

## Supplementary Note on the Case No.3 of Discussion

1. Regarding the agenda discussion of the shareholders meeting—the amendments to of “Procedures for Acquisition or Disposal of Assets” and “Procedures for Engaging in Derivatives Trading” are stated on page 13 of the Handbook for 2019 Annual General Meeting of Shareholders of Phison. The amendments to partial articles of “Procedures for Acquisition or Disposal of Assets”, “Procedures for Engaging in Derivatives Trading”, “Procedures for Lending Funds to Other Parties” and “Procedures for Endorsement and Guarantee” are based on the amendment of “Regulations Governing the Acquisition and Disposal of Assets by Public Companies and “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” by Financial Supervisory Commission R.O.C. (Taiwan). In addition, in conjunction with the application of IFRS 16 "Leases" in 2019, “Right-of-use assets” is adopted as the definition of “asset” under the procedures. Therefore, the examination and amendment for these four procedures are performed in accordance with the operation status of Phison.
2. The amount limitation on the investment in the securities for Phison and its subsidiaries is relaxed to increase the foreign investment opportunities and to seek for the strategic investment and it is described as follows:

The relaxation of the amount limitation in the investment in the securities for Phison and its subsidiaries results in the positive seeking for the strategic partner. Not only the agenda of the private placement for cash to increase capital and to seek for the strategic partner which is adopted by 2019 Annual General Meeting of Shareholders, but also seeking for the opportunities for foreign investment. In accordance with the law and regulation of Taiwan, the capital increase on its 100% holding subsidiaries is still considered as “Securities Investment” based on the individual financial statement in Taiwan. Phison expands gradually; thus, it must increase the operation site to move towards the countries in the world and discuss the strategic investment cooperation opportunities with the strategic partners (Including Phison and its subsidiaries) (Including merge). Consequently, Phison has proposed to increase the amount of limitation in foreign investment to grab a variety of opportunities effectively and immediately. Furthermore, to develop international business to strengthen Phison Group. Therefore, the amendment of the relaxation of the amount limitation in the investment in securities investment along with the individual securities investment. The amount limitation in the investment

in securities investment along with the individual securities investment of the subsidiaries of Phison is respectively 60% and 40% of the net worth of Phison to increase investment flexibility.

Phison performs the foreign investment strictly abides by the laws and regulations in Taiwan and conducts the investment after cautious evaluation according to the internal and external regulations and authorization levels. The re-investment policy is mainly to cooperate with the thorough development in NAND FLASH system integration technology. With strategic investment, diversified operations and expansion of the investment direction of the business as well as increasing investment income to enhance shareholders' equity.

3. The reasons for adjusting the transaction authorization amount of forward foreign exchange trading and contract of foreign currency options for derivatives trading are as follows:

The amendment of “Procedures for Engaging in Derivatives Trading” is in conjunction with the amendment of the relevant law and regulations by competent authorities.

- (1) The latest (previous) amendment of “Procedures for Engaging in Derivatives Trading” of regarding the transaction authorization amount of forward foreign exchange trading is at 2009 Annual General Meeting of Shareholders, and the transaction authorization amount is the monthly cumulative contract amount of US\$ 10,000 (inclusive). Within the scope of authorizing the approval of the chairman of the board of directors, the total amount of the contract is accumulated in the amount of US\$10,000 per month (excluding), and the board of directors is authorized to pass the resolution. The amendment of the transaction authorization amount of the foreign currency option occurs at the 2014 Annual General Meeting of Shareholders. The chairman's transaction amount is limited to the amount of the estimated foreign currency net or net expenditure of the company for the next six months by the contract of foreign currency options. Moreover, the accumulated effective contract net amount may not exceed US\$ 10,000. The above transaction authorization amount has not been amended more than five years, so it is necessary to be re-examined.
- (2) Since 1999, the company's revenue has continued to grow from NT\$24.38 billion in 1999 to NT\$32.84 billion in 2014, and has grown to NT\$40.8 billion in 2018, which has increased the net position of foreign currency. The main

hedging method is to reduce its foreign currency net position by US dollar lending, foreign exchange spot trading and operation of derivative financial products in order to avoid exchange rate risk. Phison always focuses on the operation of its industry. If the exchange rate fluctuates greatly, the cost of the hedging transaction will also increase; Phison always adopts a conservative and steady approach to the operation of derivative financial products; hence, the internal control over the treatment of derivative financial products is strict. As a result, for the growth of the company's operations, it is necessary to appropriately increase the amount of transaction authorization.

- (3) In order to make Phison's operation of averting exchange rate risk be more flexible and lower its hedging cost in the future, in conjunction with the procedure amendment, the forward foreign-exchange trading authorization amount of the derivative commodities is adjusted to the monthly accumulated amount of 30,000,000 US dollars. This amount is about 1/6 of the foreign currency net position of 186,000,000 US dollars at the end of December 2017 and about 1/4 of the foreign currency net position of 128,000,000 US dollars at the end of December, 2018. Thus, the adjustment and increase should be reasonable. In addition, the effective contract amount of the authorized amount of the contract of foreign currency options may not exceed 10,000 US dollars. This amount accounts for about 1/9 of the net position of 186,000,000 US dollars at the end of December, 2017 and 1/6 of the net position of 128,000,000 US dollars at the end of December, 2018. Thus, the adjustment and increase should be reasonable.
- (4) In the future, Phison will continue to cautiously examine the necessity of engaging financial derivatives and control risks by focusing on the industry and adhering to a conservative and steady attitude and enriching the expertise of these commodities.