary Skills Development Courses	<ul style="list-style-type: none"> <li>Successful presentation design and logical self-expression training</li> <li>Excellent customer relationship management</li> <li>Good communication skills and solidarity consensus</li> <li>Job analysis and improvement</li> <li>R&amp;D project schedule and cost management</li> <li>Job management and communication improvement</li> <li>Enhance effectiveness of communication</li> <li>Developing influences on upward management</li> <li>Skills of business English presentation</li> <li>Self-inspiration training</li> </ul>	1,563	191	33.5%
Language Courses	<ul style="list-style-type: none"> <li>English</li> <li>Japanese</li> </ul>	108	318	20.3%

### Average Training Hours per Function

Function	Average training hours per employee per year ( Male )	Average training hours per employee per year ( Female )
R&D	11.56	12.27
Sales	20.14	19.68
Production	7.62	13.43
Administration	22.96	20.37

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	13.47	24.09
Grassroots employee	18.62	17.85

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

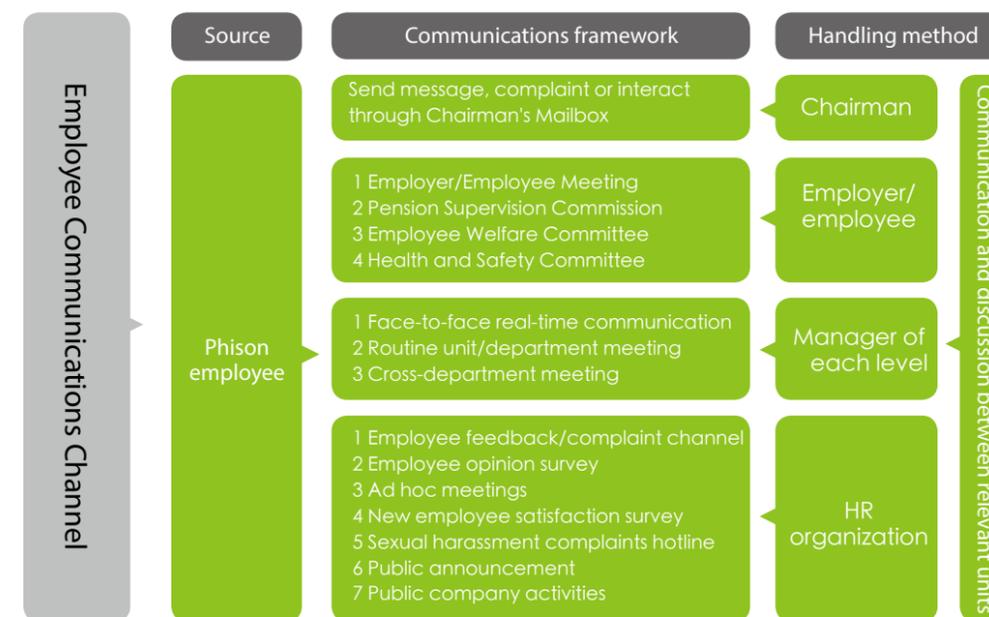
At the end of each year, HR conducts an employee training requirements survey to compile the training requirements of all employees for the department heads. The department heads then refer to the employee training requirements as well as "Strategic goals for next year", "Organizational requirements 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



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 98% closure rate.

Communication Channel	Cases received	Cases closed
New employee opinion survey	52	50
Ad hoc meetings	19	19
Sexual harassment complaints mailbox	0	0
Chairman's Mailbox	0	0
Employee Assistance Program ( EAPs ) - Psychological counseling hotline	36	36
<b>Total</b>	<b>107</b>	<b>105</b>

### 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.

More than 20 employer-employee meetings have been convened from 2008 to 2014. 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



Note: The ratio of employee and management representatives is 1:1

#### 2014 Employer-Employee Meeting Motions

Joint Decision	Motion ( 1 ) : Proposal to add underground motorcycle car parks that requires payment for parking
	Motion ( 2 ) : Annual employee promotion program is postponed from 4/1 to 5/1 in effect
	Motion ( 3 ) Proposal to prolonged paid vacation for outstanding employees
Communication/ Discussions	Motion ( 4 ) : Abolishment of quarterly performance evaluation
	Motion ( 5 ) : Amendment of the description of menstrual leave
	Motion ( 6 ) : According to last meeting, this meeting proposes the expansion of underground parking spaces for motorcycles with parking fees
Reaching a Conclusion Based on Information Transparency	Motion ( 7 ) Proposal to cancellation of minimum three-employee travel plans under company-subsidized incentives
	Motion ( 8 ) : Proposal to addition of smith machine at 6F staff lounge
	Motion ( 9 ) : Proposal to garbage dumping on riday
	Motion ( 10 ) : Amendment to Work Rules Article 16 Paragraph 4- Paternity Leave "Leave description"
	Motion ( 11 ) : Amendment to Work Rules 18 Clause 3 "Make-up Leave" on every Saturday"
	Motion ( 12 ) : Amendment to Work Rules Article 16 Paragraph 4- Menstruation Leave "Leave description"
	Motion ( 13 ) : Amendment to Work Rules Article 16 Paragraph 4- Prenatal Visit Leave "Leave description"
	Motion ( 14 ) : Amendment of work overtime pay rate during holidays
	Motion ( 15 ) : Amendment of Work Rules 16 Clause 4- Family Care Leave description"
	Motion ( 16 ) : Amendment of Work Rules 9 – Working hours do not exceed a total of eighty-four hours biweekly

### 7.6 Workplace Health and Safety



#### Health and Safety Committee

Phison's health and safety activities are carried out in accordance with labor health and safety regulations as well as other relevant laws. ISO committee members elected by each department also serve as employee representatives on the Health and Safety Committee. In 2014, there were a total of 33 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 2014, the service was used by 36 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

2014 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 2014 were in compliance with regulatory standards.

