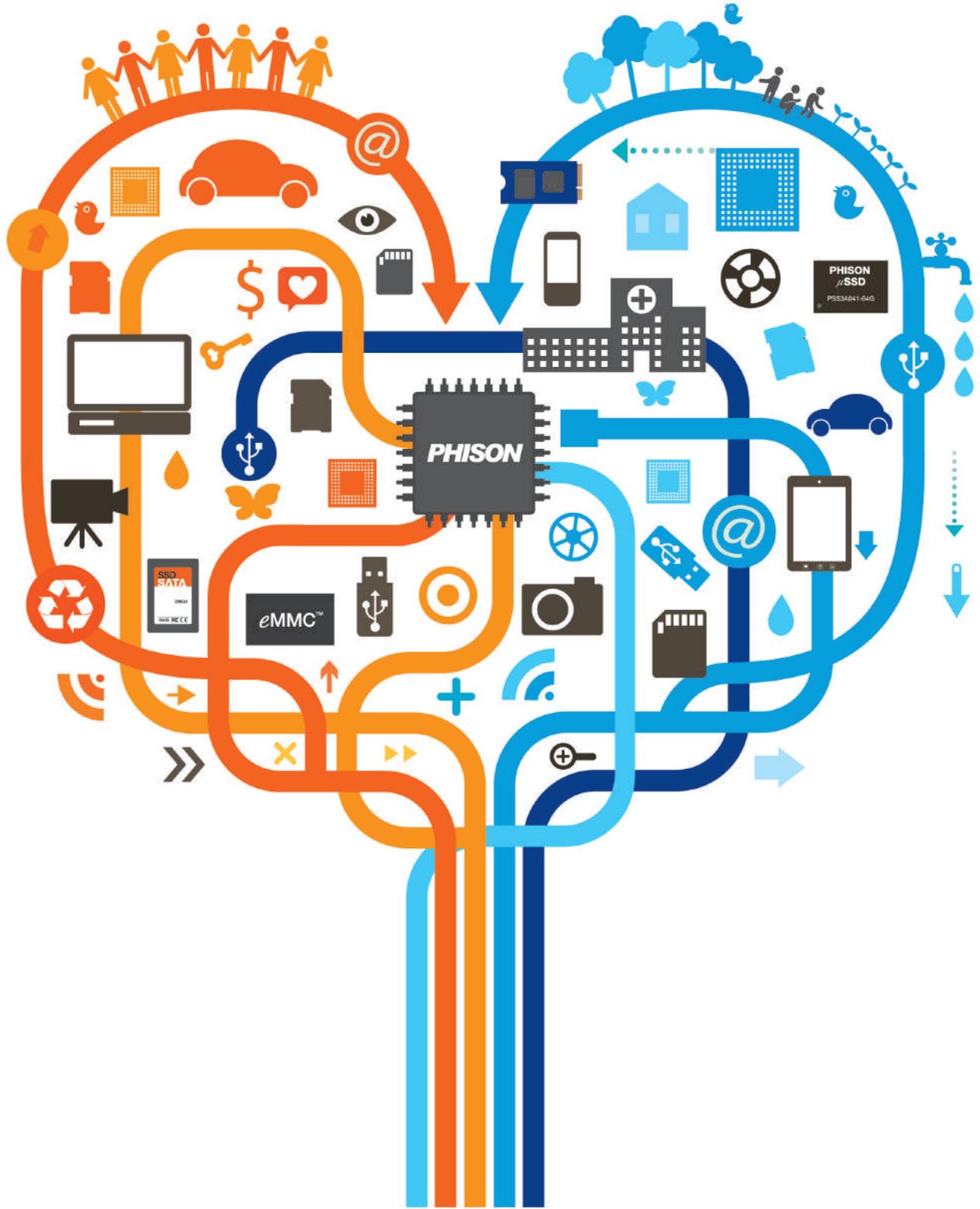


2013

Corporate Sustainability Report



Corporate Sustainability Report



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About This Report

Reporting Period and Publication

Welcome to read the "Phison Electronics Corp. 2013 Corporate Sustainability Report". This report is the first corporate sustainability report to be published by Phison Electronics Corp. ("Phison"). Disclosure period is from January 1, 2013 to December 31, 2013. 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 two years as a key component in the fulfillment of the company's corporate social responsibility. This report is released in both Chinese and English. For the accessibility and readability of all stakeholders, this report can be downloaded from the Phison corporate website (Website address: www.phison.com).

Report Basis and Scope

The compilation of this report is based on the GRI 3.1 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 G3.1 as well as three major principles, materiality, completeness and responsiveness, of the AA1000 AccountAbility Principles Standards. The GRI G3.1 content index is also provided in the Appendix for reference.

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

Report Verification

To ensure the transparency of disclosure, all of the information and data published in this report were verified by the Taiwan branch of the British Standards Institution (BSI) and complies with GRI G3.1's A+ application grade and the spirit of AA 1000 AS application type 1. The BSI independent assurance opinion statement is included in the Appendix.

Feedback

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

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From the Chairman

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

Core Values: Caring, Trust, Honesty and Concern

In Phison's 14 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".

For example, we hold a supplier conference at the end of each year. Everyone eats together and there is also a lucky draw. In 2011, when the lucky draw ended some suppliers called for extra bonuses. The winners would have their payment terms halved, and we agreed. Three suppliers won this prize in 2012, and in 2013 seven suppliers received this end-of-year party prize as well. For suppliers that have loans to pay, earlier payment by us put them at more ease. We may lose out on a small amount of interest but being able to alleviate the stress on suppliers from cash flow problems serves a far more worthwhile cause.

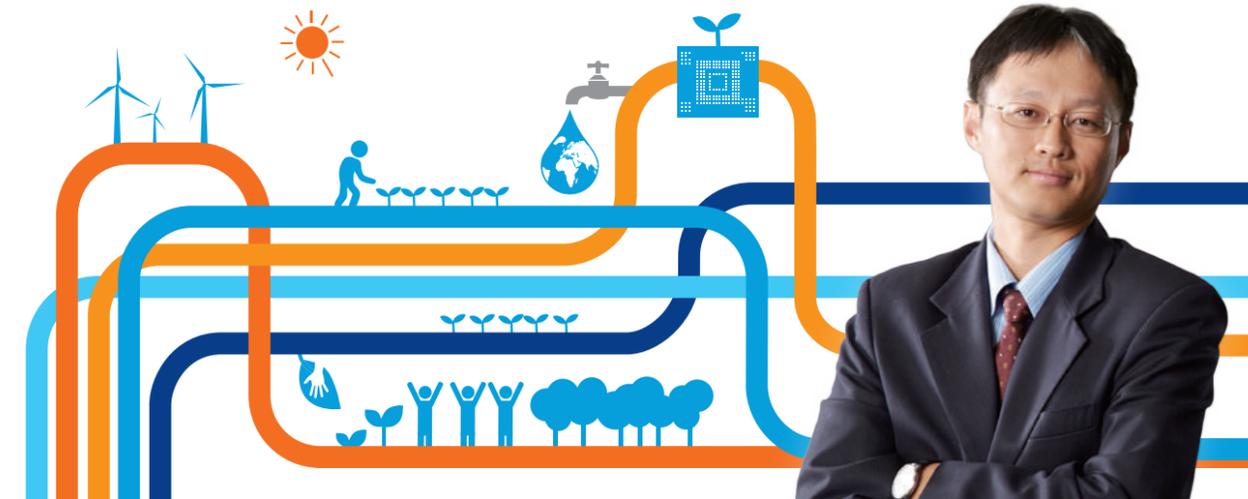
Guarantee Total Transparency and Honesty to Investors

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

Phison Chairman Pua Khein Seng



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.

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.

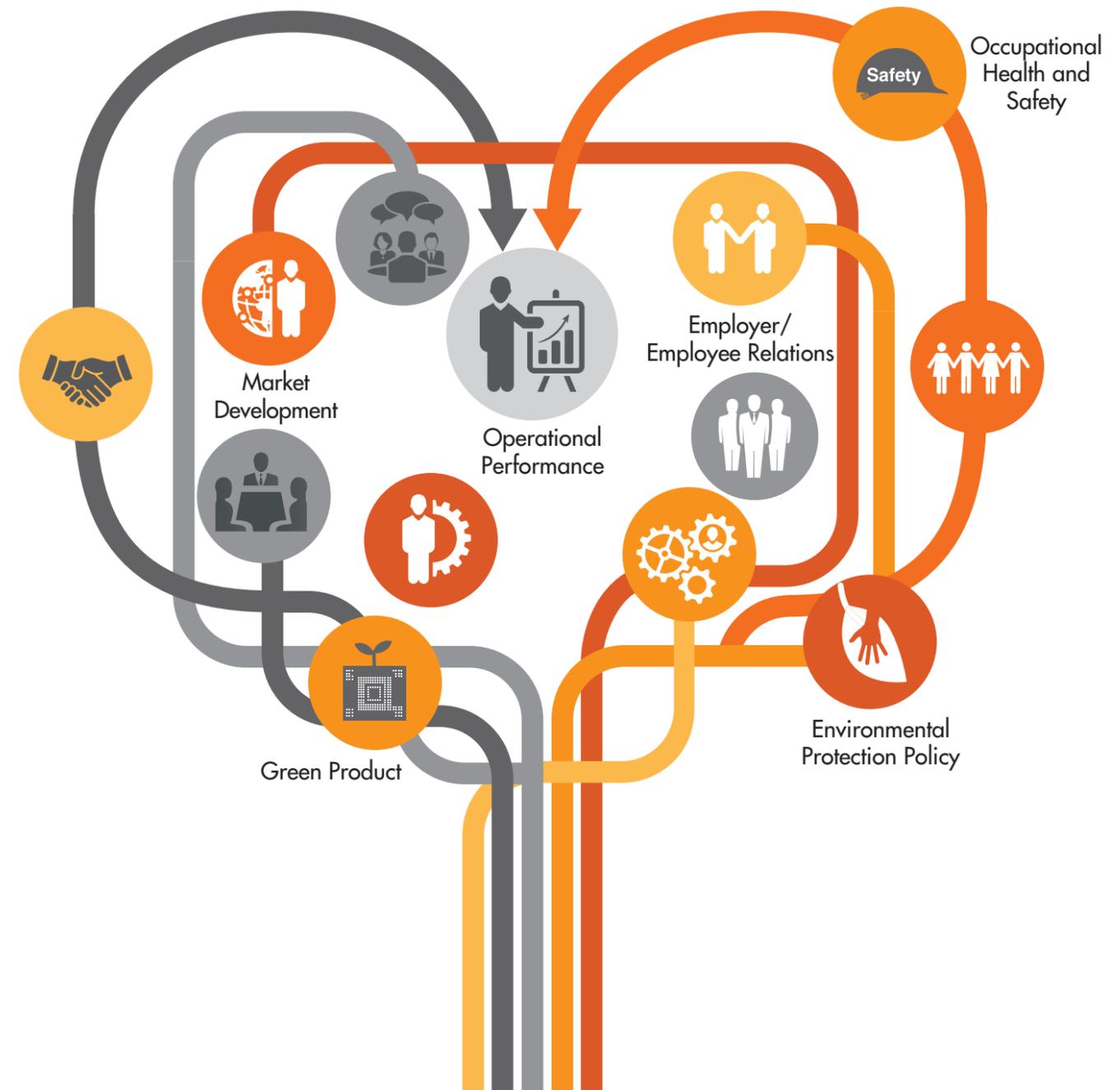
Phison employees know that they must uphold our corporate culture by not indulging in red tape, avoiding excess, rejecting kickbacks, curbing power and money games, working hard, and understand the meaning of gratitude. We often tell our employees that the only relationship in the world where there is 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 first Corporate Sustainability Report with everyone. It is slightly different from the financial reports that everyone is familiar with as the report sets out Phison's sustainability vision, corporate culture, business strategy, environmental protection and social responsibilities in a systematic manner. It also reveals the potential value of Phison's intangible assets, especially for the environment and society. This is something that everyone has neglected in the past.

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

3 Communication with Stakeholders



Communication with Stakeholders

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

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

Step 1 Refer to GRI Guidelines

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

Step 2 Conduct a survey regarding issues of the stakeholders concern

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

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

Step 3 Materiality analysis of sustainability issues

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

Step 4 Establish complete overview of key sustainability issues

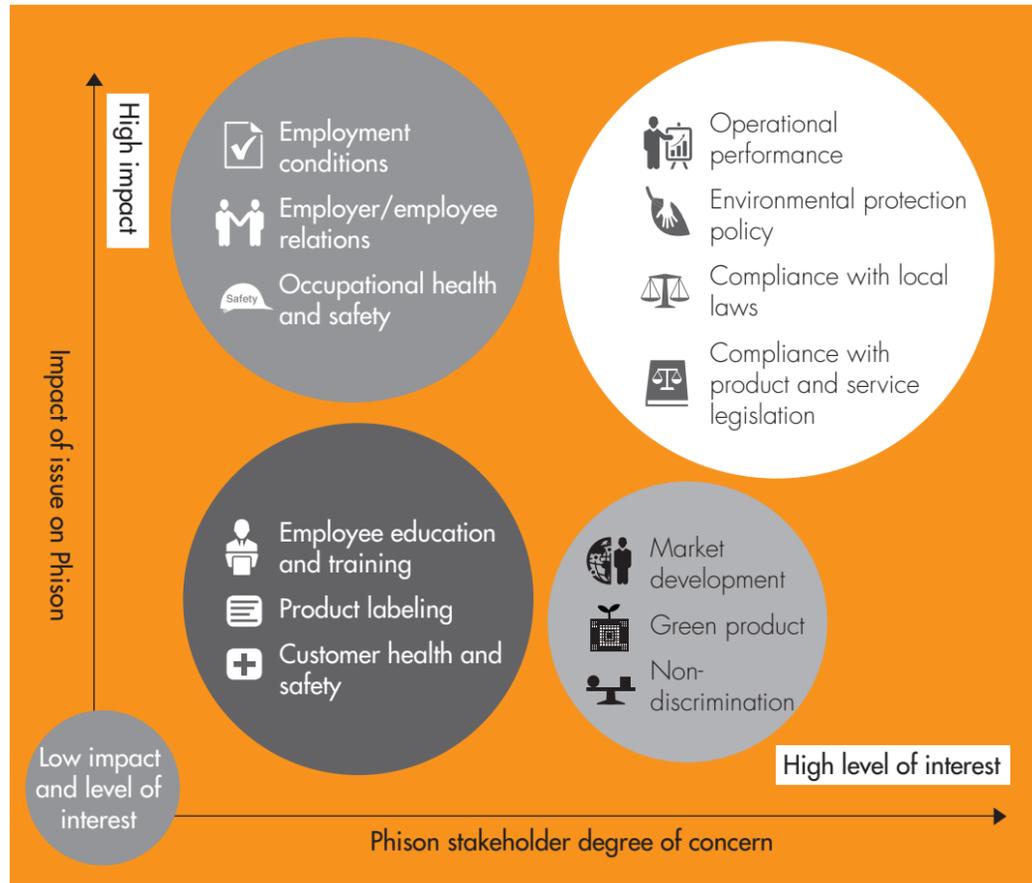
Regarding key sustainability issues, conduct data gathering and compilation and confirm compatibility with the four main reporting principles, materiality, stakeholder participation, sustainable development background and completeness, in order to ensure full disclosure in the report.

Communications and Relevance between Departments and Stakeholders

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



Materiality Analysis Matrix



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



Response to The Top 10 Sustainability Issues

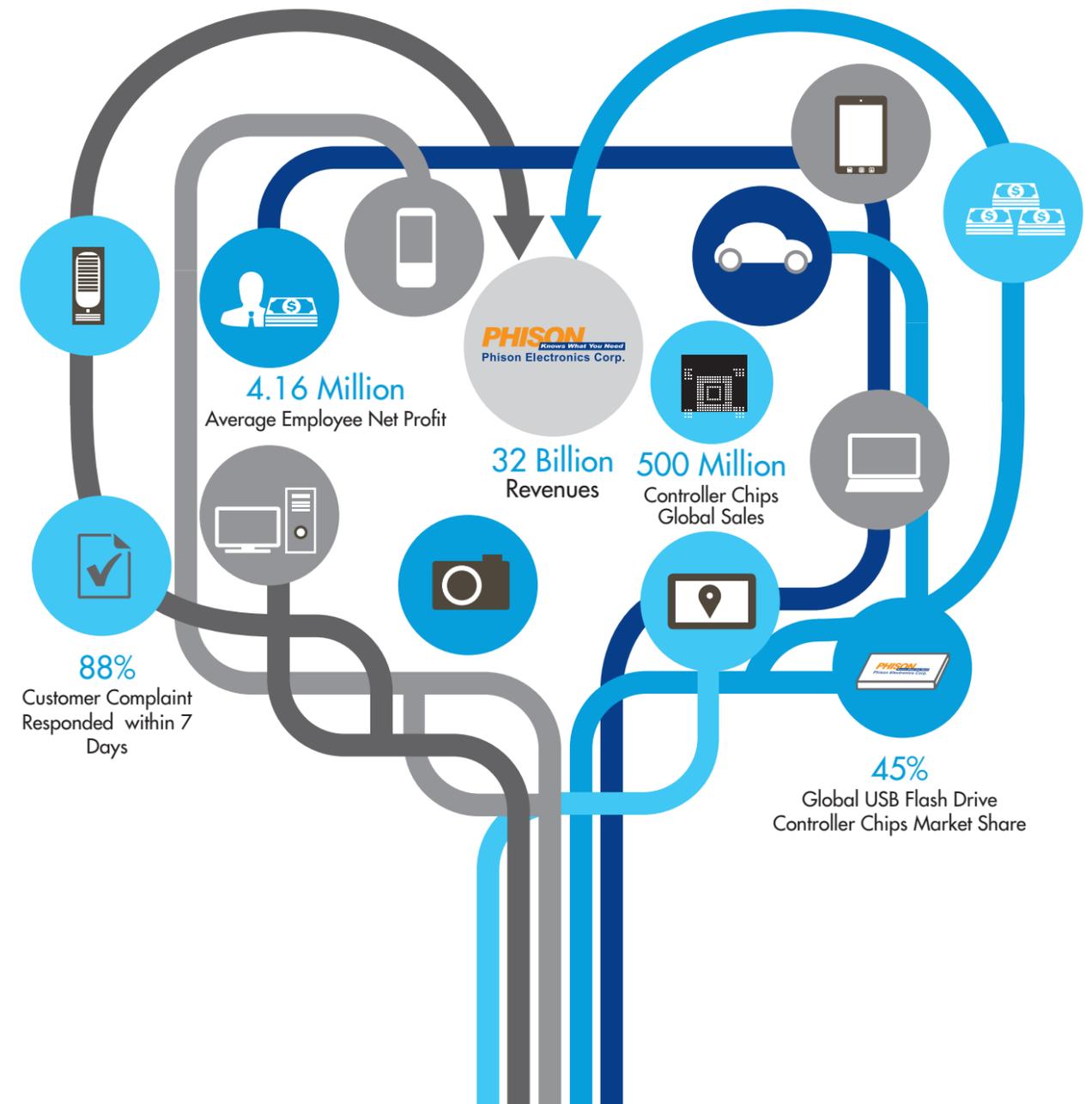
Sustainability Issue	Response Chapter	Description	Stakeholders	Performance
Operational performance		Operational performance and investment profit / loss	Employee Investor	Revenue of \$32 billion, net profit after tax of \$3.1 billion, total assets of \$19.8 billion, EPS of \$17.6. All operational performance indicators show annual growth.
Market development	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 2014 in the continued development of core technologies as well as expansion into Flash memory-related application system products.
Compliance with local laws	5. Corporate Governance	Compliance with laws and regulations, and any violations	Government	Complied with local laws and regulations with no violations in 2013.
Non-discrimination		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	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		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".

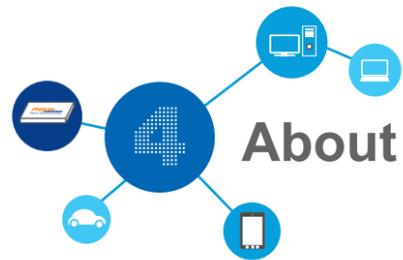
Sustainability Issue	Response Chapter	Description	Stakeholders	Performance
Occupational health and safety 	7. Truly Caring for Employees	Prevention and management of accidents, disasters and occupational disease	Employee	The OHSAS 18001 occupational health and safety management system was introduced to effectively manage potential environmental risks in the workplace and to ensure that employees can enjoy a safe, healthy working environment.
Environmental protection policy 		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 	8. Environmental Responsibility	Environmental impact of products and services	Customer Supplier	Phison provides clients with complete customization solutions including green design, green purchasing, green manufacturing, green logistics, recycling and audit evaluation. Phison does comprehensive environmental impact evaluation of products and services.
Compliance with related product and service regulations 		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 2013.