Class	Classes	Participants
The Introduction to HPV Vaccine	1	23
Curricula of quitting tobacco	6	7
Principles of healthy diet and exercise	1	10
Emergency treatment of children	1	37
Group- exploration activities of Tarot	6	8
Insomnia and Mindfulness-Based Stress Reduction	1	26
Marriage and Family	1	12
<b>Total</b>	<b>17</b>	<b>123</b>

Occupational Disease, Lost Day Rate, Absentee Rate

Year	2010		2011		2012		2013		2014	
Gender	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	7	1	4	0	0	27	3.88	3	3.81
Lost day rate	0.33	4.10	0.30	2.09	0	0	5.87	1.57	0.56	1.43
Absentee days	71.56	239.50	121.13	682.50	163.31	401.00	185.69	343.81	355.75	338.94
Absentee rate	190.23	1123.15	294.40	2858.40	340.66	1412.49	323.22	1109.79	534.60	1151.78

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 x 200,000\*  
 \*Calculations based on 50 weeks a year and 40-hour working weeks for every 100 employees

Injury Rate

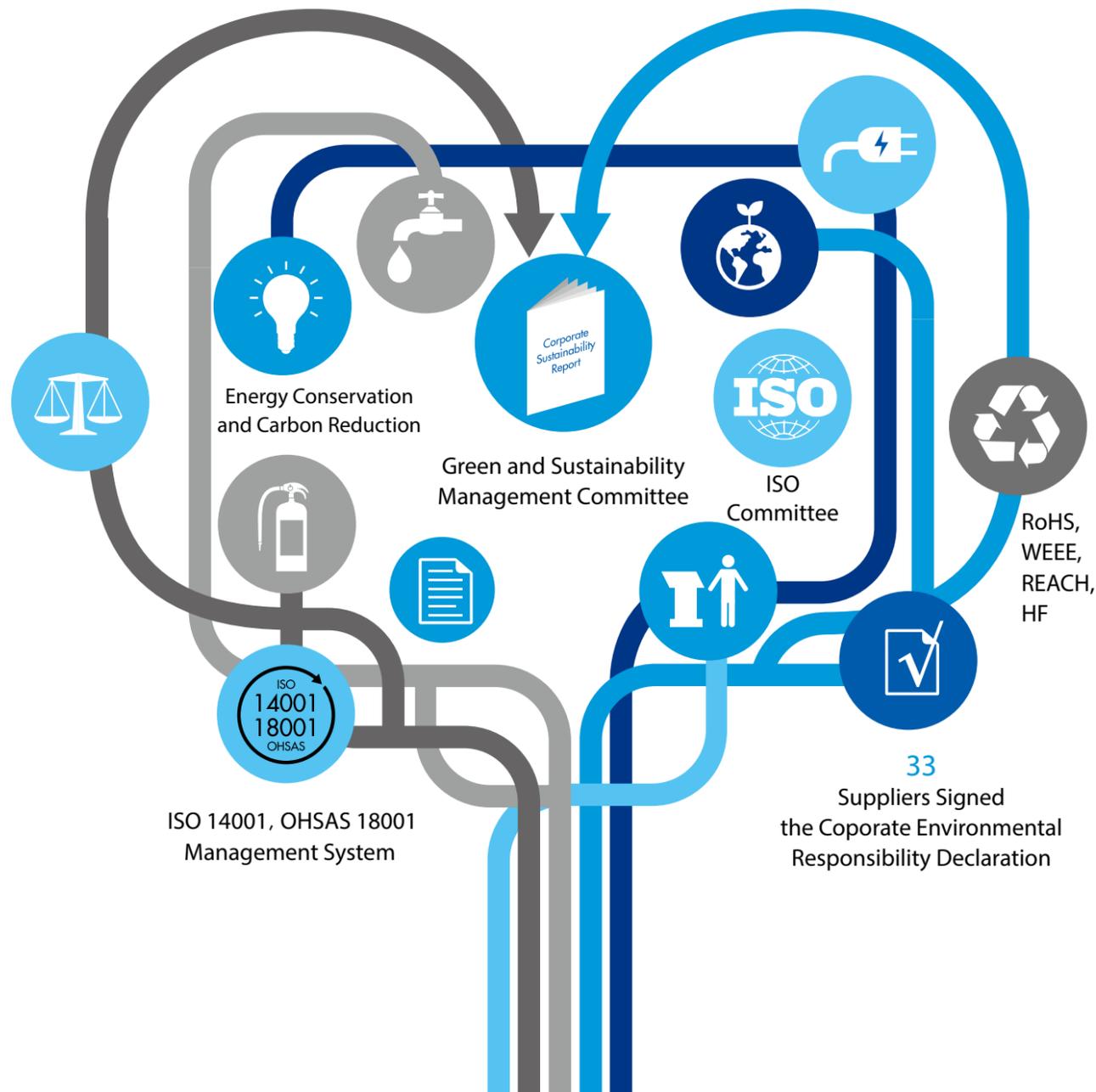
Year	2010	2011	2012	2013	2014
Total work hours	857,949	856,613	1,098,834	1,281,072	1,461,994
Injured workers	2	3	0	4	7
Deaths	0	0	0	0	0
Lost working days ( Male )	1	1	0	42	3
Lost working days ( Female )	7	4	0	5	4
Total working days lost	8	5	0	47	7
Injury rate	0.47	0.70	0	0.62	0.96

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 2010-2014 period were due to accidents during the commute.

# 8 Environmental Responsibility

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



## 2015 Targets for Environmental Safety and Health

- 
**Energy Efficiency**
Air compressor setup
- 
**Energy Efficiency**
Cooling tower systems engineering improvement
- 
**Corporate Sustainability Report**
2014 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 2014

 Corporate Sustainability Report	The Second floor warehouse had equipped with a split air-conditioning system and ceiling fans.
 Energy Efficiency	ISO/OHSAS Management System and EHS consulting solutions
 Employee Wellness Awareness Campaign	The "Phison and People" Wellness Column

### 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 2014.



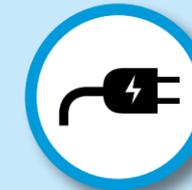
ISO 14001  
Environmental  
management system