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 2013 Phison Sustainability Report. These will be re-examined to carry out issue adjustment and performance reviews in the next sustainability report. This will help drive corporate self-inspection and improvements, and makes Phison meet stakeholders' expectations.

4 About Phison

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



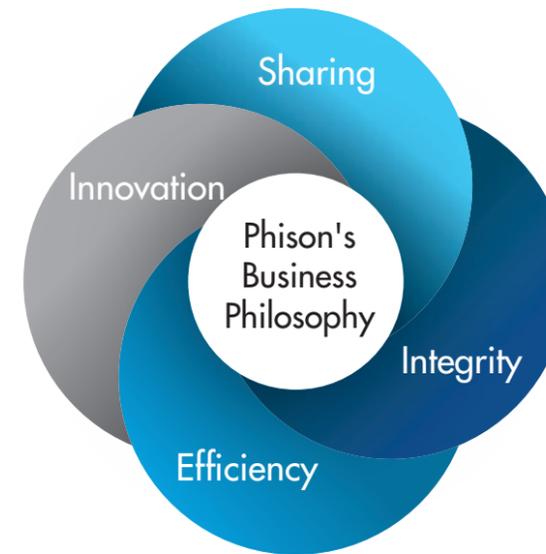


About Phison



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.

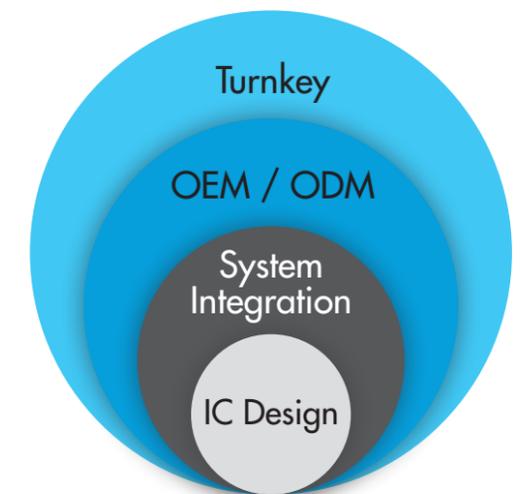
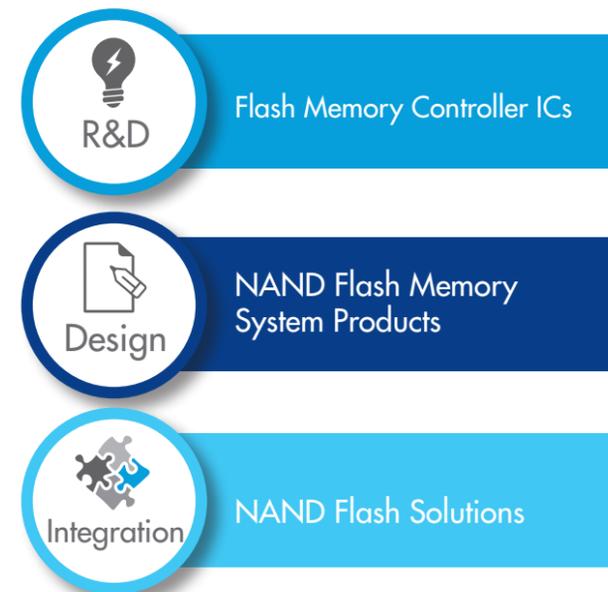
In 2013, our controller chips global sales exceeded 500 million and revenue reached NT\$32billion. This meant that on average, each employee created 4.16 million in net profit. Phison is now the leader in controller ICs for USB flash drives, SD (Secure Digital) memory cards, eMMC (Embedded Multimedia Card) , PATA (Parallel Advanced Technology Attachment) , SATA (Serial Advanced Technology Attachment) and SSDs (Solid State Disk).



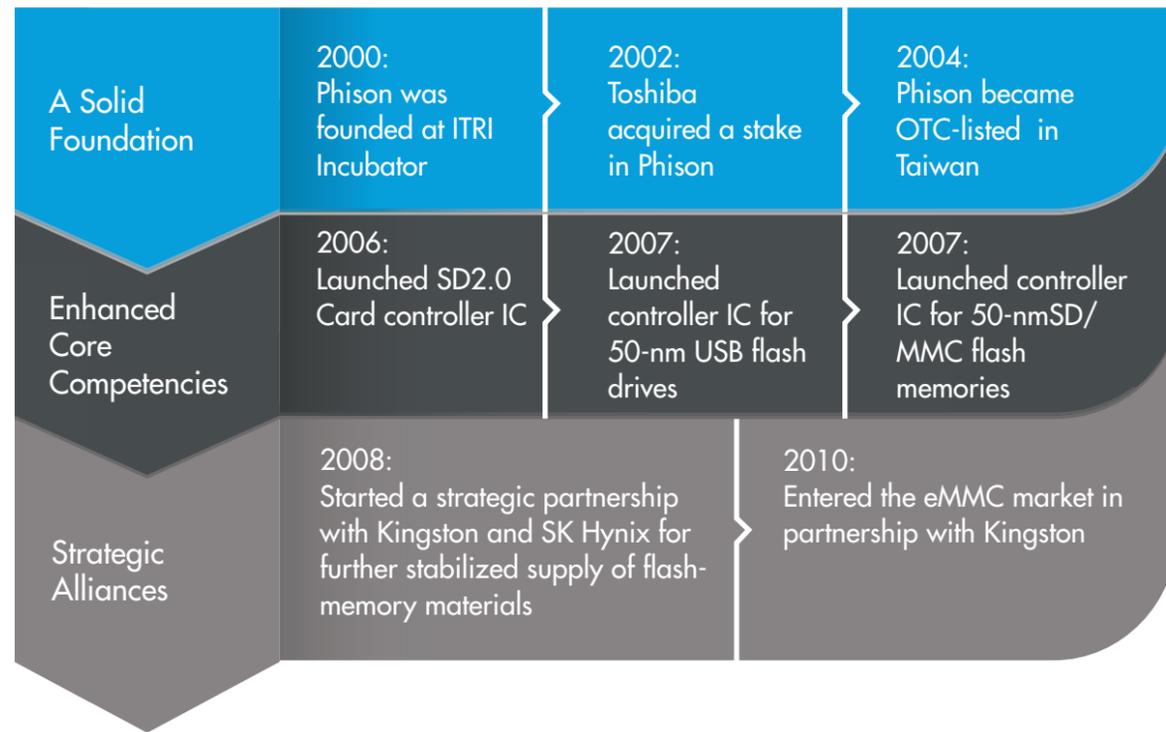
At the same time, Phison is willing to share with all stakeholders the value created in accordance with its business philosophy of "Sharing, Integrity, Efficiency, Innovation". The building of a partnership based on mutual trust enables both parties to collaborate in the most efficient manner and to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



Phison Milestones



2014 Strategic Objective - Quality Upgrading Year



Next year Phison's top priority will be gaining a foothold in the eMMC and SSD markets with relevant IC products launched as soon as possible. We'll also have to improve product quality — notably in terms of certification efficiency and effectiveness — so we don't fall behind competitors for rejected products and subsequently suffer delays in the mass production process.

We also plan to gradually enter an automotive-grade market characterized by finicky, quality-minded customers. In other words, we must hold ourselves to a higher standard quality-wise in order to break into the auto-grade product market. As part of our annual goal for the coming year, managers should urge all employees to pursue quality.

— Chairman Pua Khein Seng

4.1 Business Model



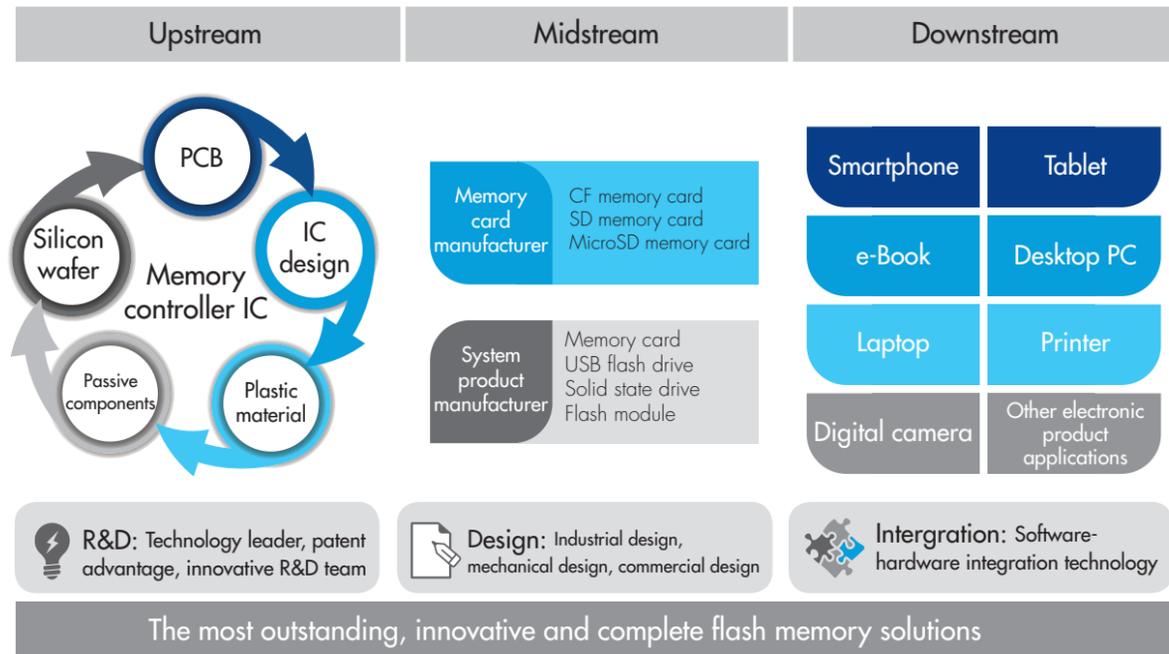
Item	2011	2012	2013
Revenue	32,345,861	33,091,069	32,173,947
Operating cost	27,811,756	28,063,153	26,454,018
Gross profit	4,534,105	5,027,916	5,719,929
Income tax expense	369,015	369,690	587,107
Employee compensation and welfare	1,311,788	1,401,641	1,699,702
Total Assets	15,513,780	17,360,165	19,880,811

Unit: Thousands of NTD

Note 1. Consolidated financial performance for the table

Note 2. Phison prepared 2011 financial performance in accordance with R.O.C. GAAP.

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, USB 3.0 flash drive and SD memory card.

Phison Products

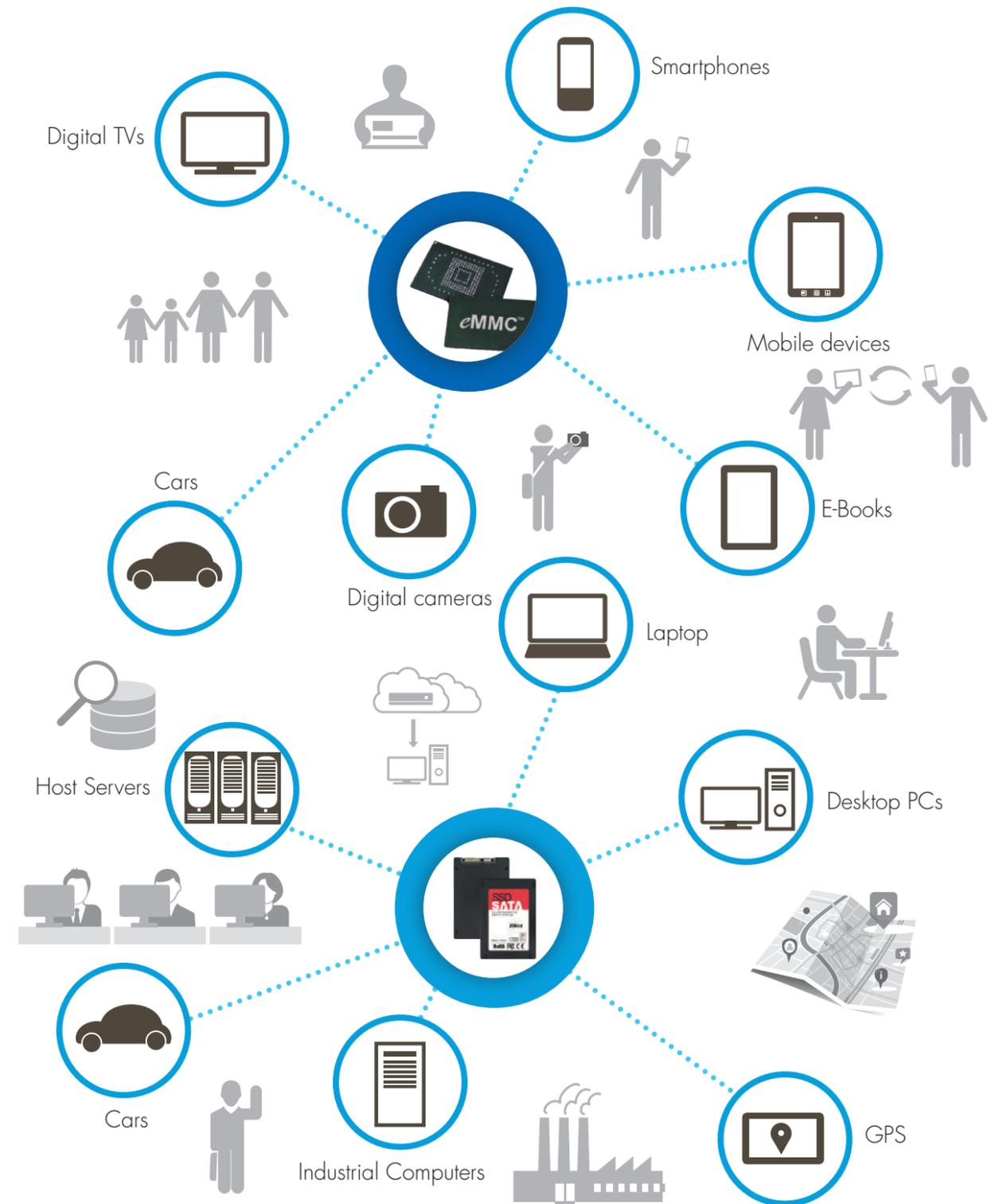
Embedded MultiMedia Cards (eMMC)

Solid State Disks (SSDs)

USB Flash Drives

SD/Micro SD Memory Cards

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 realized product.



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





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

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

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

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

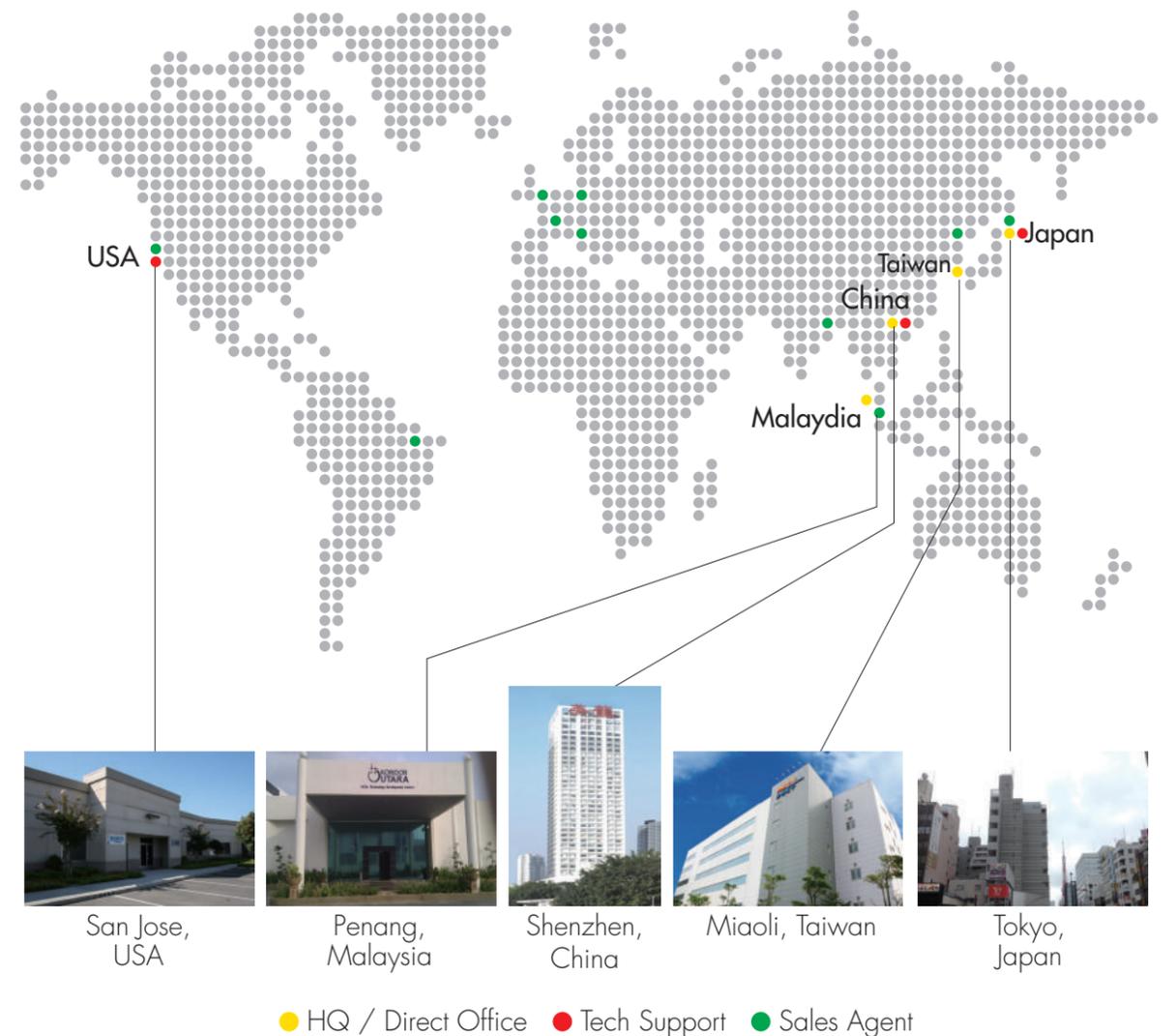
Phison could not concentrate exclusively on systems nor controller ICs. If Phison didn't make controller ICs, why would Toshiba bother backing us? We would have no value. Toshiba backed us because if we can turn a profit then we can continue to develop controller ICs. That means we can then turn around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

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

4.2 Global Operations

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

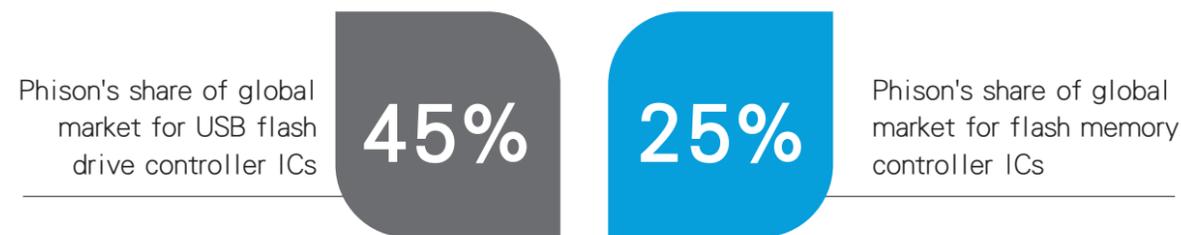
Global Operations Map



Distribution of major sales regions		
Sales regions	2012	2013
Asia	43%	23%
The Americas	13%	24%
Europe	16%	17%
Australia	1%	1%
Domestic sales	26%	34%
Other	1%	1%

In 2013, the overall value of SSD-related controller ICs and end product shipments grew by 53% year over year. The overall value of embedded flash memory product controller IC modules also grew by around 57% 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

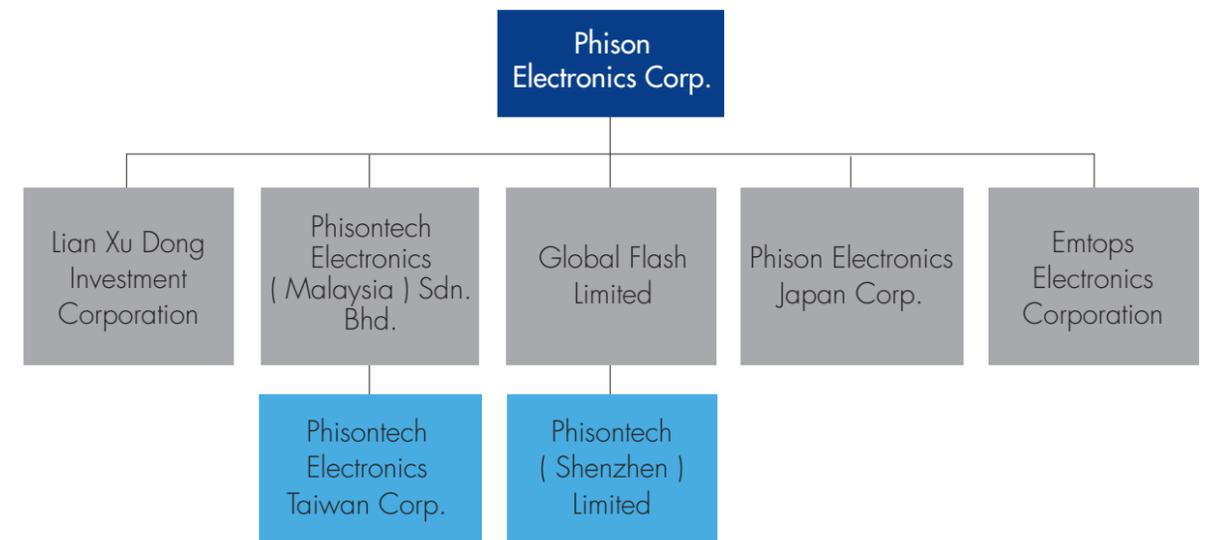


Research by the iSuppli market research firm showed that in 2012, global shipments of flash memory and USB flash drive controller ICs were 1.13 billion pieces and 360 million pieces respectively. Phison's flash memory card controller ICs accounted for 25% of the market while USB flash drive controller ICs accounted for 45%.



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



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 : 11.98%

Partner - Toshiba

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

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

"Toshiba Chairman - Kiyoshi Kobayashi's Commend"



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

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

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

Future Development Challenges and Response Strategies

<p>Blooming industry with numerous new competitors</p>	<p>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.</p>
<p>Global flash memory market dominated by international giants</p>	<p>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.</p>
<p>Diversified product specifications</p>	<p>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.</p>



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



Shareholding of Phison stock : 2.15%

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

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

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

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

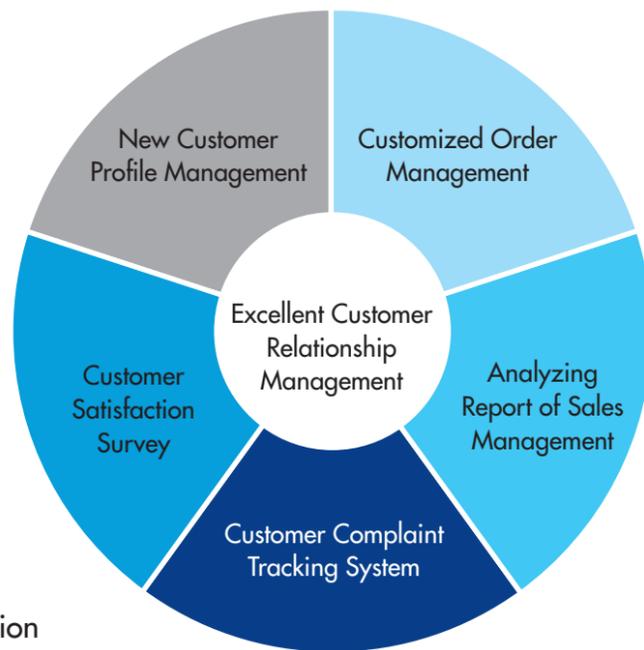
Phison now owns nearly 20% of the controller market but it is stamina that matters. The company must have the capability to develop next-generation application technology. If competitors must purchase controllers from affiliated companies then there is bound to be conflicts of interest. At Phison, all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

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

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

4.5 Customer Relationship Management

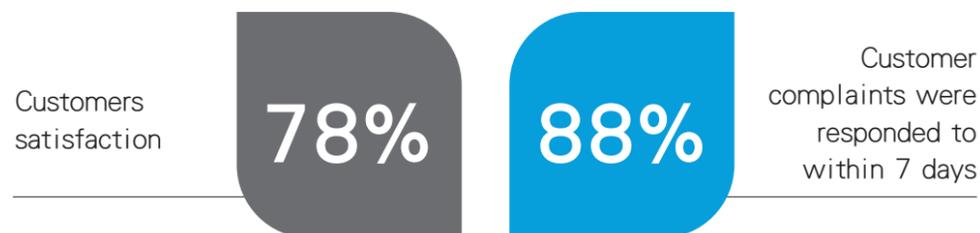
Phison makes satisfying customer requirements its top priority. To achieve excellence in customer relationship management, customer service regulations and processes have been systematized to ensure the consistency of Phison's service quality. This serves as the basis for providing high-quality customer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



Customer Satisfaction

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

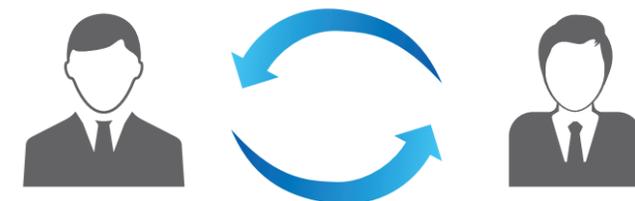
Up to the year of 2013, customer satisfaction among the top 25 customers has generally stayed at around 80%. According to survey results, customers wanted price adjustments. In response, Phison will provide customers with strategic project-specific prices and set/adjust prices based on customers' product 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.



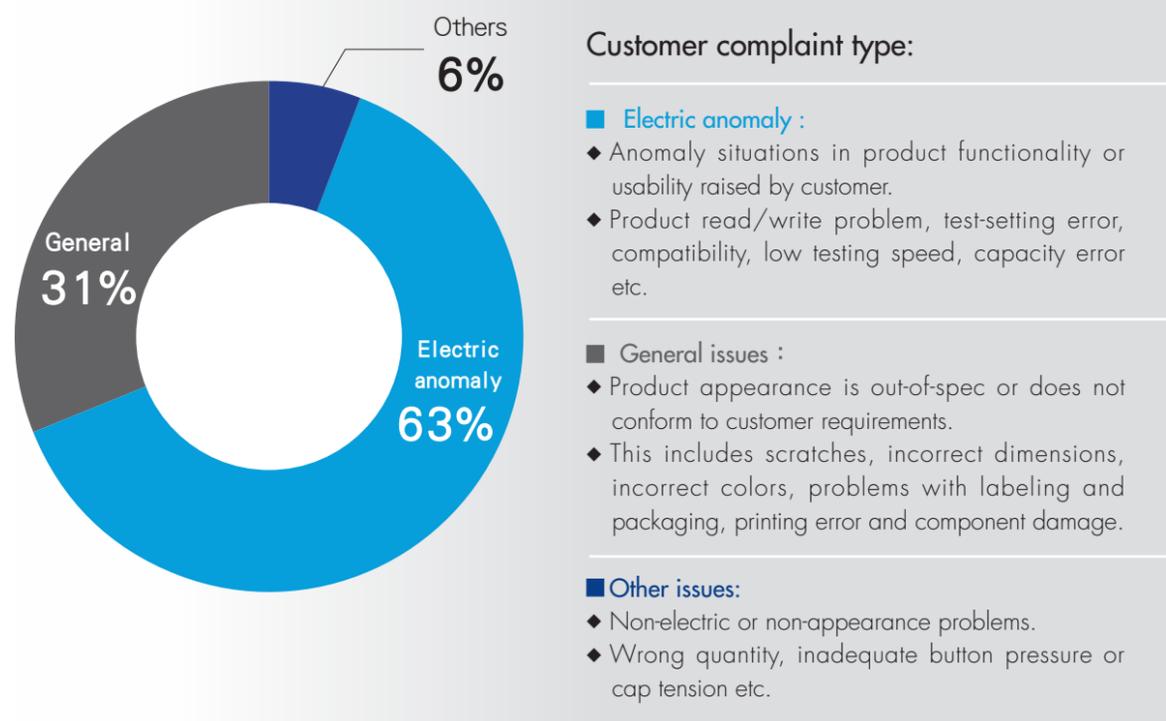
Customer Complaints

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 2013, 88% 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



2013 Customer Complaint Types



4.6 Honors and Awards

2013 Honors

Award
Top 5000 - Largest Corporations in Taiwan
Sony Best Partner Award 2013
Panasonic 2013 Good Supplier Award
Renesas 2013 Best Partner
Toshiba 2013 Award Greatest Sales Contribution
Toshiba 2013 Award Best Partner



Public Recognition

Type	Recognition
Customer and partner recognition	<ul style="list-style-type: none"> ■ Award from Toshiba ■ Award from PNY ■ Award from WBCP ■ Award from Renesas ■ Award from Panasonic ■ Award from SONY ■ Award for Best Partner from FTC ■ TSMC 300nm MFG Technical
Government Recognition	<ul style="list-style-type: none"> ■ Ministry of Economic Affairs - Excellence in Multimedia Video Conferencing Product R&D ■ Ministry of Economic Affairs - TIC Gold Award, National Business Startup Awards ■ Ministry of Economic Affairs - Industrial Innovation Achievement Award ■ Ministry of Economic Affairs - Ranked 86th in Exports / Imports ■ Bureau of Foreign Trade - Top 500 Importers/Exporters ■ Miaoli County - 1st Place in Excellent Workplace Assessment ■ 24th National Manager Excellence Award - Chairman Pua Khein Seng
Independent third-party organizations	<ul style="list-style-type: none"> ■ Bloomberg Business Week "The Tech 100" ■ Rated 65th Globally in the "Best High-Tech Company of the Year" ■ Deloitte - 2005 Asia-Pacific Technology Fast 500 ■ Industrial Technology Research Institute - Best Contribution Award ■ 12th Place in Deloitte 2004 Asia-Pacific Technology Fast 500 ■ 2005 Grand Prize, Asia Science Park Association
Industry Association	<ul style="list-style-type: none"> ■ Award presentation by Asia Pacific Smart Card Association (APSCA) ■ ECQ - Certificate of Approval of Manufacturer
Social Media	<ul style="list-style-type: none"> ■ CtiTV: Influential 100 ■ Digitimes: Top 10 Leaders in Taiwan Top 100 Tech Companies
Social Welfare	<ul style="list-style-type: none"> ■ Certificate of Appreciation: Hsinchu City Mackay Hospital ■ Certificate of Appreciation: Southwest Jiaotong University (Sichuan Earthquake Scholarship) ■ Certificate of Appreciation: Miaoli County Government ■ Certificate of Appreciation: Huashan Foundation ■ Certificate of Appreciation: National Chiao Tung University ■ Certificate of Appreciation: Christian Mountain Children's Home, Kaohsiung

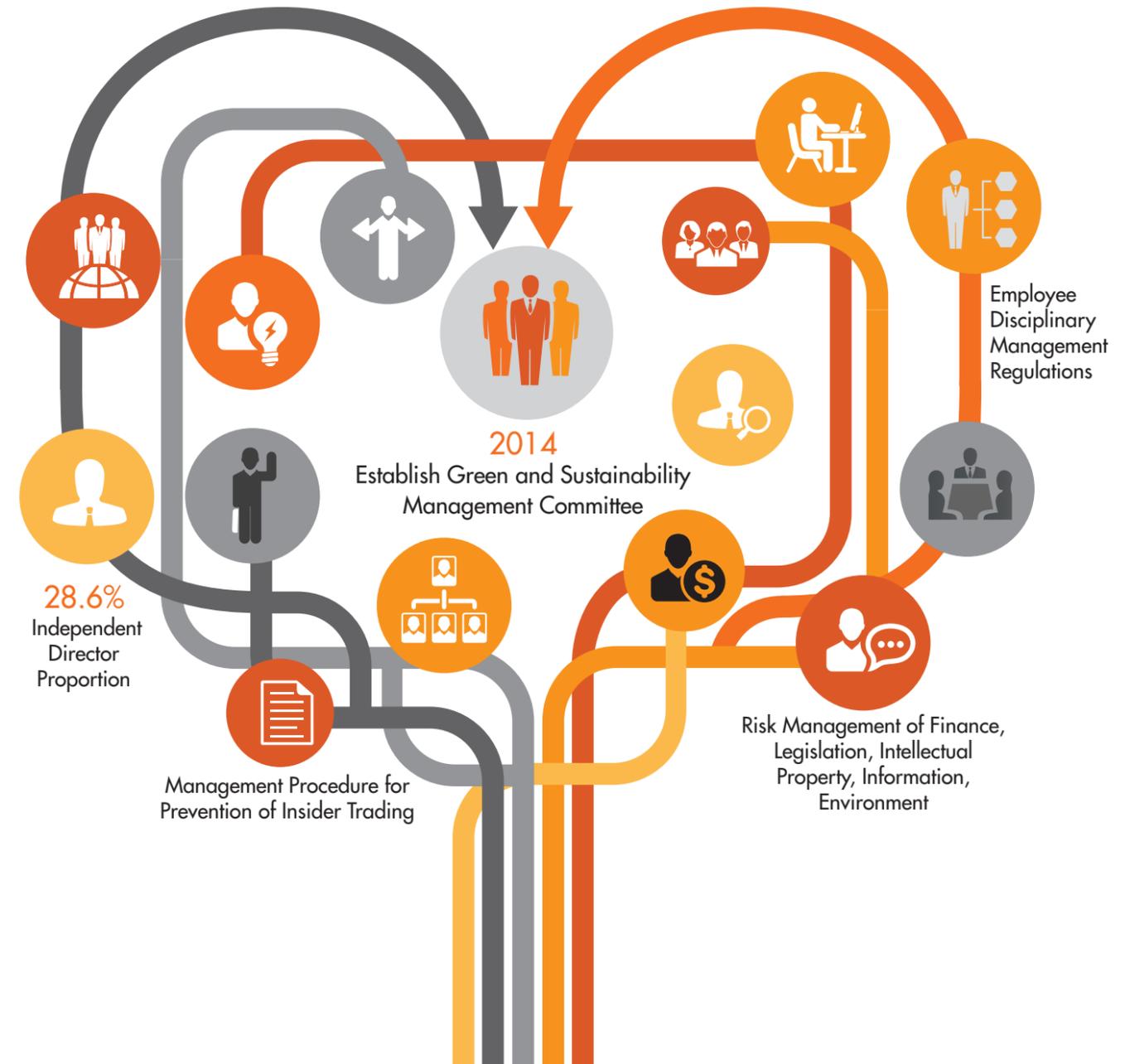
Participation in Industry Associations

Year of Entry	Organization	Membership Type
2009-2014	SD Card Association	Board member
2008-2014	Solid State Drive Alliance	Board member
2007-2014	Joint Electron Device Engineering Council 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





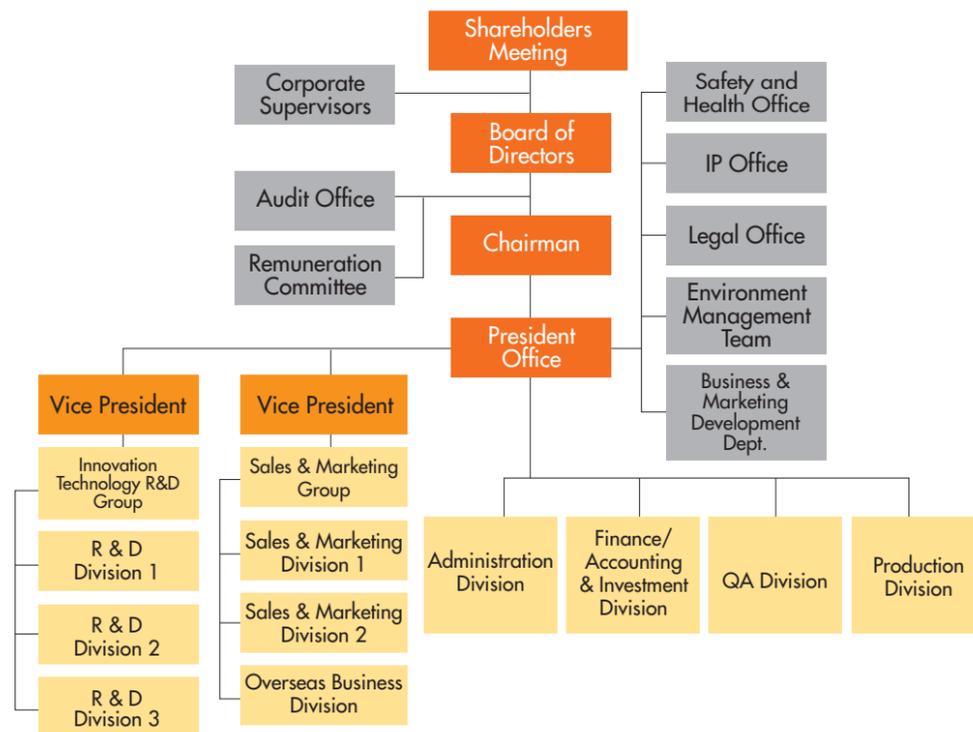
Corporate Governance

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

2014/04/19

Name of major shareholder	Holding (Unit: Shares)	Shareholding percentage
Toshiba Corporation	21,621,112	11.98%
Nan Shan Life Insurance Company Ltd.	12,704,000	7.04%
Cathay Life Insurance Co., Ltd.	7,055,000	3.91%
Yang Jiunn Yeong	4,679,114	2.59%
Pua Khein Seng	4,557,972	2.53%
Aw Yong Chee Kong	3,904,745	2.16%
Kingston Technology Company corporate investment account managed by CITIC Bank	3,874,658	2.15%
SKY Hynix Semiconductor corporate investment account managed by Citibank Taiwan	3,277,054	1.82%
Ng Hon Wai	3,230,760	1.79%
Fubon Life Insurance Co., Ltd.	3,060,000	1.70%

2013 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	5	50%	0	0%
Over 50 years old	4	40%	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	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 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 Huei Ming	Male	MA in Industrial Management from Chung Hua University Executive Director of R.O.C. Certified Public Accountants Association Chairman of Disciplinary Committee of R.O.C. Certified Public Accountants Association Chairman of Disciplinary Committee of Taipei City CPA Association 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)

5.2 Internal Control System

Phison enforces the principle of ethical management in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and other relevant laws and regulations. The Audit Office which reports to the Board of Directors mainly assists the Board and managers to examine and review weakness of internal controls, to measure the effectiveness and efficiency of operation. The Audit Office also provides recommendations on improvements in a timely manner to ensure the continued and effective execution of the internal control system. It is also provide a corrective foundation to revise the internal control system.

Internal Control Process

Planning	According to risk assessment result draft an annual audit plan, and implement it with the board of directors' approval.
Auditing	Appropriate audit process factually reports any flaws and abnormal items which were identified in the internal control system.
Review by Top Management	After the audit report submitted, every supervisors and independent director review the completed audit project before the next month.
Follow-ups	Tracking the internal control system flaws and abnormal items made a tracking report at least quarterly, until the flaws and abnormal items have been improved. Ensuring the relevant units have adopted appropriate improvement in a timely manner.

5.3 Ethical Management

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

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

At the same time, Phison has formulated an "Employee Code of Conduct", "Work Rules" and "Disciplinary Management Regulations" as part of its Employment Contract to prevent dishonest behavior. 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 2013.

The Foundation of Phison - Keeping the 'Game of Money' in Check

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

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

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

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

5.4 Remuneration Committee

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

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

Responsibilities of the Remuneration Committee:

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

Proposals Handled by The Remuneration Committee in 2013

- Evaluation directors', supervisors' and managers' performance.
- Disburse executive's annual and incentive bonus.
- Review director's and supervisor's remuneration as well as executive's and employee's profit-sharing scheme in 2012.
- Regular manager performance evaluation, spring incentive bonus and annual salary adjustment and disbursement plan.
- 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 2012.
- Partial revision of the "Employment and Separation Management Regulations", "Employee Promotion Management Regulations", "Salary Management Regulations" and "Employee Performance Management Regulations".
- Regular manager performance evaluation and fall incentive bonus disbursement plan.
- Discussion of Remuneration Committee work plan in 2014.