OHSAS18001,  
Occupational  
health and safety  
management system



### 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

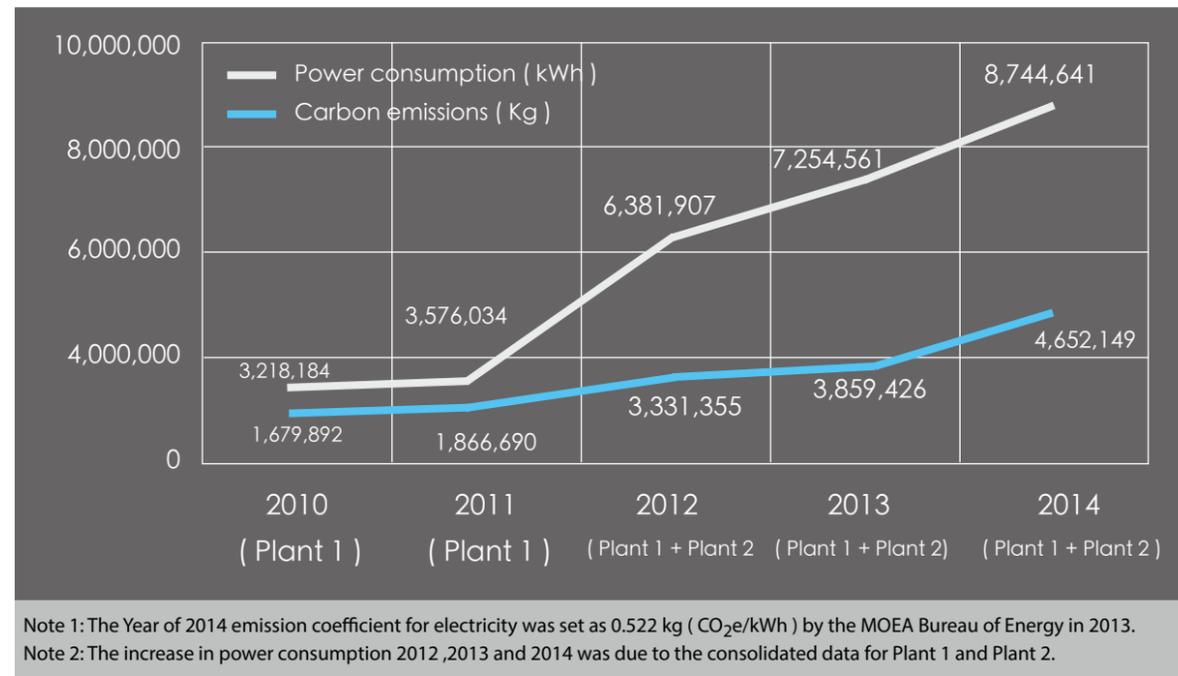
- All waste water is discharged through legitimately registered sewage ducts to Kuan-Yuan Science Park Administration's treatment plant;
- Phison's Jhunan branch doesn't generate any production-related waste water because it comprises simple assembly, packaging, maintenance and testing equipment without 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;
- Monthly water quality reports are filed by an external, qualified institute to examine the water temperature, pH, SS ( Suspended solids ), BOD ( Biochemical Oxygen Demand ), COD ( Chemical Oxygen Demand ).



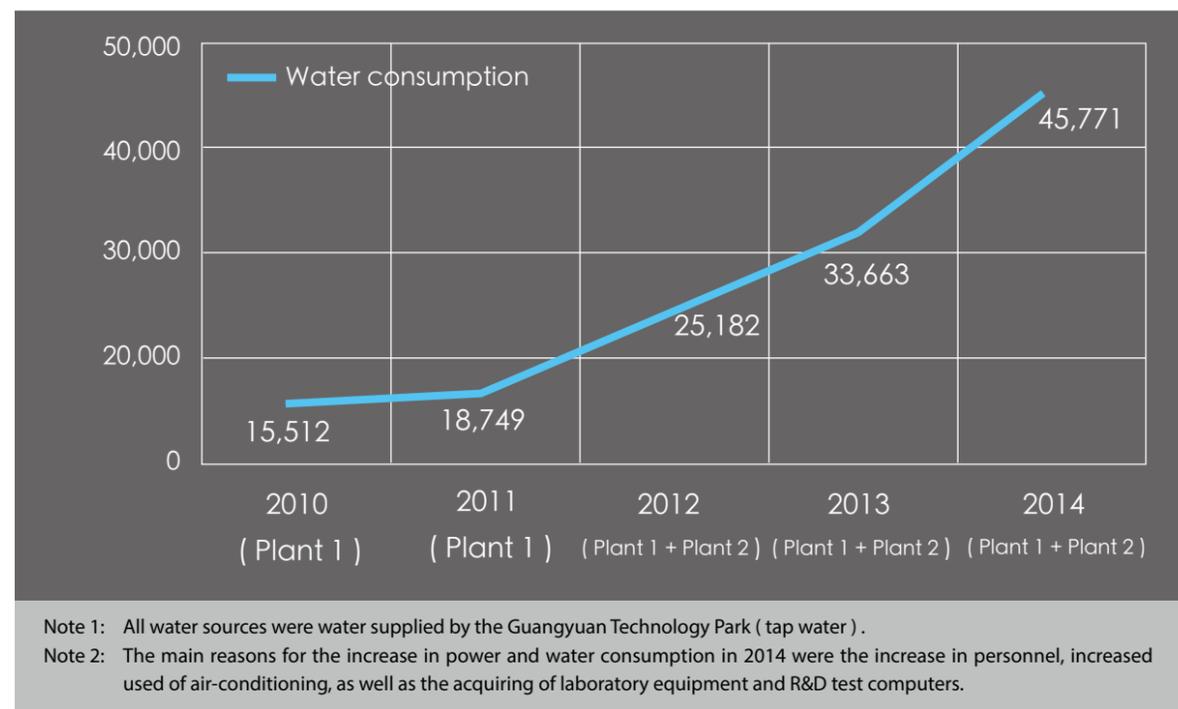
#### Transportation Management

- All logistics tasks should be performed in the "truckload consolidation" manner to increase transportation capacity and efficiency;
- The monthly truckload summary includes such statistics as transportation-induced CO<sub>2</sub> emissions. In 2014, Phison's contractors generated totally 38,882.40 kilograms of CO<sub>2e</sub> during transportation.

### Historic Power Consumption and Carbon Emissions



### Water Consumption



### Direct and Indirect Energy Usage in 2014

Energy type	Energy purpose	Energy used	Consumption	Megajoules ( MJ )
Direct energy	Official vehicles	Petrol	5,986.987 L	195,272.107 MJ
	Emergency generator	Diesel	800 L	28,100.016 MJ
Indirect energy	Plant-wide power consumption	Electricity	8,718,852 kWh	31,387,867.2 MJ

Formula:  
 Energy consumption from petrol: = Petrol ( Liters ) x 7,800 Kcal x 4.18155 MJ  
 Energy consumption from diesel: = Diesel ( Liters ) x 8,400 Kcal x 4.18155 MJ  
 Energy consumption from electricity: = Power consumption ( kWh ) x 3.6 MJ

Unit of conversion:  
 1 Million Calories = 4.18155 MJ  
 1 L of petrol = 7,800 Kcal ( 7.8 MJ )  
 1 L of diesel = 8,400 Kcal ( 8.4 MJ )  
 1 kWh = 3.6 MJ  
 Source: MOEA Bureau of Energy/ Taiwan Power Corp.

### Chemicals, Noise Pollution and Waste Management

- 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.