5.5 Risk Management

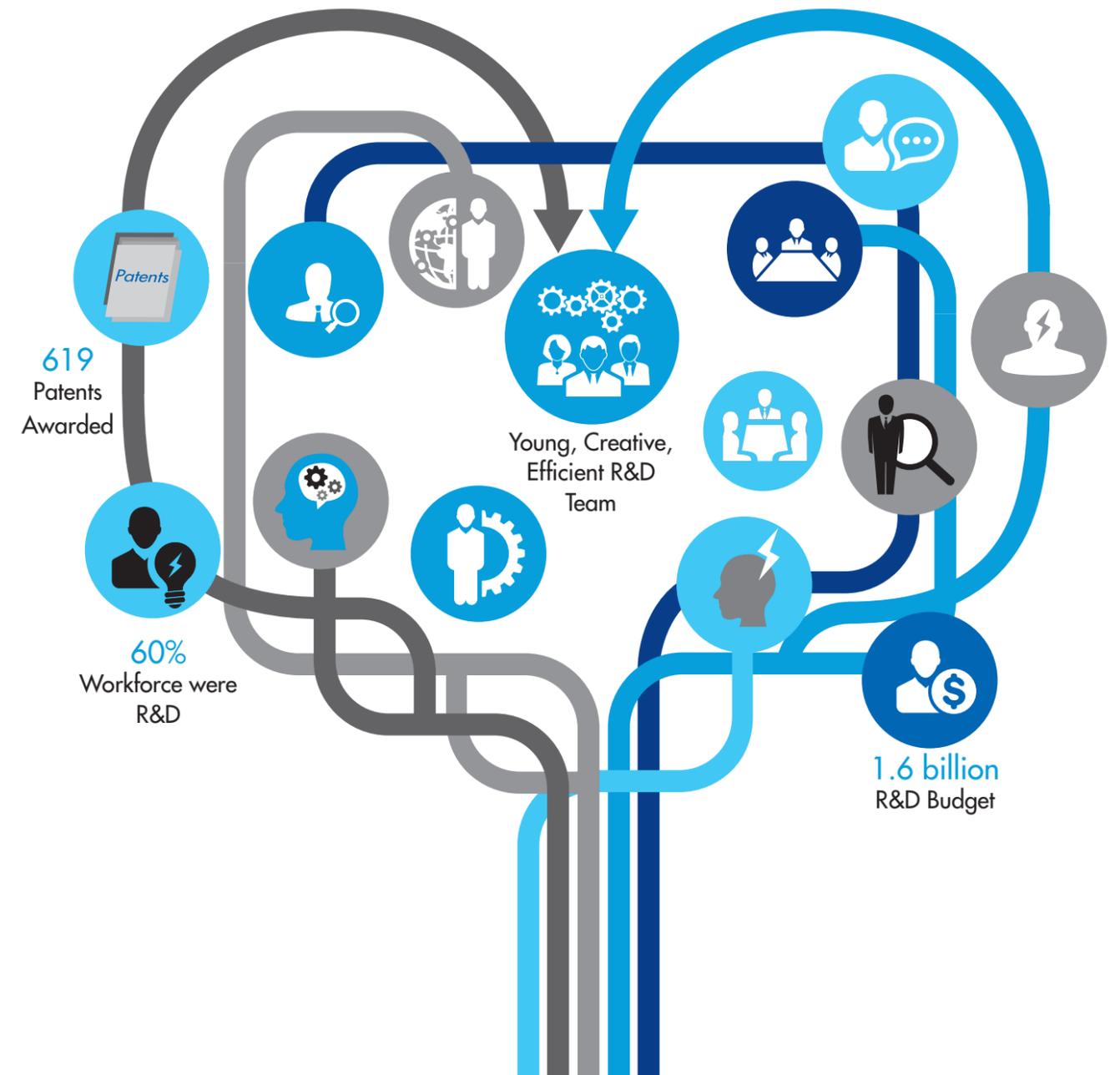


Risk Assessment and Management

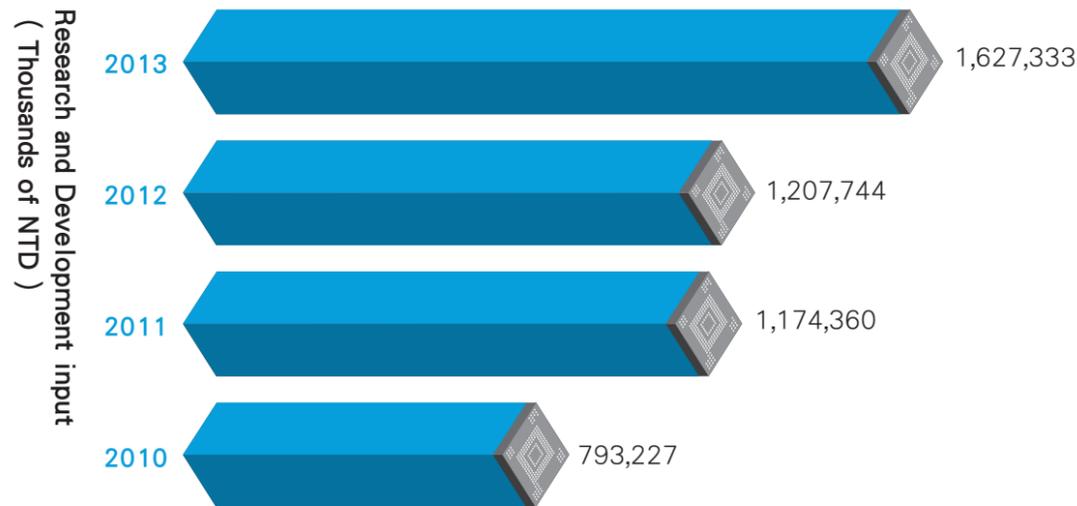
- Financial Risks (Finance & Accounts Dept.)**
 - Evaluate the impact of interest/exchange rate fluctuations and inflation on income statements;
 - Evaluate company policies regarding highly risky or highly leveraged investments, lending activities, endorsements and derivatives transactions; examine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



Innovative R&D



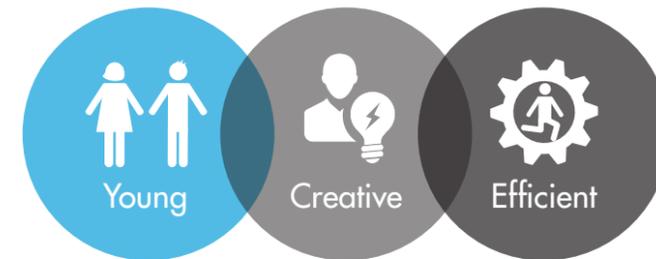
Year	2010	2011	2012	2013
R&D Expenses	793,227	1,174,360	1,207,744	1,627,333
Revenue	31,796,255	32,345,861	33,091,069	32,173,947
R&D input / Revenue	2.50%	3.63%	3.65%	5.06%

Unit: Thousands of NTD

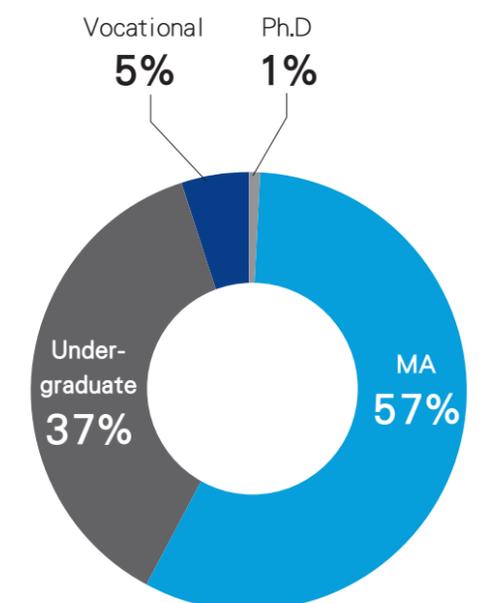
Phison is mainly engaged in the development, design, manufacture and sale of high-tech data storage devices such as flash memory controller IC, USB flash drives and flash memory cards. The core technology of USB flash drives, flash memory cards and products incorporated with NAND flash memory is flash 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 450 professional researchers who cover 60% of total workforce in Phison; the average age is 33 while the average seniority is 4 years. This youthful, enthusiastic and creative engineering team includes 6 Ph.D. and 258 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, PCI-Express (Peripheral Component Interconnect-Express) .

Successful Technology Development in 2013	Next-generation, high-speed eMMC controller IC for handheld devices (e.g., smartphones, eBook readers and tablets) ;
	Systems (i.e., SiP and mSATA/Slim Type SSD Module) that integrate SATA SSD controller IC and flash memories for tablets or low-priced computers;
	SSD with the PCI Express (PCIe) interface to meet business-grade high-speed storage needs;
	WTG-compatible USB3.0 controller IC, inspired by Microsoft's mobile computing solution;
	UHS-I SDXC controller IC and high-speed UHS-SDXC memory cards, catering specifically to the high-end camera market;
	NAND flash controller IC compatible with advanced data encoding/decoding algorithms;
	RTOS-compatible, single-chip controller IC for single-core, high-performance memory cards;
Controller ICs for other embedded flash applications	

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.

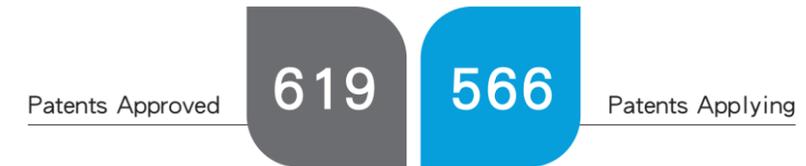
On the contrary, if the core technology can be extended vertically or horizontally, that means it is extendable and your investment will earn limitless profit ceaselessly.

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.



Country	Applying	Approved	Total
Taiwan	191	227	418
Mainland China	213	176	389
U.S.	159	188	347
Other	3	28	31

(Patent Output: As of 2014/03/25)

2013 Patent Ranking	Top 50 on Taiwan-listed (including OTC-listed) Firms with the Highest U.S. Intellectual Property Quotients (IPQs)	No. 56 on Taiwan's "Top 100 Utility Patent Applicants" list
	No. 68 on Taiwan's "Top 100 Utility Patent Awardees" list	No. 82 on Taiwan's "Top 100 Patent Applicants" list
	No. 87 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

- Develop PCIe Gen3 PHY (for next-generation, faster-than-ever data transmission interface) ;
- Develop handheld device-compatible UFS Gear 3 PHY with unprecedented performance and energy efficiency;
- Develop eMMC5.0: a next-generation memory system;
- Develop an ultra-efficient error correction module that integrates DSP and LDPC (with the state-of-art flash memory manufacturing process in mind) .



The Foundation of Phison

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

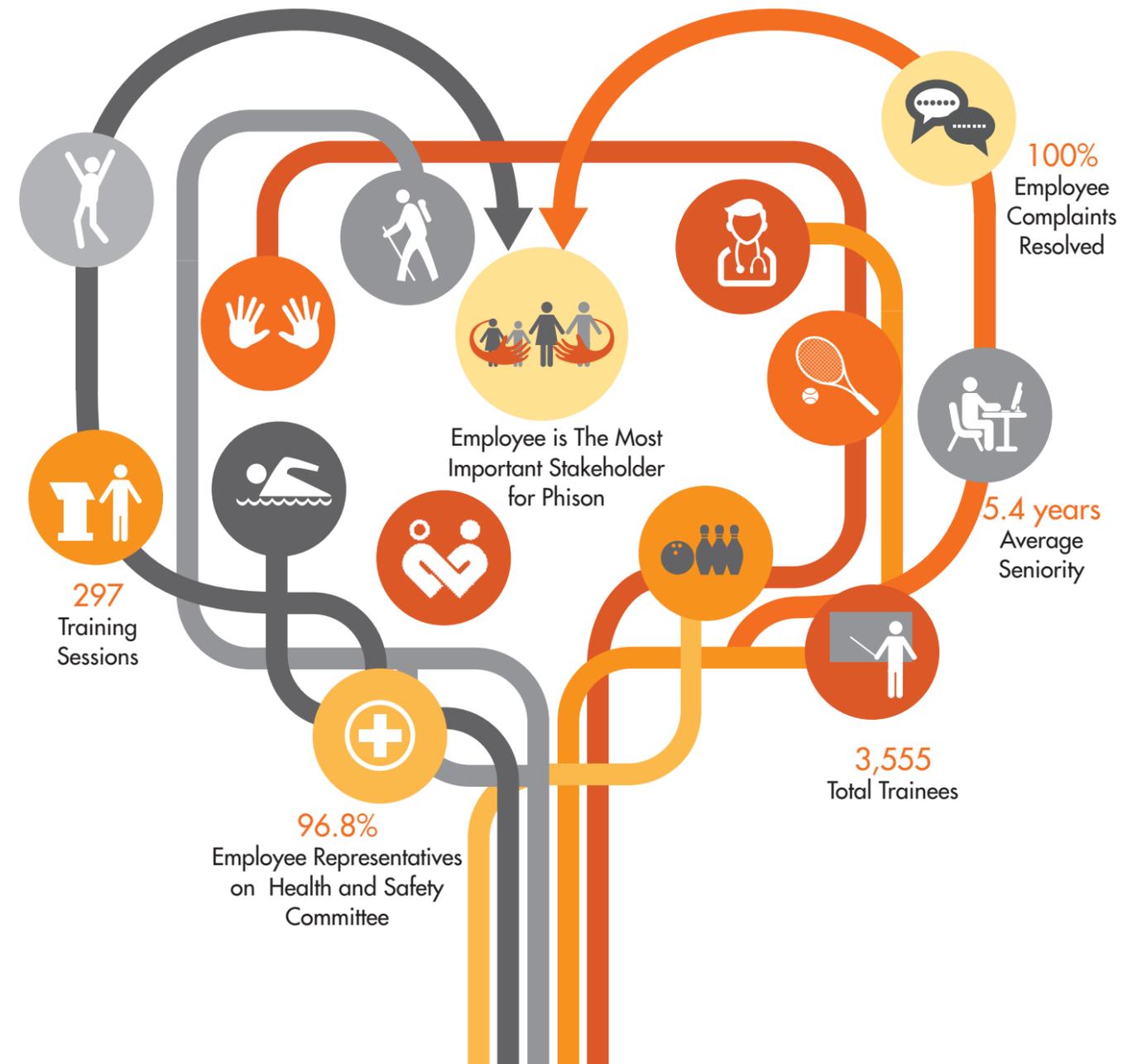
If I have the patent, perhaps I won't sue you, but I do have the right to sue. There are all kinds of patents out there. You might have something he doesn't have, and vice versa. Usually, a settlement happens as long as the litigation begins. It's very hard to put a company out of business through patent 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

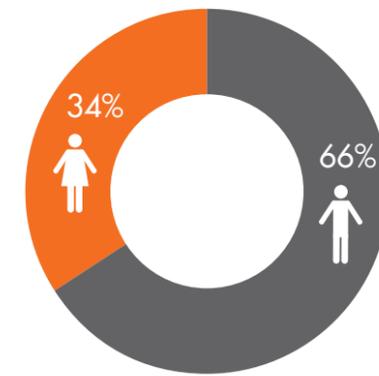
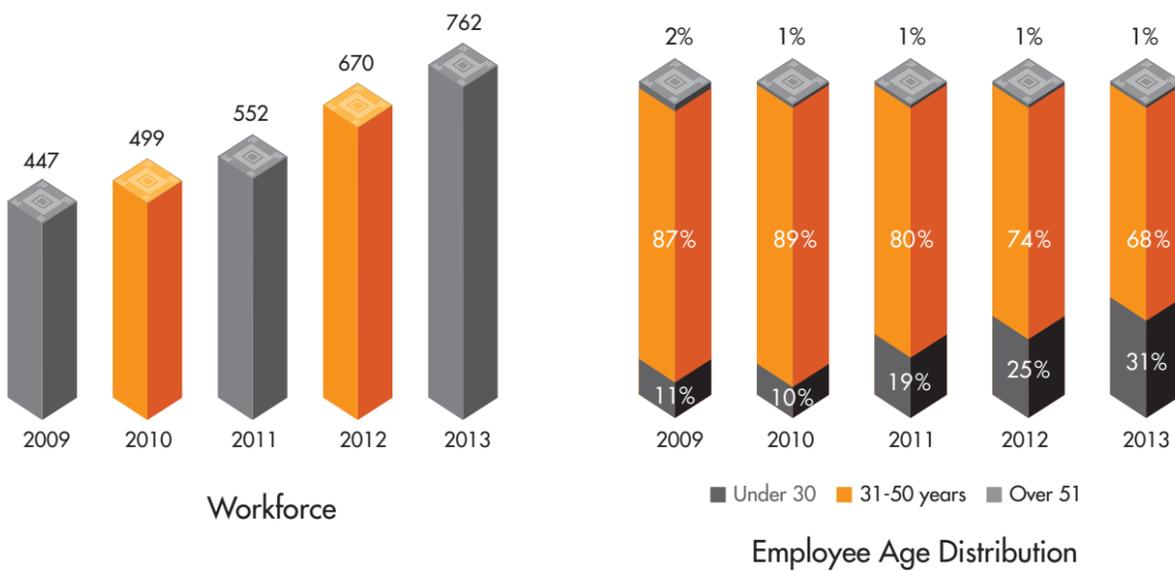


Truly Caring for Employees

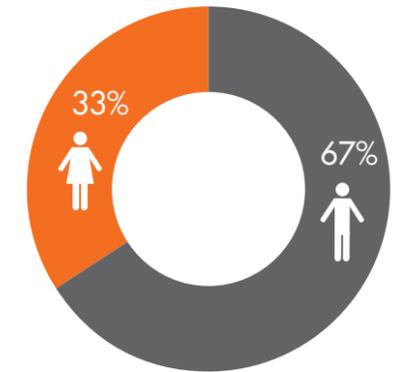
Employees will always be the most important stakeholder for Phison. Taking proper care of our employees is part of Phison's sustainability commitment. The only people that can make Phison become the top of the world are its employees. We must sincerely treat our employees well and build up mutual trust 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

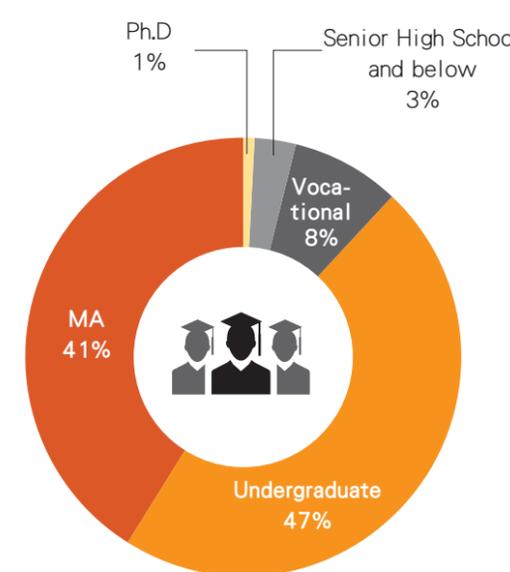


Employee Gender Distribution

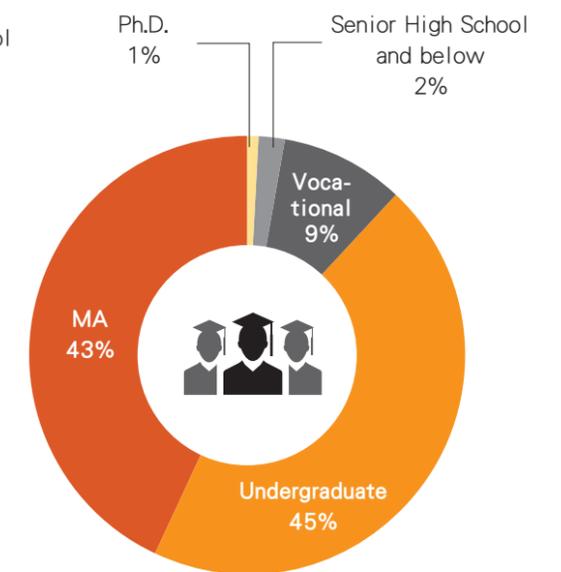


Management Gender Distribution

Year	2009		2010		2011		2012		2013		
Gender	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
Employee	Number	281	166	324	175	344	208	427	243	500	262
	Ratio%	63	37	65	35	62	38	64	36	66	34
Management	Number	53	30	56	33	67	37	79	38	87	42
	Ratio%	64	36	63	37	64	36	68	32	67	33

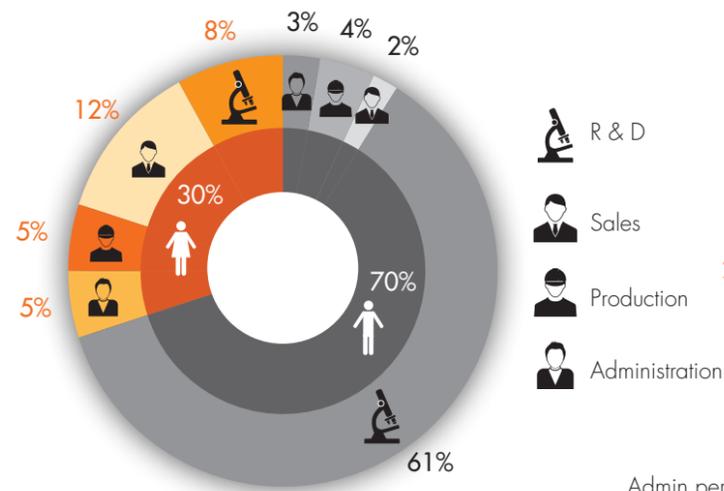


Distribution of Employee Academic Background

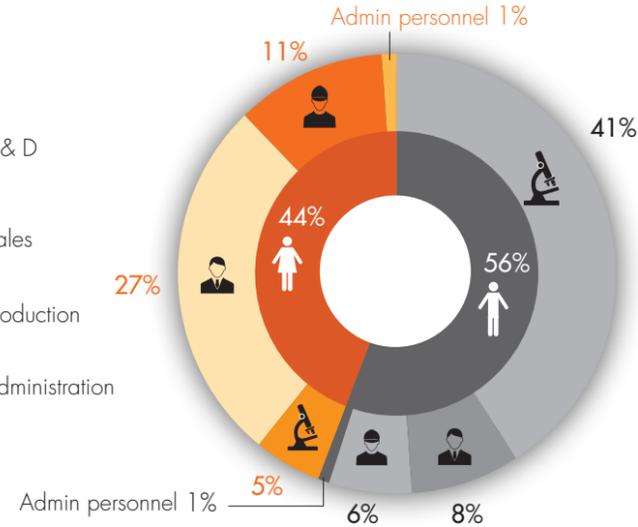


Distribution of Management Academic Background

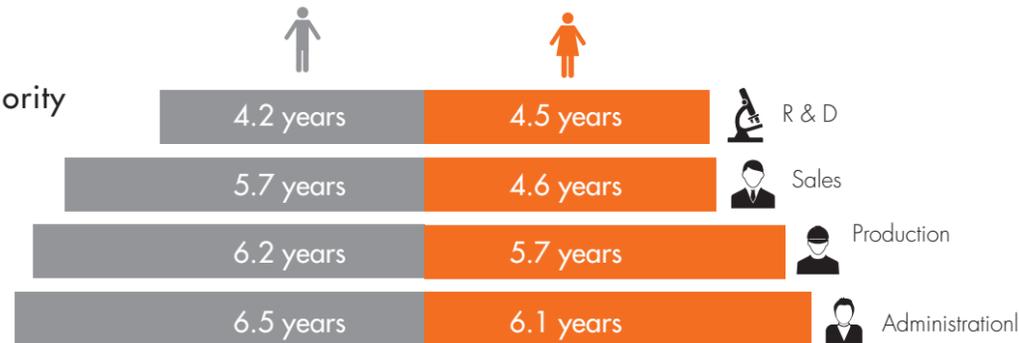
New Employee Demographics



Employee Turnover Demographics



Average Seniority at Each Grade

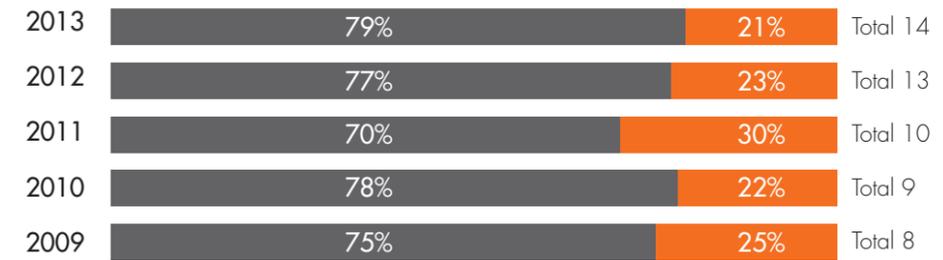


Employee Turnover Rate

	Year	2009			2010			2011			2012			2013		
		Male	Female	Total												
Employee Turnover Rate	Resignations	11	14	25	17	15	32	30	17	47	26	11	37	29	22	51
	Total Workforce	166	281	447	324	175	499	344	208	552	427	243	670	500	262	762
	Ratio %	6.63	4.98	5.59	5.25	8.57	6.41	8.72	8.17	8.51	6.09	4.53	5.52	5.80	8.40	6.69

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	Type	2009			2010			2011			2012			2013		
		Male	Female	Disabled												
General employee	Number	228	135	2	268	142	3	277	171	2	348	205	2	414	220	6
	Ratio %	51.01	30.20	0.45	53.71	28.46	0.60	50.18	30.98	0.36	51.94	30.60	0.30	54.33	28.88	0.79
Low-level manager	Number	20	14	0	18	15	0	29	17	0	35	20	0	43	24	0
	Ratio %	4.47	3.13	0	3.61	3.01	0	5.25	3.08	0	5.22	2.99	0	5.64	3.15	0
Mid-level manager	Number	27	13	0	33	14	0	32	16	0	36	13	0	35	12	0
	Ratio %	6.04	2.91	0	6.61	2.81	0	5.80	2.90	0	5.37	1.94	0	4.59	1.57	0
Senior manager	Number	5	3	0	5	4	0	6	4	0	8	5	0	8	6	0
	Ratio %	1.12	0.67	0	1.00	0.80	0	1.09	0.72	0	1.19	0.75	0	1.0%	0.79	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	1	723	0	31	755
Fixed-term contracts	0	7	0	0	7
Total	1	730	0	31	762

- 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	2009			2010			2011			2012			2013			
	Gender	Male	Female	Total												
Parental leave application rate	Applicants	0	0	0	0	1	1	0	2	2	0	2	2	0	3	3
	Approvals	44	28	72	52	35	87	72	40	112	100	51	151	118	77	195
	Ratio%	0	0	0	0	2.86	1.15	0	5	1.79	0	3.92	1.32	0	3.90	1.54
Rate of reinstatement after parental leave	Returning number	0	0	0	0	0	0	0	1	1	0	2	2	0	0	0
	Expected to return number	0	0	0	0	0	0	0	1	1	0	3	3	0	1	1
	Ratio%	0	0	0	0	0	0	0	100	100	0.00	66.67	66.67	0	0	0
Parental leave retention rate	Rate of retention 1 year after reinstatement	0	0	0	0	0	0	0	0	0	0	1	1	0	2	2
	Returns from parental leave from last year	0	0	0	0	0	0	0	0	0	0	1	1	0	2	2
	Ratio%	0	0	0	0	0	0	0	0	0	0	100	100	0	100	100

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 2013.

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

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

Recruitment

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

The Foundation of Phison - Employee Character Comes First in Hiring

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

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

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

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

Human Rights and Labor Rights Declarations

- Employment Protection**
 - Phison signs formal labor contracts with every employee in support of workers' rights;
 - No incidents of forced labor involving Phison were reported in 2013;
 - No incidents of discrimination involving Phison were reported in 2013.

- Labor Unions and Freedom of Association**
 - Phison respects employees' constitutional freedom of association and assembly, rather than opposing it or obstructing it. All Phison employees enjoy the freedom to form or join unions, as stated in the constitution.
 - Phison employees did not form any labor unions in 2013.

- Anti-sexual Harassment Measures**
 - To create a sexual harassment-free workplace in support of its employees' rights, Phison takes preventive, corrective or disciplinary measures with regard to sexual harassment and has "Guidelines for the Prevention and Reporting of Sexual Harassment or Discrimination" laid down according to the Act of Gender Equality in Employment;
 - No sexual harassment involving Phison was reported in 2013.

- Review of Suppliers' Human Rights Record**
 - As a part of the contract, every Phison supplier is required to conform to the Electronic Industry Code of Conduct (EICC) .

- Banning Child Labor**
 - As required by the Ministry of Labor, Phison neither hires child labor nor relevant violations in 2013.

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 in 2013 were 12% and 1% 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.

Evaluation Items



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

Welfare Policy

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

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

The Welfare Committee is dedicated to taking care of employee needs and has proposed a variety of welfare activities and measures, including: festival bonuses, birthday bonuses, Labor Day bonus and 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 2013, 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"> Allowances for weddings, funerals and other occasions; Birth allowance; Multi-divisional parties; Allowance toward post-Chinese New Year, "back-to-work" parties; Company-subsidized incentive travel programs; Reimbursement for medical services (e.g., hospitalization) ; Disaster relief funds. 	<ul style="list-style-type: none"> Phison Happy Farm; Recreational & entertainment activities/facilities; Cultural & leisure activities/facilities; Grants for employee clubs; Costume allowance for year-end company parties. 	<ul style="list-style-type: none"> Holiday and year-end bonuses; Cash incentives; Gifts; Birthday bonus; Employee welfare payments (for specific purposes) . 	<ul style="list-style-type: none"> Training reimbursements; Tuition assistance for child dependants.

Employee Rewards Program

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

Phison Happy Farm

To make employees get close to nature and enjoy healthy organic fruits and vegetables, Phison set up an 8250m² 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.

Upon entering the Phison Farm, you are greeted by green trees and neat wooden plaques. This is our "Customer Tree Planting Area" and we plant juniper, incense cedar, cherry and agar here. Favored customers or partners are invited by Phison to plant a tree at the farm. The thriving trees symbolize our continuous partnership. Upon their next visit, customers always stop by the farm to enjoy the outdoor scenery and also to see how tall the tree they planted has grown over the past years. What a meaningful and relaxing experience.

When the weather is good, employees will harvest the fruits at the farm by themselves. Phison can therefore use this opportunity to learn about fruits and vegetables, experience the fun of harvest, understand the hardships of farmers, bask in the sun, stroll around, breathe in fresh air and relax! Employees descend in droves whenever the farm opens its door and this is a great opportunity to get to know each other better too. There is a small BBQ area where employees and their families can have fun together during company events.

The farm is included as part of employee welfare. Apart from producing trustworthy organic vegetables, it also provides a place where employees can relax and re-orient themselves outside of work!



Phison employees plant trees in collaborative efforts with customers



Trees planted by Phison's customers



A joyful harvest



A vegetable plot in neat rows

Phison Clubs



Softball Club



Softball practice session



Bowling Competition



Yoga 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 2013, more than 5,000 Phison employees and their families took part in various company events.

Activities Organized by the Welfare Committee in 2013

Category	Type
Leisure and recreational activities	The health of our employees is important to Phison. Employees are encouraged to join in the fun run with their families and run for a healthy life.
	As employees spend long periods of time sitting down and working, the Welfare Committee has set weekly targets to get everyone involved in losing weight in a healthy way.
	Digital photography competitions are held with shutters and lenses as the creative tools to capture all kinds of special moments and create unforgettable memories.
Team-building activities	Hosted a dominoes competition to build up team rapport and demonstrate the creativity of the Phison team.
	Hosted ten-pin bowling competition where employees showed off their skills.
	Organized basketball 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 Plant hosted a Family Day event allowing employees to have fun at the park hand-in-hand with their families.

2013 Phison Employee Activities in Review



Year End Party



Phison Family Day



Running for Charity



Domino Trail



Parental cooperation game



Moon 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.



The Trilogy of Joy: Listening to your heart



Parenting Course: First-time moms and dads learning to build a "rainbow bridge" to children's hearts



The quarterly employee orientation meeting brings Phison's chairman and new recruits closer together.

Employee Feedback on Phison Family Day

Have you every participated in the annual Phison Family Day?
How did it affect your family life?

Yes. My family looked forward to attending the Family Day and getting to know my colleagues. I had already told my family funny things that happened at work when I introduced my coworkers to them on Family Day, which brought me closer to both my loved ones and Phison and, the way I look at it, proved the company truly values its employees' families.

By Jason

Yes. But as a single engineer, I usually attend the event alone. The sight of my supervisors or colleagues attending the Family Day with their loved ones prompts me to work harder and enjoy domestic bliss like they do.

By Romance

To be honest, the Family Day makes my family appreciate my job more as it gives them a better idea of what I do at Phison and who my colleagues are. The event also shows my kids how hard it is to earn a living, which is a hugely effective parenting idea!

By Judy

7.4 Cultivation and Education



Signed Up for Employee Training Programs in 2013



Employee Training Programs Took Place in 2013



Employee Training were Held in 2013

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)
2014 Objectives	225	933	3,393	\$3,676,490
2013 Objectives	288	1,098	3,666	\$3,327,600
2013 Outcome	297	3,151	3,555	\$1,644,890

Strategic Training Objectives and Key Performance Indicator for 2013

Training Category	Curriculum	Trainees	Total hours	Budget Ratio
In-service/Professional Skills Training	<ul style="list-style-type: none"> Professional skills training Advanced quality control Safety & Health 	2,379	2,559	39%
Hierarchy-based Training Programs for Management/ Development	<ul style="list-style-type: none"> Innovative and improved managerial practice Management related training 	193	25	13%
Secondary Skills Development Courses	<ul style="list-style-type: none"> From "surpassing your limits" to "demonstrating the power of leadership" Outside-the-box thinking High-performance project management training Diagnostic analytics and logic Customer complaints management Successful presentation design and logical self-expression training Self-inspiration training 	842	209	32%
Language Courses	<ul style="list-style-type: none"> English Japanese 	141	358	16%



A mock training session for corporate risk management



Outside-the-box thinking, email writing, presentation and self-expression skills

Average Training Hours per Function

Function	Average training hours per employee per year (Male)	Average training hours per employee per year (Female)
R&D	15.6	14.1
Sales	21	23.5
Production	7.8	14.7
Administration	26.4	24.6

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) ; Female employees in the Quality Assurance Department signed up for optional language classes and this increased the number of training hours as well.

Average Training Hours per Grade

Grade	Average training hours per employee per year (Male)	Average training hours per employee per year (Female)
Management	13.2	18.3
Grassroots employee	20.3	19.6

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:

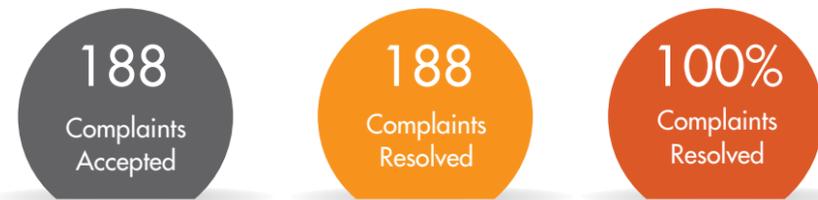
- Management definition: Chairman, president, vice president, vice president of technology, section chief, senior manager, manager, assistant manager, director, team leader, deputy director, deputy team leader
- Grassroots employee defined as: Other employees

Future Career Development

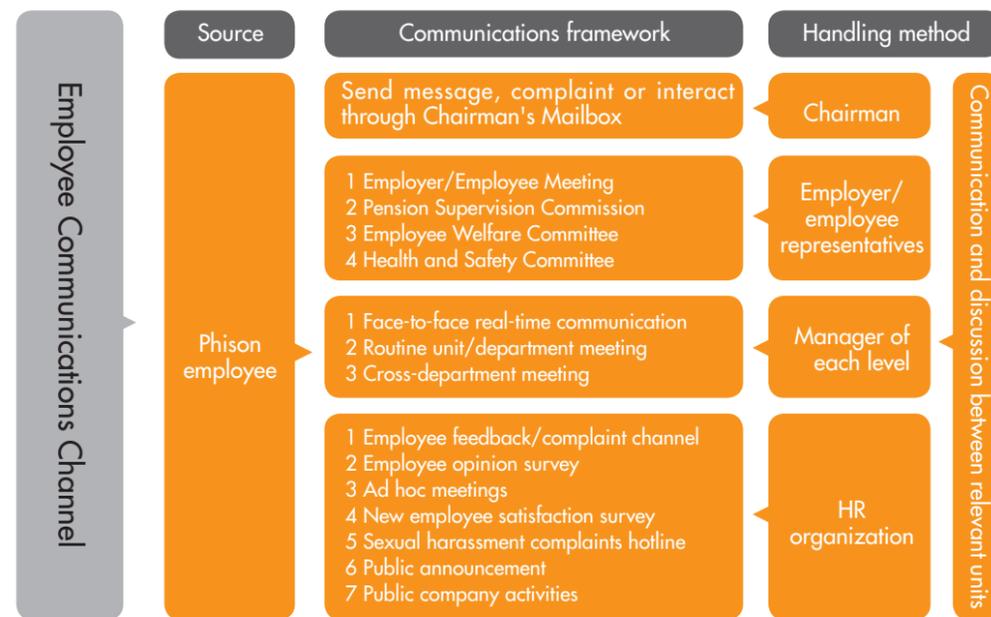
At the end of each year, HR conducts an employee training requirements survey to compile the training requirements of all employees for the department heads. The department heads then refer to the employee training requirements as well as "Strategic goals for next year", "Organizational requirements 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 100% closure rate.

Communication Channel	Cases received	Cases closed
New employee opinion survey	49	49
Ad hoc meetings	82	82
Sexual harassment complaints mailbox	0	0
Chairman's Mailbox	10	10
Employee Assistance Program (EAPs) - Psychological counseling hotline	47	47
Total	188	188

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 2013. 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.



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

2013 Employer-Employee Meeting Motions

Joint Decision	Motion (1) : Overtime for R&D during the Lunar New Year holidays
	Motion (2) : Amend attendance management regulations to include loan of temporary security cards
	Motion (3) Proposal to add 5-a-side soccer goals
Communication/ Discussions	Motion (4) : Re-election of employee and management representatives from 6th Employer-Employee Meeting
	Motion (5) : Amendment to Work Rules Article 16 Paragraph 4 - Bereavement Leave "Leave description"
	Motion (6) : Amendment to Work Rules Article 16 Paragraph 4 - Paternity Leave "Leave description"
	Motion (7) Hosting of digital photography competition during Family Day - distribution of prize money
Reaching a Conclusion Based on Information Transparency	Motion (8) : Proposal to add 08:30-17:30 as an optional shift type
	Motion (9) : Proposal to allow special leave to be used in the first year with the company
	Motion (10) : The company appreciates that employees staying off-site need to take out the garbage so Wednesday should be added to garbage disposal
	Motion (11) : Matters relating to 1/18/2014 Lunar New Year Party (subsidies for clothing and transportation)

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 2013, there were a total of 31 employee representatives and 1 management representative (company president) . Employee representatives therefore made up 96.8% 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. A total of 13 awareness sessions and classes were hosted to introduce employees to the service and encourage its use.

The consultation service has been used 108 times so far. In 2013, the service was used by 47 people, up 3% on the previous year. Around 68% of the referrals were voluntary 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 40 cases 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

2013 Health Seminar Activities

Class	Classes	Participants
Oral Hygiene	1	10
Healthy Diet	1	15
Flu Prevention	1	12
Maternity Workshop	1	6

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 2013 were in compliance with regulatory standards.

The Foundation of Phison - Ensuring Employee Loyalty

We pick our employees carefully and once they join, we treat them right as well.

I was an employee once. It only lasted two years but I know what a boss should do and should not do.

To my employees, my promise is that if you do your job then I will help you deal with your problems.

There was an employee whose family member had cancer and had to go into hospital for surgery. None of the major hospitals in Taipei had any spare beds. Eventually I used my contacts, called in a few favors, and finally managed to get him a hospital bed.

We also had a young employee who had a baby. She didn't know how to take care of the baby however and was on the verge of a breakdown when she called the company for help. Eventually, mothers in the admin department suggested hiring a nurse to visit her and teach her how to take care of her baby. The company would pay for the nurse. It only cost a few thousand NT dollars but when you do that, employees know that if they ever run into difficulties then the company will try to help them out.

If you think about it, if Phison is willing to do this for employees, why wouldn't employees work hard in return? From the company's point of view, you must try hard to ensure your employees' loyalty so they are willing to contribute. They are not personally indebted to me or other managers either. They just need to do their jobs. I believe that it's all about caring. If you take care of your employees, they will feel it.