### 2014 Waste Plastic Packaging Recycling Statistics



### Waste Disposal Method and Total Volume

Waste Category	Handling	Year					
		2010	2011	2012	2013	2014	
General industrial waste	Domestic waste	Incineration	Around 60-70 tons per year				
	Recycling	Recycling and reuse	21.3 tons	19.6 tons	30.4 tons	36.6 tons	44 tons
	Waste recycling	Recycling and reuse	40 tons	30 tons	28.5 tons	30 tons	40 tons
Hazardous industrial waste	Recycling or reuse	Approximately 5-10kg 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 2014, Phison recycled packaging ( anti-static ) materials returned by vendors.

### 2014 Environmental Protection Expenditure

Environmental protection expenditure items	Investment ( NTD )
Green Purchasing	\$26,330,126,375
Environmental management system verification costs	\$106,614
Environmental protection education and training costs	\$96,800
Water cooler, discharge water and waste disposal costs	\$96,800
Total environmental expenditure	\$26,331,529,789

### 8.2 ISO Committee



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

#### ISO Committee



#### Responsibilities and Guidelines of the ISO Committee:

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



### 2014 Issue Handling

NO	2014 issues handled	Result
1	36 customers underwent EICC/GeSI conflict minerals investigation	Compliance with customer requirements
2	759 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	Establish a green document platform for 29 key external suppliers to download from.	Construction complete
6	Green surveys sent out to 141 people.	Compliance with objectives

### Green Accomplishments

Year	Green accomplishments
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 2014 inventory results showed that Scope 2 externally purchased electricity was the main source of GHG emissions at over 90% of all emissions. Scope 1 accounted for just 10%. Total emissions amounted to 4,695 tons, far lower than the annual emission limit of 25,000 tons CO<sub>2</sub>e set for Phase 2 by the EPA. Scope 3 other indirect emissions covered activities such as employee commutes, waste disposal and outside transportation so were not included in the inventory and calculations.

Chiller machines use environmentally-friendly R134a refrigerant. Ozone depletion potential ( ODP ) is zero and there is no threat to the ozone layer. In 2014 emissions amounted to 28.57 tons Co<sub>2</sub>e/year, or 0.61% of total emissions. Refrigerators use R600a and R134a eco-friendly refrigerants as well. There is therefore no ODP at Phison.

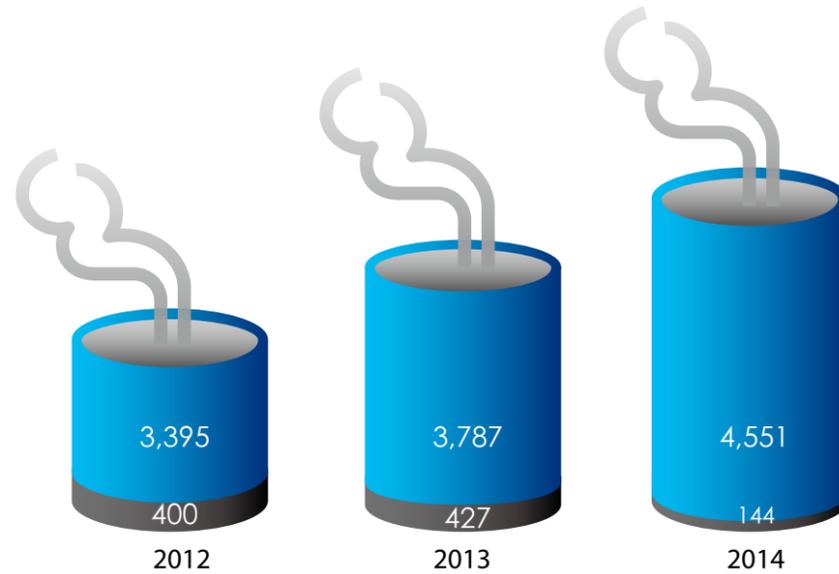
### Types of GHG Emissions



### 2014 Greenhouse Gas Emissions

Greenhouse Gas	CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>	Total
Direct emission Scope 1	84.38	30.6	0.39	28.57	0	0	143.94
Indirect emissions Scope 2	4,551.24	0	0	0	0	0	4,551.24
The power emission coefficient in 2013 was 0.522 kg CO <sub>2</sub> e/kWh Unit: Tons of CO <sub>2</sub> e/year							4,695.18

GHG Emissions



● Direct emissions  
● Indirect emissions

Year	2012		2013		2014	
	Emissions	Ratio	Emissions	Ratio	Emissions	Ratio
Direct emissions - Scope 1	400	11%	400	10%	144	3%
Indirect emissions - Scope 2	3,395	89%	3,395	90%	4,551	97%
<b>Total GHG emissions (Tons CO<sub>2</sub>e/year)</b>	<b>3,795</b>		<b>4,214</b>		<b>4,695</b>	

Greenhouse gas emissions from employee business trips ( official vehicles )			
Year	2012	2013	2014
CO <sub>2</sub>	15.32	15.40	13.55
CH <sub>4</sub>	0.12	0.14	0.12
N <sub>2</sub> O	0.45	0.44	0.39
<b>Total</b>	<b>15.89</b>	<b>15.98</b>	<b>14.06</b>

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

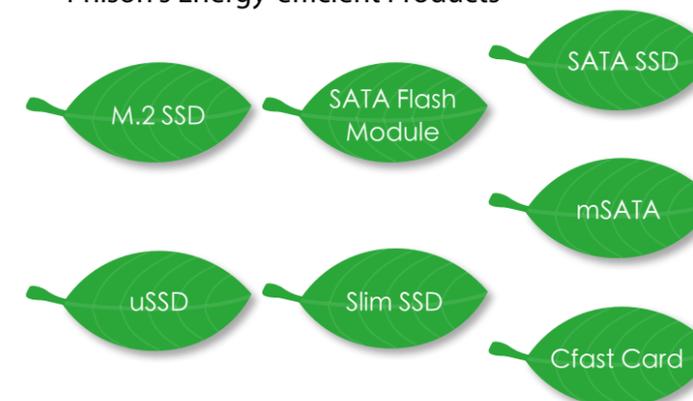
8.3 Green Products

Phison has added the green product concept to its quality policy in support of the global push on sustainable environmental development. We have started looking at 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 measures 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 completely 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 2014, 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.



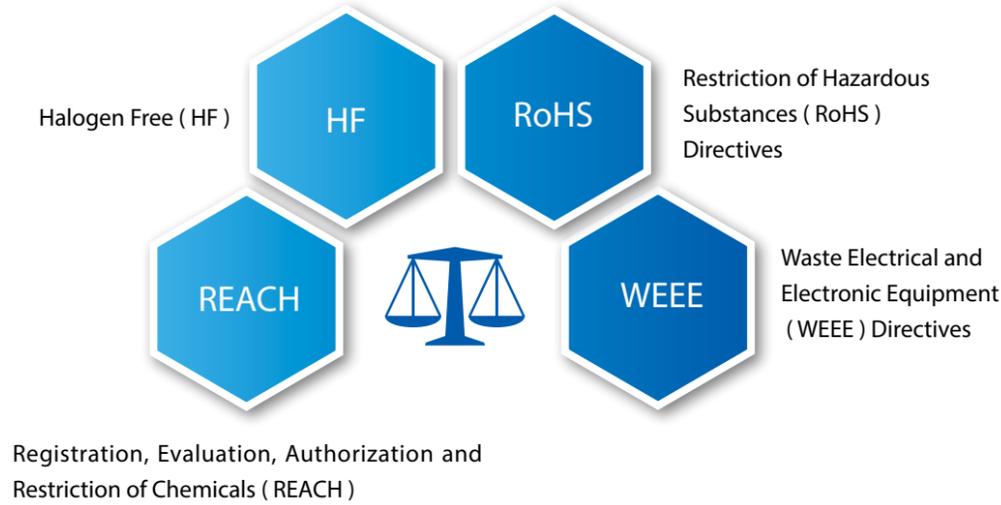
Phison's Energy-efficient Products



**Device Sleep (DEVSPL) mode**  
Phison's DEVSPL-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 DEVSPL mode, Phison's SSD can only consume less 5mW which is much lower than general device in standby mode with 60-70mW power consumption.

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

### International Environmental Legislation

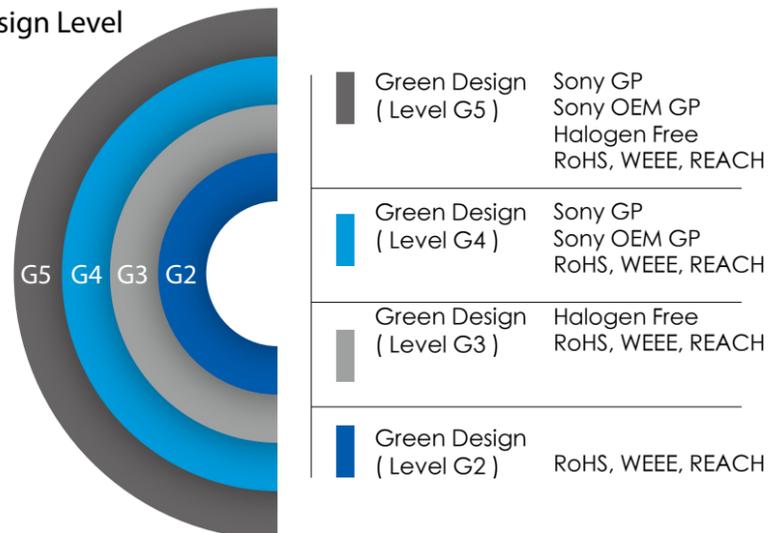


### Sony Green Partner

**Sony Green Partner**

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

### Green Design Level



### Green Management Process

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

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



### 8.4 Green Supply Chain Management

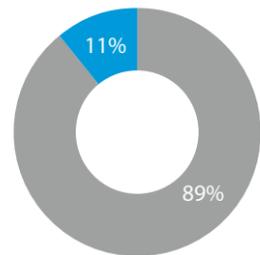


Phison focuses mainly on R&D and design. Manufacturing and production are outsourced to outside manufacturers. Production is carried out by qualified factories that conform to environmental regulations. The environmental requirements include low-pollution, low-hazard as well as compliance with EU WEEE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

In 2013, 192 suppliers were asked to sign a "Declaration of Non-use of Hazardous Substances". Signed declarations have been returned by 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. In 2014, 33 suppliers have signed and returned the declaration.

In addition, 89% of long-term suppliers were asked in 2014 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



■ Signed ( 91 ) ■ Not signed ( 11 )

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

#### Hazardous Substances Management Procedure

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

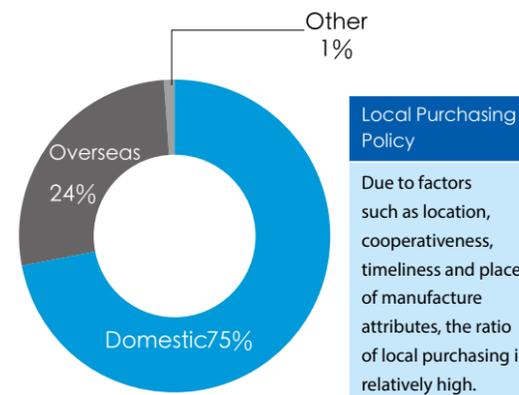


The Green Product Management System ( ezGPM ) works closely with suppliers to establish whether review documentation at each phase conforms to regulations. An online platform is used to check on the latest environmental legislation and green product specifications in real-time for effective green supply chain management, document tracking and two-way communication. This prevents the use of any components containing restricted chemical substances. A total of 115 companies ( satellite factories ) were connected ( 17 were partners with the rest being suppliers ) .



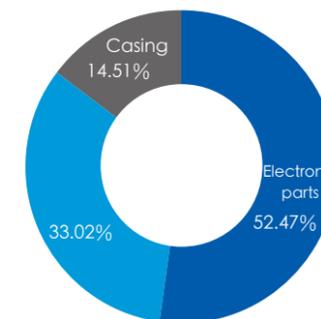
Green Product Management System Functions	The central plant sends a notification letter to a satellite plant.
	The satellite plant submits hazardous substances-related information — namely testing summary reports, Material Composition Data ( MCD ) or Material Safety Data Sheet ( MSDS ) — to the central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

#### Percentage of Local Purchasing Amount



**Local Purchasing Policy**  
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



Raw Materials Weight and Proportion	
Raw Material	Weight
Electronic parts	105.75 tons
Packaging	66.55 tons
Casing	29.25 tons
<b>Total</b>	<b>201.55 tons</b>