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

Occupational Disease, Lost Day Rate, Absentee Rate

Year	2009		2010		2011		2012		2013	
Gender	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Occupational disease leave (days)	0	0	0	0	0	0	0	0	0	0
Occupational disease leave rate	0	0	0	0	0	0	0	0	0	0
Lost day	0	4.19	1	7	1	4	0	0	27	3.88
Lost day rate	0	2.59	0.33	4.10	0.30	2.09	0	0	5.87	1.57
Absentee days	69.25	192.63	71.56	239.50	121.13	682.50	163.31	401.00	185.69	343.81
Absentee rate	216.47	952.34	190.23	1123.15	294.40	2858.40	340.66	1412.49	323.22	1109.79

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

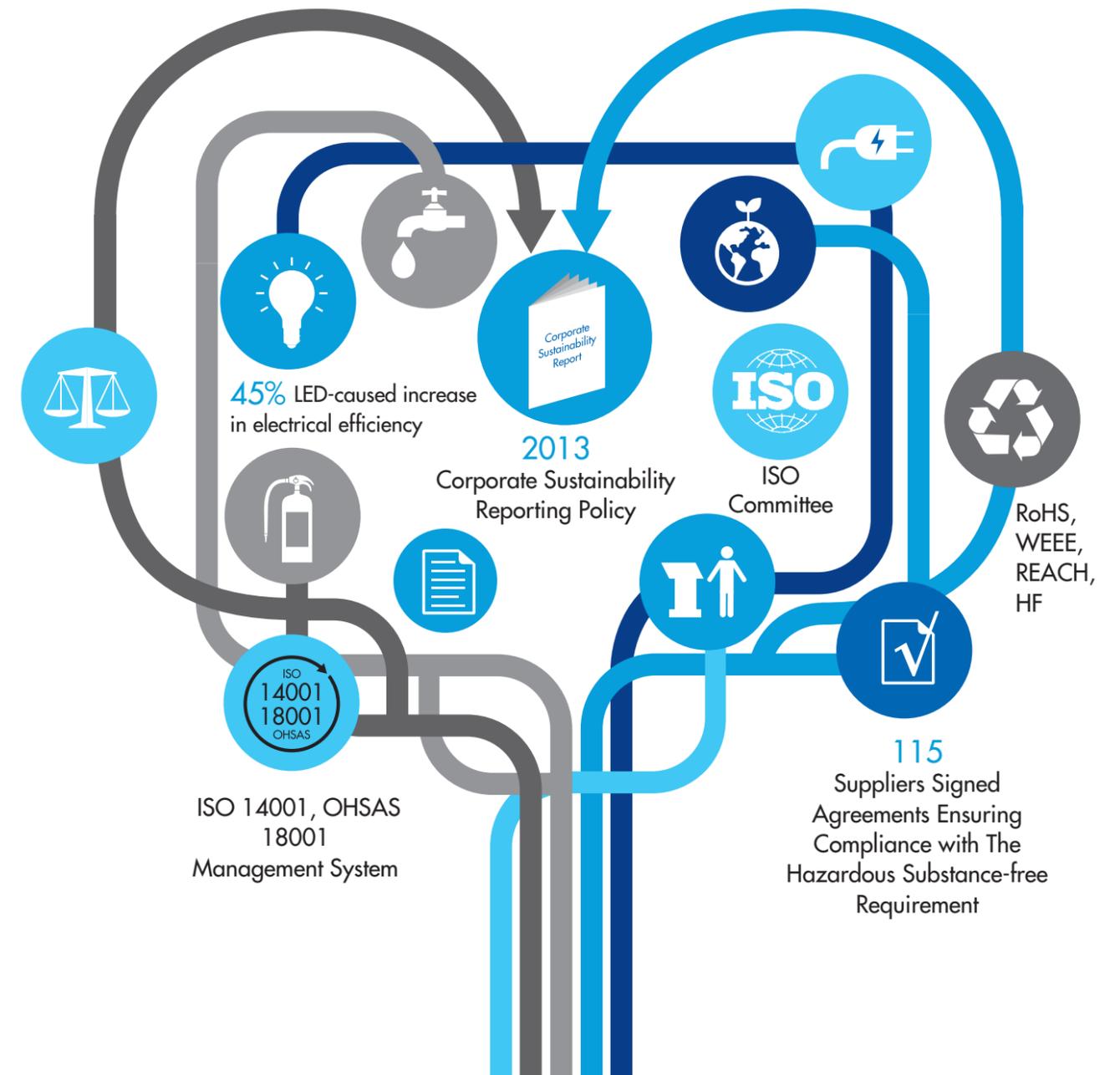
Year	2009	2010	2011	2012	2013
Total work hours	749,521	857,949	856,613	1,098,834	1,281,072
Injured workers	2	2	3	0	4
Deaths	0	0	0	0	0
Lost working days (Male)	0	1	1	0	42
Lost working days (Female)	9	7	4	0	5
Total working days lost	9	8	5	0	47
Injury rate	0.53	0.47	0.70	0	0.62

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: 80% of injuries in 2009 were due to accidents while commuting to and from work; all injuries during the 2010-2013 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
- 8.5 Energy Conservation and Carbon Reduction





Environmental Responsibility

2014 Targets for Environmental Safety and Health

- 
Corporate Sustainability Report
 2013 Corporate Sustainability Reporting Policy
- 
Energy Efficiency
 Phison logos on company/plant outer walls are lit by LED lamps, instead of traditional ones.
- 
Employee Wellness Awareness Campaign
 The "Phison and People" Wellness Column

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 2013

- 
Energy Efficiency
 The Second floor warehouse is equipped with a split air-conditioning system and ceiling fans.
- 
Awareness Campaigns about EHS and Related Regulations
 ISO/OHSAS Management System and EHS consulting solutions
- 
Fire Safety System Enhancement
 Improving the fire safety equipment

Phison's EHS Policy

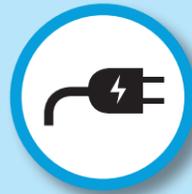
1. Conform to legislation and keep commitment to customer.
2. Save energy resource, reduce waste and improve continuously with vendors.
3. Responsible for low risk and zero-occupational accident implementation.

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, WEEE, 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 2013.




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

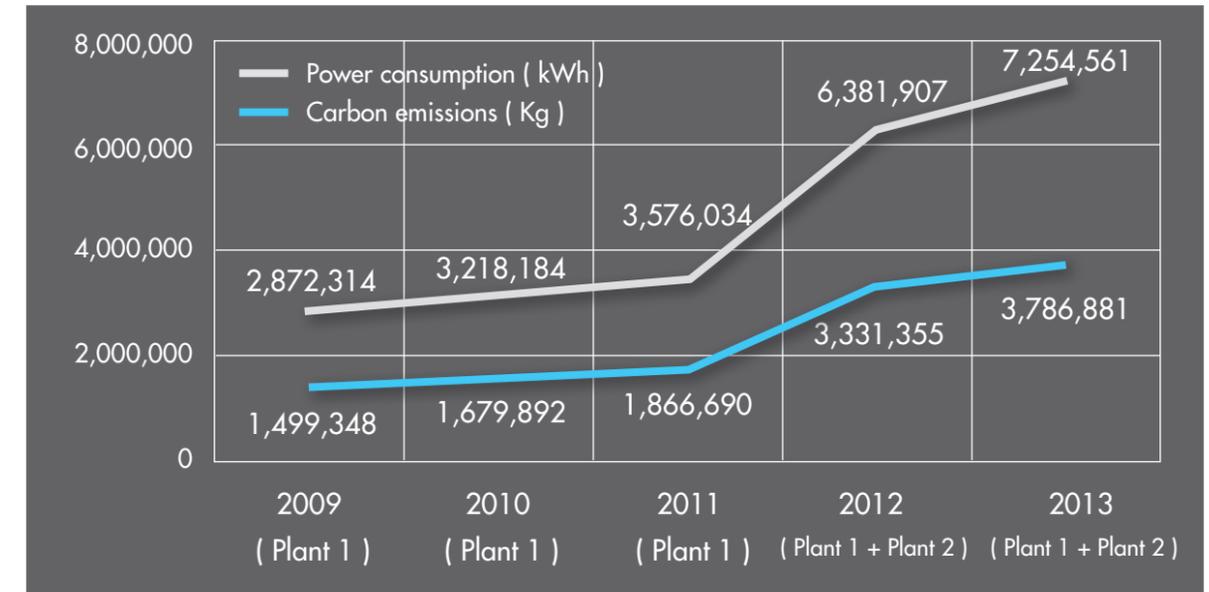
- All waste water is discharged through legitimately registered sewage ducts to Kuan-Yuan Science Park Administration's treatment plant;
- Phison's Zhunan branch doesn't generate any production-related waste water because it comprises simple assembly, packaging, maintenance and testing equipment without 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

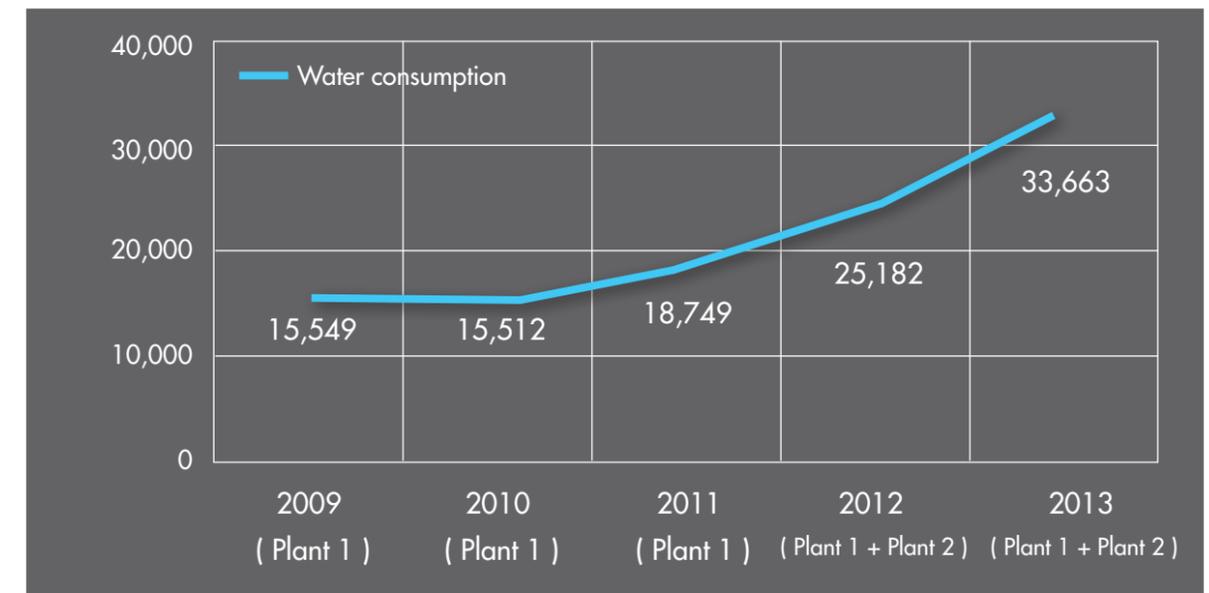
- All logistics tasks should be performed in the "truckload consolidation" manner to increase transportation capacity and efficiency;
- The monthly truckload summary includes such statistics as transportation-induced CO₂ emissions. In 2013, Phison's contractors generated totally 33,721.20 kilograms of CO₂e during transportation.

Historic Power Consumption and Carbon Emissions



Note 1: The emission coefficient for electricity was set as 0.522 kg (CO₂e/kWh) by the MOEA Bureau of Energy in 2013.
 Note 2: The increase in power consumption 2012 and 2013 was due to the consolidated data for Plant 1 and Plant 2.

Water Consumption



Note 1: All water sources were water supplied by the Guangyuan Technology Park (tap water).
 Note 2: The main reasons for the increase in power and water consumption in 2013 were the increase in personnel, increased used of air-conditioning, as well as the acquiring of laboratory equipment and R&D test computers.

Direct and Indirect Energy Usage in 2013

Energy type	Energy purpose	Energy used	Consumption	Megajoules (MJ)
Direct energy	Official vehicles	Petrol	6,805.553 L	221,970.529 MJ
	Emergency generator	Diesel	300 L	10,537.506 MJ
Indirect energy	Plant-wide power consumption	Electricity	7,254,561 kWh	26,116,419.6 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.
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Chemicals, Noise Pollution and Waste Management

 Chemical Control	<ul style="list-style-type: none"> Containers of hazardous chemical substances are properly labeled with the storage location— among other important information required by laws — clearly specified.
 Noise Pollution Control	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.

2013 Waste Plastic Packaging Recycling Statistics



Waste Disposal Method and Total Volume

Waste Category	Handling	Year				
		2009	2010	2011	2012	2013
General industrial waste	Domestic waste	Incineration				
	Recycling	Around 60-70 tons per year				
	Waste recycling	20.2 tons	21.3 tons	19.6 tons	30.4 tons	36.6 tons
Hazardous industrial waste	Recycling or reuse	40 tons	40 tons	30 tons	28.5 tons	30 tons
		Approximately 5kg 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 2013, Phison recycled packaging (anti-static) materials returned by vendors.

2013 Environmental Protection Expenditure

Environmental protection expenditure items	Investment (NT\$)
Green Purchasing	\$22,134,669,052
Environmental management system verification costs	\$60,000
Environmental protection education and training costs	\$21,600
Environmental protection project costs	\$100,000
Water cooler, discharge water and waste disposal costs	\$450,000
Replacement of facade logo lighting	\$150,000
Total environmental expenditure	\$22,135,450,652

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.



2013 Issue Handling

NO	2013 issues handled	Result
1	28 customers underwent EICC/GeSI conflict minerals investigation	Compliance with customer requirements
2	661 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	Created GRM - Green Regulatory Management Platform	Actively collect legal information and strengthen communications
5	Establish a green document platform for 38 key external suppliers to download from.	Construction complete
6	Green surveys sent out to 311 people.	Compliance with objectives
7	Help partners conform to CSR requirements and pass audits.	Compliance with customer requirements

Green Accomplishments

NO	Green accomplishments
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
2009	Environmental management program: Green legal training for all employees (Total attendance rate of 93.8%; 100% pass rate)
	Environmental management program: Investigation of easy-to-disassemble materials for mechanical design of USB Flash drives
	Environmental management program: Conducted green satisfaction survey at 12 customers (Average score of 84)
	Assisted business partners in promoting and passing BSCI audit
2008	Online application of customer green requirements documentation
	Environmental management program: Vendor survey on use of PFOS/PFOA hazardous substances (109 vendors)
	Environmental management plan: Vendor environmental survey (163 vendors)
2007	Introduction of ezGPM green supply chain management platform

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 2013 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 4,214 tons, far lower than the annual emission limit of 25,000 tons CO₂e 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 2013 emissions amounted to 317.46 tons CO₂e/year, or 7.53% of total emissions. Refrigerators use R600a and R134a eco-friendly refrigerants as well. There is therefore no ODP at Phison.

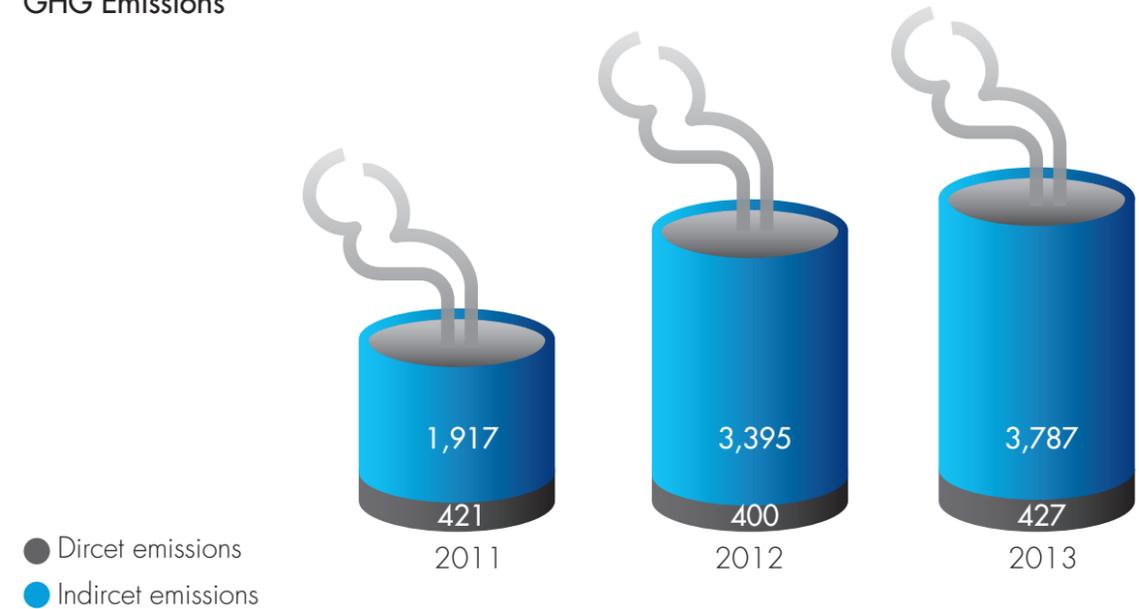
Types of GHG Emissions



2013 Greenhouse Gas Emissions

Greenhouse Gas	CO ₂	CH ₄	N ₂ O	HFCs	PFCs	SF ₆	Total
Direct emission Scope 1	83.1	26.32	0.44	317.46	0	0	427.32
Indirect emissions - Scope 2	3,786.8795	0	0	0	0	0	3,786.8795
The power emission coefficient in 2013 was 0.522 kg CO ₂ e/kWh Unit: Tons of CO ₂ e/year							4,214.1995

GHG Emissions



Year	2011		2012		2013	
	Emissions	Ratio	Emissions	Ratio	Emissions	Ratio
Direct emissions - Scope 1	421	18%	400	11%	427	10%
Indirect emissions - Scope 2	1,917	82%	3,395	89%	3,787	90%
Total GHG emissions (Tons CO ₂ e/year)	2,338		3,795		4,214	

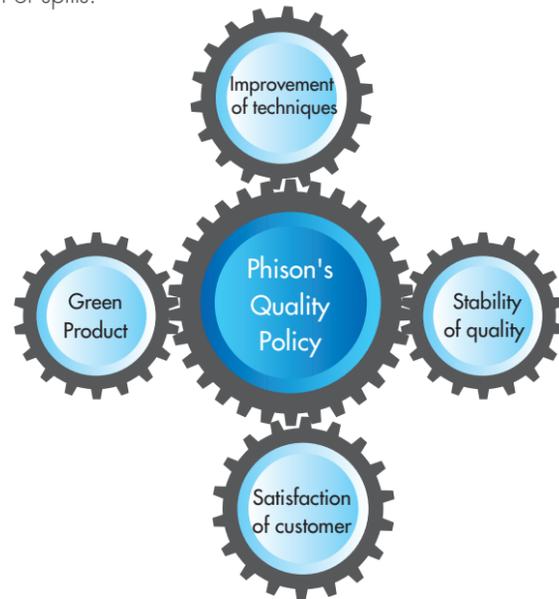
Greenhouse gas emissions from employee business trips (official vehicles)			
Year	2011	2012	2013
CO ₂	15.32	15.32	15.40
CH ₄	0.14	0.12	0.14
N ₂ O	0.44	0.45	0.44
Total	15.90	15.89	15.98

Unit: Tons of CO₂e/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.

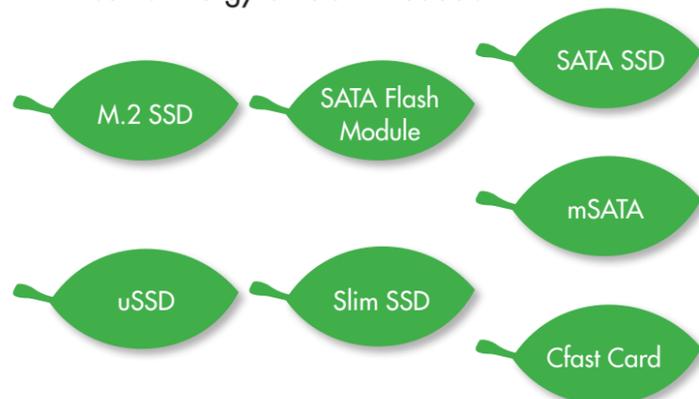
Phison products (SD/PD/SATA) conform completely to international environmental regulations (e.g. EU WEEE, EU RoHS, China RoHS, EU REACH-SVHC etc.) . Nearly 90% of our products and packaging are labeled with environmental information while the remaining 10% are too small or in loose packaging that makes labeling difficult. In 2013, 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.



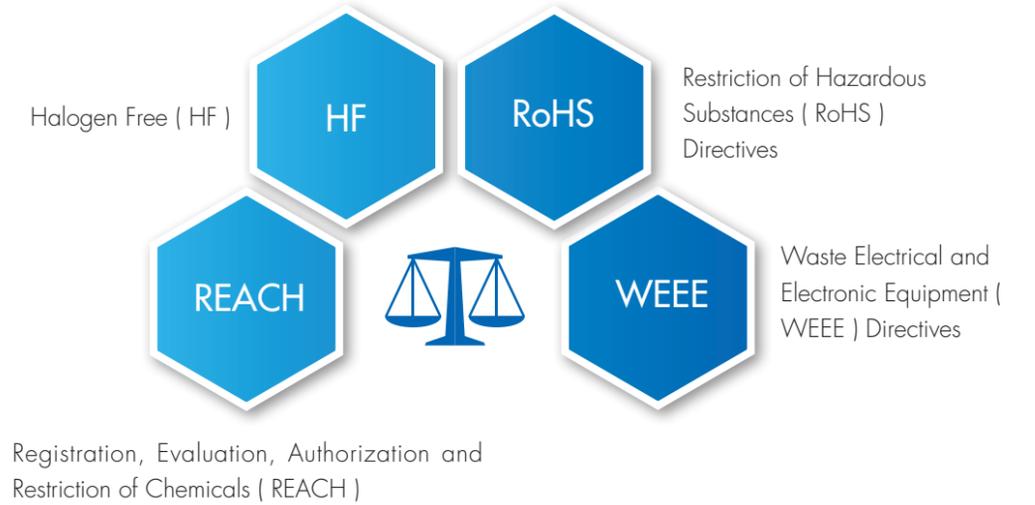
Device Sleep (DEVSLP) mode
Phison's DEVSLP-compatible SATA SSD stays connected even when most of power was cut off. It prevents electricity waste, and prolong battery life in portable systems. In DEVSLP mode, Phison's SSD can only consume less 5mW which is much lower than general device in standby mode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

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

Phison's Energy-efficient Products



International Environmental Legislation

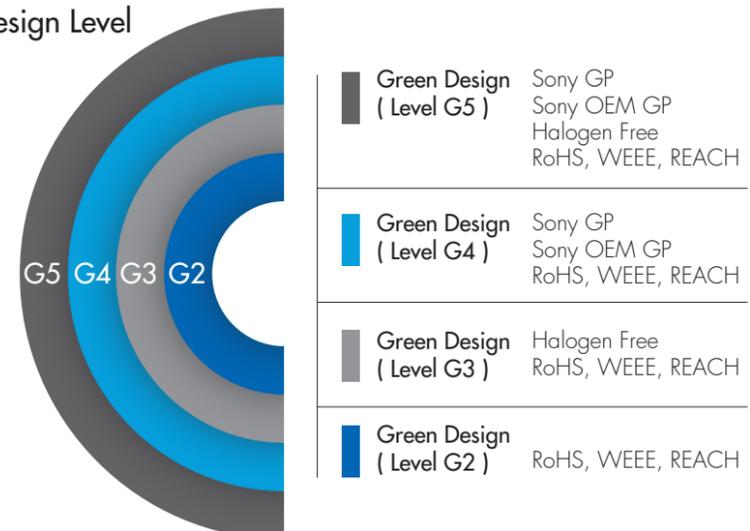


Sony Green Partner

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



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. So far, 19 suppliers have signed and returned the declaration. We expect all suppliers to sign and return the declaration by the end of 2014.