### Past Aid Recipients and Description

Year assisted	Aid recipient	Aid description
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, CPAH, 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. In addition, 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.
2013	Huashan Foundation, Hwa Yen, Hsin Miao, TFCF, Yu An Children's Home, Syin-Lu, Autism Foundation, Holy Family for Special Education, Eden, Premature Baby Foundation etc.	In addition to regular donations of money and materials each year, Phison hosted its first charity fun run in 2013 in conjunction with partners, customers and employees to raise \$223,512 for dozens of charities. Phison also donated an additional \$2.3 million so that each charity can continue to focus on the everyday needs of aid recipients as well as make upgrades to their software/hardware facilities.
	NCTU, Taipei Tech, NTHU, ITRI, Chunan Elementary School, AboGarden, Pan Wen Yuan Foundation etc.	Phison supports nearly 10 student activities or academic research projects by schools or research organizations every year. In 2013, related donations amounted to around \$8.3 million. Apart from strengthening industry-academia exchanges, this also helps to strengthen the industry's foundations and cultivate talent.
	National Chiao Tung University	To express gratitude to his alma mater, Phison's founder donated \$11 million to NCTU for renovation of the Jan Qi Biomedical Engineering Building within 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

### Total Academic Donations in 2014

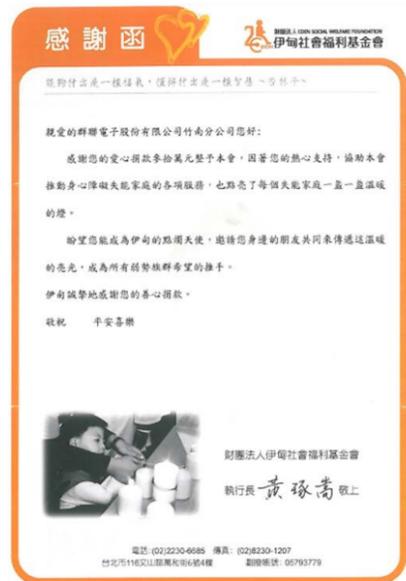
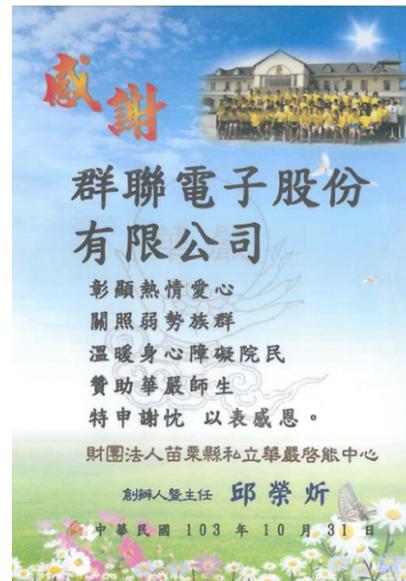
Type	Recipient	Total ( NTD )
Academic 	National Chiao Tung University - Program	8,909,000
	National Chiao Tung University - Seminar	3,625,000
	Zhu Ming Teaching Foundation	1,040,000
	AISEC in Taiwan	1,000,000
	National Tsing Hua University	710,000
	Epoch Foundation	318,000
	Spring Foundation of NCTU	300,000
	World Leadership Education Foundation	150,000
	National Chiao Tung University - Student activities	120,042
	National Taipei University of Technology	100,000
	Chinese Professional Management Association of Hsinchu	100,000
	Chinese Society for Management of Technology	100,000
	Chunan Elementary School, Miaoli County	100,000
	Ming Chuan University	30,000
	Taipei National University of the Arts	20,000
National Taiwan University	16,000	
Total amount of academic donations		16,638,042

### Total Social Donations in 2014

Type	Recipient	Total ( NTD )
Social 	Social Affairs Bureau of Kaohsiung City Government	3,000,000
	Miaoli County Friends of Police Association	700,000
	The Child Welfare League Foundation	600,000
	Hsinchu County Friends of Police Association	600,000
	Taiwan Fond for Children and Families, Hsinchu Country Branch Office	570,000
	National Taiwan University Hospital Hsinchu Branch	500,000
	Hsinchu City Friends of Police Association	500,000
	Eden Social Welfare Foundation, Hsinchu Branch Office	350,000
	Syin-Lu Social Welfare Foundation	332,086
	Holy Family for Special Education	330,000
	Yu An Children's Home, Miaoli County	300,000
	Liver Disease Prevention & Treatment Foundation	300,000
	Hwa Yen Development Center, Miaoli County	300,000
	Hsin Mao Development Center	300,000
	Taiwan Fund for Children and families , Miaoli Branch Office	250,000
Premature Baby Foundation	150,000	
Boyo Social Welfare Foundation	150,000	
Total amount of social donations		9,232,086

## 9.2 Caring for Local Communities

Phison has supported and assisted many disadvantaged groups in the Hsinchu-Miaoli region in recent years including reformatories, orphanages and nursing centers. We visited these places to learn what they needed help with and provided appropriate assistance ( donations of money and supplies ). Managers were also invited to take part in the "Charity Visit" activities to learn about forgotten segments of society and work as a group to give them more compassion and assistance.



### Recipients of Long-term Care and Support, 2011-2014

No.	Group aided	Aid recipient
1	Hsin Mao 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	Hwa Yen Development Center	Mentally disabled with disabled ID over the age of 16
6	(Edan) Hsinchu City Care Service Center for Mental Retardation	Aged from 15 to 64 citizens with mentally disabled ID
7	Autism Foundation	Pre-school children with autism or other mental disabilities
8	Hsinchu / Miaoli TFCF Hsinchu	Children under the age of 18 and their families
9	Hsinchu/Miaoli Child Welfare League Foundation	Child Welfare Advocacy / Research / Services
10	Boyo Social Welfare Foundation	Disadvantaged families among high school and elementary school students
11	Premature Baby Foundation	Prevention of premature babies and quality of education and medical care
12	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 disadvantaged groups support themselves, Phison set up a charity sales section in the 7F cafeteria that disadvantaged groups may use at different times for charity sales, event promotion and fund-raising. Phison employees also embraced the philosophy of spreading goodwill by giving their full and enthusiastic support to every charity sale. A total of 34 charity sales were hosted in 2014.

Charity sales groups	Charity sales merchandise
Holy Family for Special Education	Handmade dumplings, snack
Hwa Yen Development Center	Potted orchids, life articles, foods, commodities
Huashan Foundation	Foods, commodities, yearly raised festival gift boxes
Hsin Mao Development Center	Pot plants ,rags, moon cakes gift boxes
Autism Foundation	Foods, commodities
Yu An Children's Home	Foods
DreamAngel Care Patients Association	Foods, commodities



### 2014 Second Hand Item Donation

Recipient	Donated goods
Hwa Yen Development Center	Pre-owned commodities, donated receipts
Yu An Children's Home	Pre-owned clothing
Hsin Mao Development Center	Pre-owned clothing, books
Child Welfare League Foundation	Pre-owned commodities



The plant also hosts receipt donation boxes and a Second hand item area. Clothing, small electrical appliances, books and other usable items are all welcome. This event has been run for three successive years and more than five donations are made each year.