In addition, 89% of long-term suppliers were asked in 2013 to sign the "Quality and Purchasing Contract". The contract requires suppliers to abide by the Electronic Industry Code of Conduct (EICC) . Supplier compliance will also be progressively reviewed each year.

Supplier Signed the Quality and Purchasing Contract Rate



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

Hazardous Substances Management Procedure

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

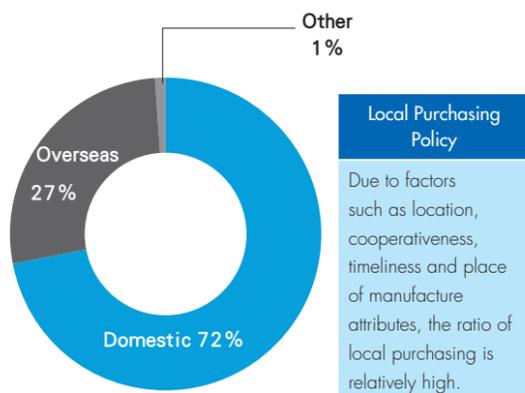


The Green Product Management System (ezGPM) works closely with suppliers to establish whether review documentation at each phase conforms to regulations. An online platform is used to check on the latest environmental legislation and green product specifications in real-time for effective green supply chain management, document tracking and two-way communication. This prevents the use of any components containing restricted chemical substances. A total of 112 companies (satellite factories) were connected in 2013 (19 were partners with the rest being suppliers) .



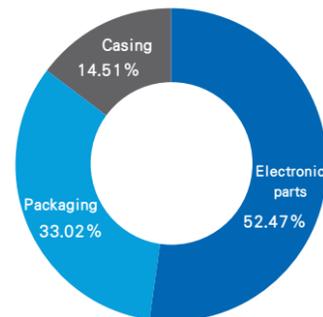
Green Product Management System Functions	The central plant sends a notification letter to a satellite plant.
	The satellite plant submits hazardous substances-related information — namely testing summary reports, Material Composition Data (MCD) or Material Safety Data Sheet (MSDS) — to the central plant 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



2013 Raw Materials Weight and Proportion	
Raw Material	Weight
Electronic parts	105.75 tons
Packaging	66.55 tons
Casing	29.25 tons
Total	201.55 tons

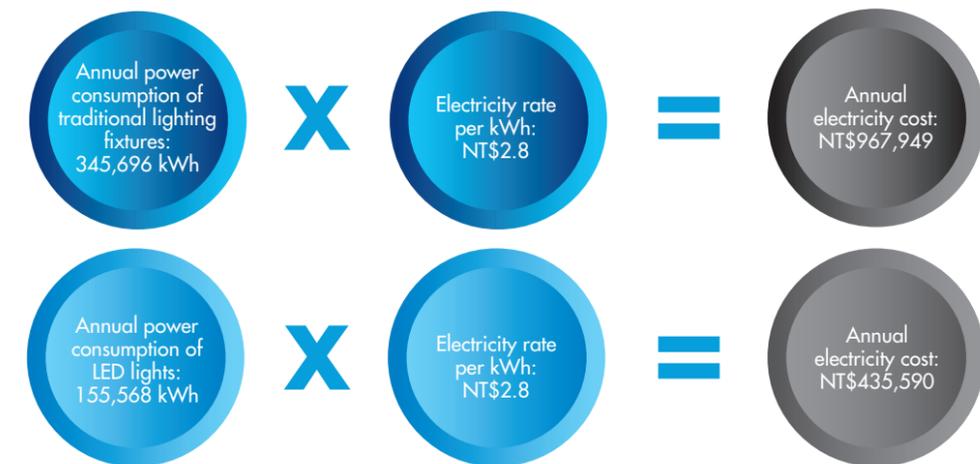
8.5 Energy Conservation and Carbon Reduction

Switch to LED Energy-saving Lighting



To support the global trend towards energy conservation and carbon reduction, increase efficiency of direct and indirect energy use in company operations as well as reduce the cost of resource consumption. In 2012, Phison replaced all conventional T8 lighting (in use for 5 years) with high-efficiency energy-saving LED lighting. A total of 4,564 conventional lighting fixtures were replaced throughout the plant, increasing overall power efficiency by 45%. This was equivalent to reducing energy consumption by 684,461 MJ (1 kWh = 3.6 MJ) . Initial cost of replacement was \$2.3 million. Savings were estimated at \$530,000 a year so the investment will be recouped after 4 years.

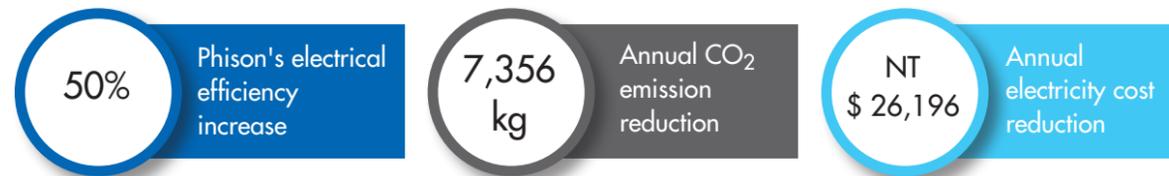
Comparison of Traditional and LED Lighting Fixtures



Note: The rate of \$2.8 per kWh is the average base monthly power rate plus average monthly time-of-use rate.



Emergency Lighting Upgrade



The upgrade to emergency lighting efficiency will save 40,124.16 MJ (1 kWh = 3.6 MJ) in energy use each year. It will also reduce the maintenance costs for lighting equipment.

Upgrade Method:

1. The emergency lighting in the plant currently consists of 20W * 2. There is 24-hour grid power to 10W * 1 lamps.
2. In an emergency, battery power is supplied to 10W * 1 lamps on another loop.
3. The grid-powered 10W*1 lamps were changed to 2- 5W lamps along with adjustments to the loop.

Calculation of Power Consumption Before Upgrade:



Calculation of Power Consumption After Upgrade:



Items	Before	After
Emergency lighting	2,580W x 24 hours x 30 days x 12 months = 22,291.2 kWh	1,290W x 24 hours x 30 days x 12 months = 11145.6 kWh
Power bill	22,291.2 kWh x \$2.2571/kWh = \$50,313	11145.6 kWh x \$2.2571/kWh = \$25,156
Failure and maintenance rate assessment	52 units (20% failure rate) x \$30 = \$1,560	52 units (20% failure rate) x \$10 = \$520

Note: The price of \$2.2571 per kWh is the average monthly time-of-use rate.

9 Spreading Goodwill

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





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

9.1 Charitable Donations



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

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



Past Aid Recipients and Description

Year assisted	Aid recipient	Aid description
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.
2012	Hsinchu Mackay Hospital	Donated 26,822 sets of LED lighting (\$13.37 million) to replace the hospital's existing conventional lighting. Improved the space for medical personnel and patients to reduce energy consumption.
2011	2011 Tohoku Earthquake, Japan	Donation of NT\$3 million
2009	Yu An Children's Home, Holy Family for Special Education, St. Teresa Children Center, Hsin Miao Development Center, Syin-Lu Foundation, Longan Lin Foundation, Hwa Yen Development Center	Charity organizations were invited to set up booths at the opening carnival of the organic farm and raised \$55,645 in charity funds as a show of support.
	Post-Morakot Reconstruction	NT\$10,000 in company donations as well as employee donations.

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 2013

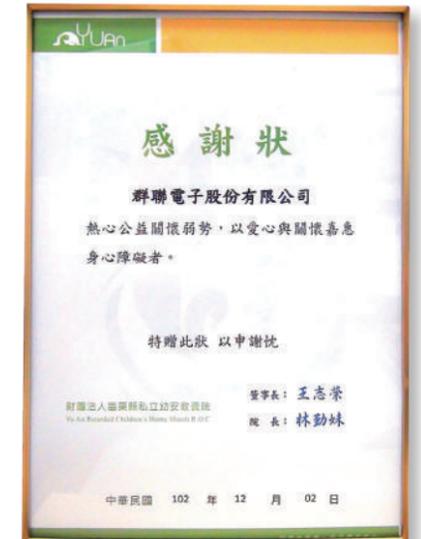
Type	Recipient	Total (NTD)
Academic 	National Chiao Tung University - Program	6,500,000
	National Chiao Tung University - Seminar	4,000,000
	Pan Wen Yuan Foundation	3,000,000
	Industrial Technology Research Institute	687,119
	National Chiao Tung University - Student activities	444,741
	National Tsing Hua University - Student activities	210,000
	National Taipei University of Technology - Student activities	100,000
	Chunan Elementary School, Miaoli County	100,000
	Chinese Society for Management of Technology	50,000
	Taiwan Information Storage Association	50,000
National Taiwan University - Student activities	15,000	
Total amount of academic donations		15,156,860

Total Social Donations in 2013

Type	Recipient	Total (NTD)
Social 	Liver Disease Prevention & Treatment Foundation	1,000,000
	AboGarden	500,000
	Huashan Social Welfare Foundation	343,765
	Miaoli County Hsin Miao Private Development Center for Disadvantaged People	292,000
	Syin-Lu Social Welfare Foundation	272,000
	Miaoli County Autism Association	250,135
	Hwa Yen Development Center, Miaoli County	246,915
	Taiwan Fund for Children and Families, Hsinchu County Branch Office	231,820
	Yu An Children's Home, Miaoli County	221,000
	Holy Family for Special Education, Miaoli County	212,000
	Eden Social Welfare Foundation, Hsinchu Branch Office	200,000
	Association of Service and Communication for China Enterprises in Taiwan	150,000
	Foundation for Poison Control	100,000
	Premature Baby Foundation of Taiwan	32,905
	Epoch Foundation - Support for poor students	30,000
Taoyuan County Private Development Center of S.C.I.	10,000	
Total amount of social donations		4,092,540

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, 2011-2013

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	Huashan Foundation	Elderly services
4	Autism Foundation	Pre-school children with autism or other mental disabilities
5	Eden Foundation	People with disability ID aged between 15-64
6	Syin-Lu Foundation	Newborn children with developmental delays or disabilities
7	Yu An Children's Home	Mainly the mentally or multiple disabilities (intellectually impaired) aged between 0-60
8	TFCF Hsinchu	Children under the age of 18
9	Hwa Yen Development Center	Mentally disabled with disabled ID over the age of 16
10	Premature Baby Foundation	Prevention of premature babies and quality of education and medical care

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 60 charity sales were hosted in 2013.

Charity sales groups	Charity sales merchandise
Hwa Yen Development Center	Potted orchids
Yu An Children's Home	Carrot cake, stewed foods, moon cakes etc.
Holy Family for Special Education	Dumplings, event tickets, macaroons
Autism Foundation	Spring couplets, red envelopes, Natto strawberry, hand-made bags
Hsin Mao Development Center	Fruit pastry, small pot plants
TFCF Hsinchu	Dolls, figures, keyrings
Syin-Lu Foundation	Kuankuan piggy bank, soap, eggrolls
Huashan Foundation	Hakka treats, Mid-Autumn festival gift boxes



2013 Second Hand Item Donation

Recipient	Donated goods
Hwa Yen Development Center	Second hand goods, receipts, soy sauce mixer, stew pots, hot air fans, Second hand clothing
Yu An Children's Home	Second hand goods, receipts, CD
Huashan Foundation	Second hand goods, receipts, computers, massage pillows
Hsin Mao Development Center	Second hand goods, receipts

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.

The electronic bulletin board in the plant is used by Phison to announce volunteering events, charity carnivals and fundraisers at different times.

During the 2013 charity marathon hosted by Phison, customers and partners were invited to join in the charity drive. Disadvantaged groups were also invited to give performances, run charity sales or take part in order to increase understanding, acceptance and support among the general population.



Syin-Lu Social Welfare Foundation

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



I'm very grateful to Phison for inviting Syin-Lu Social Welfare Foundation to participate in the charity run, during which all Phison employees displayed a noticeable passion to help the needy, just like how they did in every "Kuan-kuan's Homecoming" event or charity auction. This charity run partnership brought us closer to the Syin-Lu kids, immersed every participant in love and warmth while contributing to our Hsinchu operations. I'm therefore extending my utmost gratitude and best wishes to Phison on behalf of Syin-Lu's Hsinchu chapter.

Yang Yu-ling,
Director of Syin-Lu Social Welfare Foundation's Hsinchu Chapter



Music Therapy

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

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

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

The Foundation of Phison - the Steamed Bun Theory

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

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

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

Glossary Proper Nouns

Abbreviation	Full Noun
AES	Advanced Encryption Standard
DEVSIP	Device Sleep
DRAM	Dynamic Random Access Memory
DSP	Digital Signal Processor
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
PCI-E	PCI Express, Peripheral Component Interconnect Express
PCI-E 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-SDXC	Ultra-High Speed I, UHSI 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

INDEPENDENT ASSURANCE OPINION STATEMENT

Phison Electronics Corp. 2013 Social Sustainability Report

The British Standards Institution is independent to Phison Electronics Corp. (hereafter referred to as Phison Electronics in this statement) and has no financial interest in the operation of Phison Electronics other than for the assessment and assurance of this report.

This independent assurance opinion statement has been prepared for Phison Electronics only for the purposes of assuring its statements relating to its corporate social responsibility (CSR), more particularly described in the scope below. It was not prepared for any other purpose. The British Standards Institution will not, in providing this independent assurance opinion statement, accept or assume responsibility (legal or otherwise) or accept liability for or in connection with any other purpose for which it may be used, or to any person by whom the independent assurance opinion statement may be read.

This independent assurance opinion statement is prepared on the basis of review by the British Standards Institution of information presented to it by Phison Electronics. The review does not extend beyond such information and is solely based on it. In performing such review, the British Standards Institution has assumed that all such information is complete and accurate.

Any queries that may arise by virtue of this independent assurance opinion statement or matters relating to it should be addressed to Phison Electronics only.

Scope

The scope of engagement agreed upon with Phison Electronics includes the followings:

1. The assurance covers the whole report and focuses on systems and activities during the 2013 calendar year on the Phison Electronics in Taiwan.
2. The evaluation of the nature and extent of the Phison Electronics's adherence to all three AA1000 AccountAbility Principles in this report as conducted in accordance with type 1 of AA1000AS (2008) assurance engagement and therefore, the information/data disclosed in the report is not verified through the verification process.

This statement was prepared in English and translated into Chinese for reference only.

Opinion Statement

We conclude that the 2013 Phison Electronics Corporate Social Sustainability Report Review provides a fair view of the Phison Electronics CSR programmes and performances during 2013. We believe that the 2013 economic, social and environmental performance indicators are fairly represented. The CSR performance indicators disclosed in the report demonstrate Phison Electronics's efforts recognized by its stakeholders.

Our work was carried out by a team of CSR report assurers in accordance with the AA1000 Assurance Standard (2008). We planned and performed this part of our work to obtain the necessary information and explanations we considered to provide sufficient evidence that Phison Electronics's description of their approach to AA1000 Assurance Standard and their self-declaration of compliance with the GRI guidelines were fairly stated.

Methodology

Our work was designed to gather evidence on which to base our conclusion. We undertook the following activities:

- a top level review of issues raised by external parties that could be relevant to Phison Electronics's policies to provide a check on the appropriateness of statements made in the report.
- discussion with managers and staffs on Phison Electronics's approach to stakeholder engagement. However, we had no direct contact with external stakeholders.
- 15 interviews with staffs involved in sustainability management, report preparation and provision of report information were carried out.
- review of key organizational developments.
- review of the findings of internal audits.
- review of supporting evidence for claims made in the reports.
- an assessment of the company's reporting and management processes concerning this reporting against the principles of inclusivity, materiality and responsiveness as described in the AA1000 AccountAbility Principles Standard (2008).

Conclusions

A detailed review against the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness and the GRI G3.1 guidelines is set out below:

Inclusivity

This report has reflected a fact that Phison Electronics has made a commitment to its stakeholders. The participation of stakeholders has been initiated in developing and achieving an accountable and strategic response to sustainability. The reporting systems are being developed to deliver the required information. There are fair reporting and disclosures for economic, social and environmental information in this report, so that appropriate planning and target-setting can be supported. In our professional opinion the report covers the Phison Electronics's inclusivity issues, however, the future report should be further enhanced by the following areas:

- Revisit the materiality assessment, since issues change over time and to strengthen the breadth and depth of original issues according to market and development of the company.

Materiality

Phison Electronics publishes sustainability information that enables its stakeholders to make informed judgments about the company's management and performance. In our professional opinion the report covers the Phison Electronics's material issues, however, the future report should be further enhanced by the following areas:

- Encouraging bring in diversity materiality issues and incorporate risk and opportunity analysis to develop core strategy of company.

Responsiveness

Phison Electronics has implemented the practice to respond to the expectations and perceptions of its stakeholders. An Ethical Policy for Phison Electronics is developed and provides the opportunity to further enhance Phison Electronics's responsiveness to stakeholder concerns. In our professional opinion the report covers the Phison Electronics's responsiveness issues, however, the future report should be further enhanced by the following areas:

- Continually develop and update the responsive strategy for stakeholders, in order to enhance the reliability of CSR performance in information given to stakeholders, it is encouraging to look for AA 1000 AS type 2 assurance in the future.

GRI-reporting

Phison Electronics provided us with their self declaration of compliance within GRI G3.1 Guidelines and the classification to align with application level A+. Based on our review, we confirm that social responsibility and sustainable development indicators with reference to the GRI Core Index are reported, partially reported or omitted. In our professional opinion the self declaration covers the Phison Electronics's social responsibility and sustainability issues however, the future report could be further enhanced by the following areas:

- Encouraging systematize the data that cover all partial disclosure performance indicators toward full disclosure in the future in order to strengthen stakeholder's confidence.

Assurance level

The moderate level assurance provided is in accordance with AA1000 Assurance Standard (2008) in our review, as defined by the scope and methodology described in this statement.

Responsibility

This CSR report is the responsibility of the Phison Electronics's CEO as declared in his responsibility letter. Our responsibility is to provide an independent assurance opinion statement to stakeholders giving our professional opinion based on the scope and methodology described.

Competency and Independence

The assurance team was composed of Lead Auditors and Carbon Footprint Verifiers experienced in industrial sector, and trained in a range of sustainability, environmental and social standards including AA1000 AS, ISO14001, OHSAS18001, ISO14064 and ISO 9001. BSI is a leading global standards and assessment body founded in 1901. The assurance is carried out in line with the BSI Fair Trading Code of Practice.

For and on behalf of BSI:



Peter Pu
Managing Director BSI Taiwan
04 September, 2014

Taiwan Headquarters: 5th Floor, No. 39, Ji-Hu Rd., Nei-Hu Dist., Taipei 114, Taiwan, R.O.C.

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Licensed Assurance Provider
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**GRI G3.1 Guideline Index
General Standard Disclosures**

1. Strategy and Analysis		Disclosed Chapter	Page
1.1	Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy	2 From the Chairman	004
1.2	Description of key impacts, risks, and opportunities. The reporting organization should provide two concise narrative sections on key impacts, risks, and opportunities	4.3 Management Challenges 5.5 Risk Management	026 042
2. Organizational Profile		Disclosed Chapter	Page
2.1	Name of the organization	1 About This Report	002
2.2	Primary brands, products, and/or services.	4.1 Business Model	017
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	4.2 Global Operations	023
2.4	Location of organization's headquarters.	1 About This Report	002
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	4.2 Global Operations	023
2.6	Nature of ownership and legal form.	4 About Phison	013
2.7	Markets served.	4.2 Global Operations	023
2.8	Scale of the reporting organization, including: number of employees, number of operations; net sales, total capitalization; quantity of products or services provided.	4 About Phison	013
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	No significant changes	
2.10	Awards received in the reporting period.	4.6 Honors and Awards	032
3. Report Parameters		Disclosed Chapter	Page
3.1	Reporting period for information provided.	1 About This Report	002
3.2	Date of most recent previous report.	1 About This Report	002
3.3	Reporting cycle.	1 About This Report	002
3.4	Contact point for questions regarding the report or its contents.	1 About This Report	002
3.5	Process for defining report content, including: determining materiality; prioritizing topics within the report; and identifying stakeholders the organization expects to use the report.	3 Communication with Stakeholders	007
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	1 About This Report	002
3.7	State any specific limitations on the scope or boundary of the report.	1 About This Report	002
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	1 About This Report	002
3.9	Data measurement techniques and the basis of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report.	1 About This Report	002
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	First publication.	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	First publication.	
3.12	GRI Content Index	GRI Index	097
3.13	Policy and current practice with regard to seeking external assurance for the report.	Third party assurance statement.	105
4. Governance, Commitments, and Engagement		Disclosed Chapter	Page
4.1	Governance structure of the organization. Describe the mandate and composition (including number of independent members and/or non-executive members) of the highest governance body and its committees. Report the percentage of individuals by gender within the organization's highest governance body and its committees, broken down by age group and minority group membership and other indicators of diversity.	5.1 Board of Directors and Supervisors	036
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	5.1 Board of Directors and Supervisors	036
4.3	State the number and gender of members of the highest governance body that are independent and/or non-executive members.	5.1 Board of Directors and Supervisors	036
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	7.5 Employee Communications	066
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	5.4 Remuneration Committee	041
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	5.3 Ethical Management	040
4.7	Process for determining the member composition, qualifications, and expertise of the highest governance body and its committees, including any gender consideration and other indicators of diversity.	5.1 Board of Directors and Supervisors	036
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	4 About Phison 8 Environmental Responsibility 9 Spreading Goodwill	013 071 089
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	5.5 Risk Management	042
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	4 About Phison 8 Environmental Responsibility 9 Spreading Goodwill	013 071 089
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	5.5 Risk Management	042
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	7 Truly Caring for Employees 8 Environmental Responsibility	049 071
4.13	Memberships in associations and/or national/international advocacy organizations.	4.6 Honors and Awards	032
4.14	List of stakeholder groups engaged by the organization.	3 Communication with Stakeholders	007
4.15	Basis for identification and selection of stakeholders with whom to engage.	3 Communication with Stakeholders	007
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	3 Communication with Stakeholders	007
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	3 Communication with Stakeholders	007

Specific Standard Disclosures

Status: ● Fully Disclosed ● Partially Disclosed

Economic		Status	Disclosed Chapter	Page
EC	Disclosures on Management Approach	●	4.1 Business Model	017
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	●	4.1 Business Model 9.1 Charitable Donations	017 090
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 2013	
EC3	Coverage of the organization's defined benefit plan obligations.	●	7.3 Compensation and Welfare	056
EC4	Significant financial assistance received from government.	●	Phison complies with financial subsidies condition of "Article 9 of Statute for Upgrading Industry" and "Article 10 of Statute for Industrial Innovation" in 2013.	
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant operating locations.	●	7.3 Compensation and Welfare	056
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	●	8.4 Green Supply Chain Management	085
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	●	7.1 Employee Overview 7.2 Employee Policy	050 055
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or pro bono engagement.	●	9 Spreading Goodwill	089
EC9	Understanding and describing significant indirect economic impacts, including the extent of the impacts.	●	9 Spreading Goodwill	089
Environmental		Status	Disclosed Chapter	Page
EN	Disclosure on Management Approach	●	8.1 EHS Policy	073
EN1	Materials used by weight or volume.	●	8.4 Green Supply Chain Management	085
EN2	Percentage of materials used that are recycled input materials.	●	8.1 EHS Policy	073
EN3	Direct energy consumption by primary energy source.	●	8.1 EHS Policy	073
EN4	Indirect energy consumption by primary source.	●	8.1 EHS Policy	073
EN5	Energy saved due to conservation and efficiency improvements.	●	8.5 Energy Conservation and Carbon Reduction	087
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	8.3 Green Products	082
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	No reduction plans for other indirect energy consumption in 2013.	
EN8	Total water withdrawal by source.	●	8.1 EHS Policy	073
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	073
EN11	Location and size of land 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	Strategies, current actions, and future plans for managing impacts on biodiversity.	●	Phison's Miaoli plant is in industrial area yet in environmentally sensitive areas or conservation areas.	
EN15	Number of IUCN Red List species and national conservation list species with habitats in 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.	
EN16	Total direct and indirect greenhouse gas emissions by weight.	●	8.2 ISO Committee	078
EN17	Other relevant indirect greenhouse gas emissions by weight; this indicator should incorporate emissions generated by employee travel, including commuting to and from work and for business related travel.	●	8.2 ISO Committee	078
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	8.5 Energy Conservation and Carbon Reduction	087
EN19	Emissions of ozone-depleting substances by weight.	●	8.2 ISO Committee	078
EN20	NO, SO, and other significant air emissions by type and weight.	●	Phison has no production activities and no emissions of air pollutants, so this item is not applicable.	
EN21	Total water discharge by quality and destination.	●	8.1 EHS Policy	073
EN22	Total weight of waste by type and disposal method.	●	8.1 EHS Policy	073
EN23	Total number and volume of significant spills.	●	No significant spills in 2013.8.3 Green Products	082
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	●	Phison has no offshore transport. Waste electronic components and scraps are finally recycled or reused. 8.1 EHS Policy	073
EN25	Identify, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting 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.	

Environmental		Status	Disclosed Chapter	Page
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	8.2 ISO Committee 8.3 Green Products	078 082
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	●	8.1 EHS Policy	073
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	●	No fines for environmental law violations in 2013. 8.1 EHS Policy	073
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	8.1 EHS Policy	073
EN30	Total environmental protection expenditures and investments by type.	●	8.1 EHS Policy	073
Labor Practices and Decent Work		Status	Disclosed Chapter	Page
LA	Disclosure on Management Approach	●	7.2 Employee Policy	055
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	●	7.1 Employee Overview	050
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	●	7.1 Employee Overview	050
LA3	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	056
LA4	Percentage of employees covered by collective bargaining agreements.	●	7.5 Employee Communications	066
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	●	7.2 Employee Policy	055
LA6	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	068
LA7	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	068
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	7.6 Workplace Health and Safety	068
LA9	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. 7.5 Employee Communications	066
LA10	Average hours of training per year per employee by gender, and by employee category.	●	7.4 Cultivation and Education	063
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	●	7.4 Cultivation and Education	063
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	●	7.3 Compensation and Welfare	056
LA13	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	036 050
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	●	7.2 Employee Policy	055
LA15	Return to work and retention rates after parental leave, by gender.	●	7.1 Employee Overview	050
Human Rights		Status	Disclosed Chapter	Page
HR	Disclosure on Management Approach	●	7.2 Employee Policy	055
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	●	Although Phison's contracts and agreements don't include human right articles, they still meet requirements of local code.	
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	●	8.4 Green Supply Chain Management	085
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	●	No human rights related training in 2013. 7.4 Cultivation and Education	063
HR4	Total number of incidents of discrimination and corrective actions taken.	●	No related event in 2013. 7.2 Employee Policy	055
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	●	7.2 Employee Policy	055
HR6	Operations and significant 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	055
HR7	Operations and significant 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	055
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	●	No human rights related training in 2013.	
HR9	Total number of incidents or violations involving rights of indigenous people and actions taken.	●	No related event in 2013.	
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	●	7.2 Employee Policy	055
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	●	No human rights related grievance in 2013. 7.5 Employee Communications	066
Society		Status	Disclosed Chapter	Page
SO	Disclosure on Management Approach	●	9 Spreading Goodwill	089
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	●	9 Spreading Goodwill	089
SO2	Percentage and total number of business units analyzed for risks related to corruption.	●	No corruption risk analysis in 2013.	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	●	No corruption relevant course in 2013. 7.4 Cultivation and Education	063

Society		Status	Disclosed Chapter	Page
SO4	Actions taken in response to incidents of corruption.	●	5.3 Ethical Management	040
SO5	Public policy positions and participation in public policy development and lobbying.	●	No related event.	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	●	No related event.	
SO7	Total number of legal actions for anticompetitive 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 noncompliance with laws and regulations.	●	No violation of laws related fines in 2013.	
SO9	Operations with significant potential or actual negative impact 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.	
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impact on local communities.	●	No significantly negative impact happened in local community. Also no any grievance and complaint from local environmental department, local community or societies.	
Product Responsibility		Status	Disclosed Chapter	Page
PR	Disclosure on Management Approach.	●	8.3 Green Products	082
PR1	Life cycle stages in which health and safety impact of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	8.3 Green Products	082
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impact from products and services during their life cycle, by type of outcomes.	●	No violation of products and service-related legislation in 2013. 8.3 Green Products	082
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	●	8.3 Green Products	082
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 2013. 8.3 Green Products	082
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	4.5 Customer Relationship Management	030
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	Phison no formulates review system and project for marketing, there is no any violation record in 2013. 5.3 Ethical Management	040
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 2013. 5.3 Ethical Management	040
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 noncompliance with laws and regulations concerning the provision and use of products and services.	●	No violation of products and service-related legislation in 2013. 5.3 Ethical Management	040

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	055
	Businesses should make sure that they are not complicit in human rights abuses	7.2 Employee Policy	055
Labor	Uphold the freedom of association and the effective recognition of the right to collective bargaining	7.2 Employee Policy	055
	The elimination of all forms of forced and compulsory labor	7.2 Employee Policy	055
	The effective abolition of child labor	7.2 Employee Policy	055
Environment	The elimination of discrimination in respect of employment of occupation and employment	7.2 Employee Policy	055
	Support a precautionary approach to environmental challenges	8.1 EHS Policy	073
	Undertake initiatives to promote greater environmental responsibility	8.1 EHS Policy 8.5 Energy Conservation and Carbon Reduction	073 087
Anti-corruption	Encourage the development and diffusion of environmentally friendly technologies	6.4 Future Research Directions 8.3 Green Products	048 082
	Businesses should work against corruption in all its forms, including extortion and bribery	5.3 Ethical Management	040

ISO26000 Index

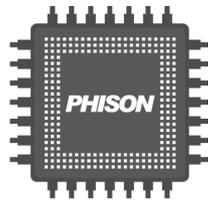
Themes		Related Sections of the CSR Report	Page
Organizational governance	Due diligence	3 Communication with Stakeholders	007
		5 Corporate Governance	035
Human rights	Compliance with the law and preventing inspections due to human rights risks	7.2 Employee Policy	055
	Human rights risk situations	7.2 Employee Policy	055
	Avoidance of complicity - Direct beneficial or collusion	5.2 Internal Control System	039
	Resolving grievances	7.5 Employee Communications	066
	Discrimination and vulnerable groups	7.2 Employee Policy	055
	Civil and political rights	7.2 Employee Policy	055
	Economic, social and cultural rights	7.3 Compensation and Welfare	056
	Fundamental principles and rights at work	7.2 Employee Policy	055
Labor practices	Employment and employment relationships	7.1 Employee Overview 7.2 Employee Policy	050 055
	Conditions of work and social protection	7.2 Employee Policy 7.3 Compensation and Welfare	055 056
	Social dialogue	3 Communication with Stakeholders 7.5 Employee Communications	007 066
	Health and safety at work	7.6 Workplace Health and Safety	068
	Human development and training	7.4 Cultivation and Education	063
	Environment	Pollution prevention	8.1 EHS Policy
Sustainable resource use		8.1 EHS Policy	073
Climate change mitigation and action		8.2 ISO Committee 8.5 Energy Conservation and Carbon Reduction	078 087
Protection of the environment & diversity, and restoration of natural habitats		No related event and no operation in nature reserve in 2013.	
Fair operating practices		Anti-corruption	5.2 Internal Control System
	Responsible political involvement	No related event.	
	Fair competition	5.5 Risk Management	040
	Promoting social responsibility in the value chain	8.4 Green Supply Chain Management	085
	Respect for property rights	5.5 Risk Management 6.3 Intellectual Property Management	042 047
Consumer issues	Fair marketing, factual and unbiased information and fair contractual practices	5.5 Risk Management	040
	Protecting consumers' health & safety	8.3 Green Products	082
	Sustainable consumption	8.3 Green Products	082
	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	082
Community involvement and development	Community involvement	9.1 Charitable Donations	093
	Education and culture	9.3 Supporting Disadvantaged Groups	090
	Employment creation and skills creation	7.2 Employee Policy	055
	Technology development	6 Innovative R&D	043
	Wealth and income creation	4.1 Business Model	017
	Health	7.6 Workplace Health and Safety	068
	Social investment	9.3 Supporting Disadvantaged Groups	090

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

Article	Content	Related Chapters	Page
Chapter 1 General Principles			
Article 1	In order to assist companies listed on the Taiwan Stock Exchange Corporation ("TWSE") and GreTai Securities Market ("GTSM") (collectively referred to as "TWSE/GTSM listed companies") to fulfill their corporate social responsibility initiatives and to promote economic, social and environmental balance and 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 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 achieve a balance among environmental concerns, social responsibility, and corporate governance to follow the international trend 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	035
Article 3	In fulfilling corporate social responsibility initiatives, TWSE/GTSM listed companies shall, in its corporate management and operations, give due consideration to the social mores and the rights and interests of the interested parties 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	035
Article 5	TWSE/GTSM listed companies shall comply with relevant laws, regulations, their articles of incorporation, agreements entered into with the TWSE or GTSM, and other relevant rules. Further, they are advised to take into consideration the development of domestic and international corporate social responsibility principles and the operation of individual companies and of their respective business groups as a whole in establishing their policies, systems or relevant management protocols for corporate social responsibility programs, which shall be approved by the board of directors.	5 Corporate Governance	035
Chapter 2 Exercising Corporate Governance			
Article 6	The board of 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 uphold corporate social responsibility by: 1. Making corporate social responsibility the guiding principle of the company's operations and development; 2. Identifying the company's corporate social responsibility mission (or vision, values) and declaring its corporate social responsibility policy; and 3. Enhancing the disclosure of corporate social responsibility information.	2 From the Chairman 5 Corporate Governance	004 035
Article 7	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 or systems of the company and to report on the same to the board of directors on a periodic basis.	5 Corporate Governance	035
Article 8	TWSE/GTSM listed companies shall respect the rights and interests of any interested parties, identify and understand the reasonable expectations and demands of such parties through proper communication with them and allowing their participation, and shall adequately respond to the important corporate social responsibility issues which such parties are concerned about.	3 Communication with Stakeholders	007
Article 9	TWSE/GTSM listed companies are advised to follow Corporate Governance Best Practice Principles for TWSE/GTSM listed Companies and Code of Ethical Conduct for TWSE/GTSM listed Companies to establish effective corporate governance framework and relevant ethical standards so as to enhance corporate governance.	5.2 Internal Control System	039
Article 10	TWSE/GTSM listed companies shall comply with relevant laws and regulations and observe the following guidelines to maintain a fair competition environment: 1.Avoid engaging in unfair competition. 2.Faithfully fulfill tax-related obligations. 3.Not tolerate bribery or corruption and establish appropriate management systems. Corporate endowments should be made in accordance with the company's internal procedures.	5.2 Internal Control System 5.5 Risk Management	039 042
Article 11	TWSE/GTSM listed companies are advised to, on a regular basis, organize training on business ethics and promotion of matters prescribed in the preceding Article for directors, supervisors and employees, and should incorporate the foregoing into its employee performance appraisal system to establish a clear and effective reward and discipline system.	5.3 Ethical Management	040
Chapter 3 Fostering a Sustainable Environment			
Article 12	TWSE/GTSM listed companies shall follow relevant environmental laws and regulations and international standards to properly protect the environment and shall endeavor to promote a sustainable environment when engaging in business activities.	8.1 EHS Policy	073
Article 13	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	073
Article 14	TWSE/GTSM listed companies are advised to establish proper environment management systems based on the characteristics of their industries. Such environment management 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 and examining whether such goals should be maintained and whether they are still relevant on a regular basis. 3.Examining the purpose of the environmental sustainability goals or their achievement on a regular basis.	8.2 ISO Committee 8.3 Green Products	078 082
Article 15	TWSE/GTSM listed companies are advised to establish a dedicated unit or assign dedicated personnel for environment management to maintain the environment management system and should hold environment education courses for their managerial officers and other employees on a periodic basis.	8.2 ISO Committee	078
Article 16	TWSE/GTSM listed companies are advised to take into account the effect on ecological efficiency, promote and educate consumers on the concept of sustainable consumption, and conduct research and development, production and services in accordance with the following principles to reduce the impact on the natural environment from their business operations: 1.Reduce resource and energy consumption of their products and services. 2.Reduce emission of pollutants, toxins and waste, and dispose of waste properly. 3.Improve recyclability and reusability of raw materials or products. 4.Maximize the sustainability of renewable resources. 5.Enhance the durability of products. 6.Improve efficiency of products and services.	8.3 Green Products	082

Article	Content	Related Chapters	Page
Chapter 3			
Fostering a Sustainable Environment			
Article 17	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 avoid polluting water, air and land in the course of their business operations. If pollution is unavoidable, TWSE/GTSM listed companies shall take into account cost efficiency, technology and financial feasibility 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	073
Article 18	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 volume check. Such strategies should include obtaining carbon credits to promote and minimize the impact of their business operations on the natural environment.	8.2 ISO Committee	078
Chapter 4			
Preserving Public Welfare			
Article 19	TWSE/GTSM listed companies shall comply with relevant labor laws and regulations, protect the legal rights and interests of employees, respect internationally recognized principles of the labor force's human rights, including the freedom of association, the right of collective bargaining, caring vulnerable groups, forbidding child labors, eliminating all forms of forced labor, eliminating recruitment and employment discrimination, etc., and shall not commit violations against the fundamental labor rights. The human resources policies of TWSE/GTSM listed companies shall be founded on the principles of the labor force's human rights and shall contain appropriate management methods and procedures. TWSE/GTSM listed companies shall ensure that their employment policies do not contain differential treatments based on gender, race, age, marital and family status, and shall achieve equality in terms of compensation, employment conditions, and training and promotion opportunities.	7.2 Employee Policy	055
Article 20	TWSE/GTSM listed companies shall provide information for their employees so that the employees have knowledge of their rights under the labor laws of the countries where the companies have business operations.	7.2 Employee Policy	055
Article 21	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	068
Article 22	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.	7.4 Cultivation and Education	063
Article 23	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	066
Article 24	To maintain product responsibility and uphold marketing ethics, TWSE/GTSM listed companies are advised to establish and disclose policies on consumer rights and interests and enforce such consumer rights and interests policies.	5.5 Risk Management	042
Article 25	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 the laws and regulations of the government and relevant international guidelines when marketing or advertising their products or 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.	5.5 Risk Management 8.3 Green Products	042 082
Article 26	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 relevant laws and regulations for respecting consumers' rights of privacy and shall protect personal data provided by consumers.	4.5 Customer Relationship Management	030
Article 27	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 foster a stronger sense of corporate social responsibility.	8.4 Green Supply Chain Management	085
Article 28	TWSE/GTSM listed companies are advised to evaluate the impact of their business operations on the community and employ qualified personnel to enhance community acceptance. TWSE/GTSM listed companies may, through commercial activities, non-cash property endowments, volunteering service or other free 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	089
Chapter 5			
Enhancing Disclosure of Corporate Social Responsibility Information			
Article 29	TWSE/GTSM listed companies shall disclose information according to relevant laws and 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 management scheme, strategy, policy and management guidelines for corporate social responsibility initiatives 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. 4. Result of implementing corporate social responsibility initiatives. 5. Other information relating to corporate social responsibility initiatives.	2 From the Chairman 3 Communication with Stakeholders 4 About Phison 5 Corporate Governance 6 Innovative R&D 7 Truly Caring for Employees 8 Environmental Responsibility 9 Spreading Goodwill	004 007 013 035 043 049 071 089
Article 30	TWSE/GTSM listed companies are advised to produce corporate social responsibility reports disclosing the status of their implementation of the corporate social responsibility policy. The reports are advised to include: 1. The framework, policy and proposal of implementing corporate social responsibility initiatives. 2. Major interested parties and their concerns. 3. Results and a review of the exercising of corporate governance, fostering of a sustainable environment and preservation of public welfare. 4. Future improvements and goals.	2 From the Chairman 3 Communication with Stakeholders 4 About Phison 5 Corporate Governance 6 Innovative R&D 7 Truly Caring for Employees 8 Environmental Responsibility 9 Spreading Goodwill	004 007 013 035 043 049 071 089
Chapter 6			
Supplementary Provisions			
Article 31	TWSE/GTSM listed companies shall at all times monitor the development of domestic and international corporate social responsibility framework 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.	Phison pays intense attention to domestic and international CSR trend and institution and incorporates related issues into routine operation, realizing corporate social responsibility.	

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