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.



### Eden Social Welfare Foundation

Eden – Hsinchu City Care Service Center for Mental Retardation belongs to social welfare program in Hsinchu City Government, Eden Hsinchu Branch Office has managed the severe disability maintenance agency since 2010. It provides physically and mentally disabled with complete rehabilitation services and delivers a warm sense of "home" to more disabilities.



Area	Support project	Service person of the project
Health and security	Rehabilitation and assistant devices	34
	Enhanced environment -UV sterilizer	31
	Enhanced environment - Wall Painting	34
Lifelong Learning	Yoga, painting, Animal-assisted therapy, Comprehensive Teaching	44
Neighborhood	Thematic community adaptation	34
Other expenses	Health management- food and drink expenses	34
	General expendable expenses	34
	Disadvantaged adoption families- (Zheng, Lee, Yuan, Chen)	4



### Coming home

Mei is a 54-year-old woman, multiple disabilities with retarded conditions and cerebellar atrophy accompanied with other acquired physical and mental defects in terms of epilepsy seizures and mentality deterioration. Therefore, she was sent to City Care Service Center for Mental Retardation in Hsinchu.

Originally, she had to wait for shuttle bus to carry her home, and eat dumplings that her mother made each week.

After her mother's death, relatives did not know how to tell her the truth. One day, Mei said to teacher "Yesterday, I dreamed that my mother told me to take good care of yourself."

Since then, Mei has never said the words "Come back home". It is the service center that has become her only home.

Source: Eden Social Welfare Foundation – Hsinchu City Care Service Center for Mental Retardation

### Glossary Proper Nouns

Abbreviation	Full Noun
AES	Advanced Encryption Standard
DEVSLP	Device Sleep
DRAM	Dynamic Random Access Memory
DSP	Digital Signal Processor
UFS	Universal Flash Storage
EICC	Electronic Industry 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 Memory
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
RTOS	Real-Time Operating System
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 NGFF, Next Generation Form Factor

### GRI G4.0 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 5.5 Risk Management	026 041
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	011
G4-8	Markets served.	4.2 Global Operations	023
G4-9	Scale of the organization.	4 About Phison	011
G4-10	Number of employees.	4 About Phison	011
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	011
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.	
G4-16	List memberships of associations (such as industry associations) and national or international advocacy.	4 About Phison	011
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	011
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-editing.	
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	No significant changes.	
G4-24	Provide a list of stakeholder groups engaged by the organization.	3 Communication with Stakeholders	007
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.	2013	
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 2014.	
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 2014	
EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	○	Not disclosed	
EC6	Proportion of senior management hired from the local community at significant locations of operation.	●	7.1 Employee Overview	049
EC7	Development and impact of infrastructure investments and services supported.	●	9 Spreading Goodwill	086
EC8	Significant indirect economic impacts, including the extent of impacts.	●	9 Spreading Goodwill	086
EC9	Proportion of spending on local suppliers at significant locations of operation.	●	8.4 Green Supply Chain Management	084
Environmental		Status	Disclosed Chapter	Page
EN1	Materials used by weight or volume.	●	8.1 EHS Policy	072
EN2	Percentage of materials used that are recycled in/out materials.	○	Not disclosed.	
EN3	Energy consumption within the organization.	●	8.1 EHS Policy	072
EN4	Energy consumption outside of the organization.	●	8.1 EHS Policy	072
EN5	Energy intensity.	●	8.1 EHS Policy	072
EN6	Reduction of energy consumption.	●	8.1 EHS Policy	072
EN7	Reductions in energy requirements of products and services.	●	8.1 EHS Policy	072
EN8	Total water withdrawal by source.	●	8.1 EHS Policy	072
EN9	Water sources significantly affected by withdrawal of water.	●	Phison has no manufacturing activities and produce no wastewater. Phison regularly detect and report each environmental indicators according to law to prevent polluting plants surroundings. Therefore, Phison has no significant impact to water sources.	
EN10	Percentage and total volume of water recycled and reused.	●	8.1 EHS Policy	072
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN13	Habitats protected or restored.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN14	Total number of IUCN red list species and national conservation list species with habitats areas affected by operations, by level of extinction risk.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN15	Direct green house gas (GHG) emissions (scope1).	●	8.2 ISO Committee	077

Environmental		Status	Disclosed Chapter	Page
EN16	Energy indirect greenhouse gas (GHG) emissions ( scope 2).	●	8.2 ISO Committee	077
EN17	Other indirect greenhouse gas (GHG) emissions (scope 3).	●	8.2 ISO Committee	077
EN18	Greenhouse gas (GHG) emissions intensity.	●	8.2 ISO Committee	077
EN19	Reduction of greenhouse gas (GHG) emissions.	●	8.1 EHS Policy	072
EN20	Emissions of ozone-depleting substances (ODS).	●	8.2 ISO Committee	077
EN21	NOx, SOx and other significant air emissions.	●	8.2 ISO Committee	077
EN22	Total water discharge by quality and destination.	●	8.1 EHS Policy	072
EN23	Total weight of waste by type and disposal method.	●	8.1 EHS Policy	072
EN24	Total number and volume of significant spills.	●	No significant spills in 2014.	
EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, and VII, and percentage of transported waste shipped internationally.	●	Phison has no offshore transport. Waste electronic 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 detect and report each environmental indicators according to law 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	Monetary 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 2014.	
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	078
EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken.	●	8.4 Green Supply Chain Management	073
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms.	●	No environmental impacts related grievances in 2014.	

Labor Practices and Decent Work		Status	Disclosed Chapter	Page
LA1	Total number and rates of new employee hired and employee turnover by age group, gender and region.	●	7.1 Employee Overview	049
LA2	Benefits provided to full-time employees that are not provided to temporary or parttime 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 category according to gender, age group, minority group membership, and other indicators of diversity.	●	5.1 Board of Directors and Supervisors 7.1 Employee Overview	035 049
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	○	Not disclosed.	
LA14	Percentage of new suppliers that were screened using labor practices criteria.	●	8.4 Green Supply Chain Management	084
LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken.	●	No plans for labor practices in the supply chain 2014.	
LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.	●	No labor practices related course in 2014. 7.5 Employee Communications	065

Human Rights		Status	Disclosed Chapter	Page
HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.	●	Although Phison's contracts and agreements don't include human right articles, they still meet requirements of local code.	
HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	●	No human rights related training in 2014.	
HR3	Total number of incidents of discrimination and corrective actions taken.	●	No human rights related training in 2014. 7.2 Employee Policy	054
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.	●	7.2 Employee Policy	054

Human Rights		Status	Disclosed Chapter	Page
HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	●	7.2 Employee Policy	054
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	●	7.2 Employee Policy 8.4 Green Supply Chain Management	054 084
HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations.	●	No human rights related training in 2014.	
HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken.	●	No related event in 2014.	
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 2014.	
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken.	●	No relatd plan in 2014.	
HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.	●	No human rights related grievance in 2014. 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 2014.	
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 2014.	
SO9	Percentage of new suppliers that were screened using criteria for impacts on society.	●	No related plan in 2014.	
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken.	●	No related plan in 2014.	
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 2014.	
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 2014.	
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 2014. 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 2014. 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 2013. 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 2014. 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
	Support a precautionary approach to environmental challenges.	8.1 EHS Policy	072
Environment	Undertake initiatives to promote greater environmental responsibility.	8.1 EHS Policy	072
	Encourage the development and diffusion of environmentally friendly technologies.	6.4 Future Research Directions 8.3 Green Products	047 081
Anti-corruption	Businesses should work against corruption in all its forms, including extortion and bribery.	5.3 Ethical Management	039

### ISO26000 Index

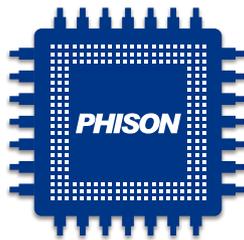
	Themes	Related Sections of the CSR Report	Page
Organizational governance	Due diligence	3 Communication with Stakeholders 5 Corporate Governance	007 034
	Compliance with the law and preventing inspections due to human rights risks	7.2 Employee Policy	054
Human rights	Human rights risk situations	7.2 Employee 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 7.2 Employee Policy	049 054
	Conditions of work and social protection	7.2 Employee Policy 7.3 Compensation and Welfare	054 055
	Social dialogue	3 Communication with Stakeholders 7.5 Employee Communications	007 065
	Health and safety at work	7.6 Workplace Health and Safety	067
	Human development and training	7.4 Cultivation and Education	062
	Pollution prevention	8.1 EHS Policy	072
	Sustainable resource use	8.1 EHS Policy	072
Environment	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
Consumer issues	Respect for property rights	5.5 Risk Management 6.3 Intellectual Property Management	041 046
	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 involvement	9.2 Caring for local Communities	090
	Education and culture	9.1 Charitable Donations	087
Community involvement and development	Employment creation and skills creation	7.2 Employee Policy	054
	Technology 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

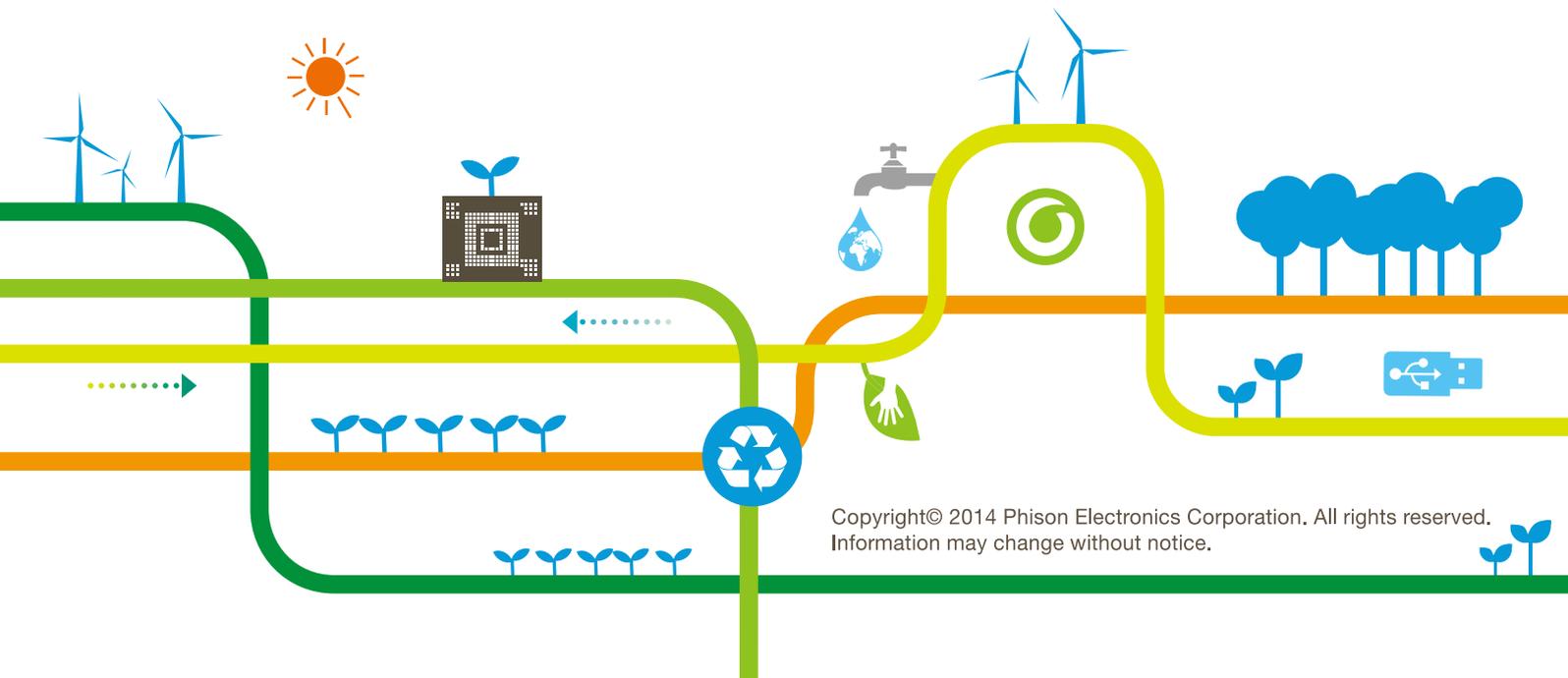
Article	Content	Related Chapters	Page
<b>Chapter 1</b>			
<b>General Principles</b>			
Article 1	In order to assist companies listed on the Taiwan Stock Exchange Corporation ("TWSE") and GreTai Securities Market ("GTSM") (collectively referred to as "TWSE/GTSM listed companies") to fulfill their corporate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

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



Sharing • Integrity • Efficiency • Innovation



Copyright© 2014 Phison Electronics Corporation. All rights reserved.  
Information may change without notice.