

3.2 Sustainable Supply Chain



3.2.1 Sustainable Supply Chain Management Policy and Targets

3.2.1.1 Sustainable Supply Chain Management Policy

The products and services provided by suppliers may cause direct and tangible damages to LITE-ON's products, services, and business activities. Meanwhile, the CSR practice of a supplier may cause indirect impacts or effects to LITE-ON's intangible reputation or turn into potential risks. Therefore, LITE-ON takes traditional supply chain management and associates domestic and international regulations and industrial requirements to build a strong and sustainable supply chain management framework. The framework makes issues such as labor rights, environmental protection, health and safety, and ethics and management systems along the supply chain part of the key elements in supplier evaluation, selection and audit, in order to create supply chain risk control items and to identify high risk suppliers. Improvement measures are based on evaluation results and designed to help suppliers make progress on an ongoing basis. We hope to improve the soundness of sustainable management on the supply chain and reduce operational risks on said supply chain. We also hope to develop partnerships based on sustainable growth.



All members of the supply chain are important partners for LITE-ON on the path to sustainability. With equal emphasis on quality, costs, delivery, and service, LITE-ON looks forward to working with the supply chain in fulfilling corporate social responsibility and increase sustainable competitiveness for a sustainable future.



- Ensure effective identification and management of ESG risks to enhance sustainability of the supply chain
- Strengthen management of conflict minerals to ensure no illegal minerals from conflict-affected areas and responsible procurement practices are in place
- Promote a green supply chain and encourage suppliers to reduce the operational or environmental impact of their products or business activities

3.2.1.2 Sustainable Supply Chain Management Targets

LITE-ON formulated supply chain management targets and strategy actions for the year of 2018 and 2019 by following the abovementioned LITE-ON sustainable supply chain management policy. Suppliers responded well, and all targets were met.

Management Target	Strategy Action	Progress	
		2018	2019
100% compliant with the LITE-ON supplier's code of conduct regarding labor, human rights, and environmental issues.	<ul style="list-style-type: none"> - Performed supplier assessments and audits, and followed up until key areas were improved - Provided supplier training 	100% compliant	100% compliant
100% no use of illegal conflict mineral	<ul style="list-style-type: none"> - Required suppliers to commit to procurement of conflict free minerals or promise of no using illegal conflict minerals - Proceeded according to the OECD Due Diligence Guidance 	100% compliant	100% compliant

Hence, the supply chain management team has further reinforced past supply chain management targets, and followed the Sustainability Strategy and Blueprint to create new short-, medium-, and long-term KPIs for our sustainable supply chain. These KPIs are to become effective in 2020 and expected to become more aligned with the UN SDGs in the future. They had been approved by LITE-ON's Corporate Sustainability Committee in November 2019. LITE-ON will continue to monitor the progress and make rolling improvement.

Sustainable Supply Chain Management Target (KPIs)	2020	2025	2030
Completion of code of conduct training for Tier 1 suppliers	100%	100%	100%
Response rate of Tier 1 supplier risk self-assessment questionnaire	70%	100%	100%
Percentage of no using illegal conflict mineral products	100%	100%	100%
Supplier training provided to help partners develop sustainability capabilities	5 sessions	30 sessions in total	55 sessions in total

3.2.1.3 Supply Chain and Localized Purchasing

LITE-ON offers a diverse range of flexible product portfolio that can be used widely in power supply management, communication systems, IoT, personal and industrial computers and peripherals, consumer electronics, mobile and wearable devices, automotive electronics, LED lighting and advanced applications, cloud computing, and industrial automation. As a result, the supply chain is active, vivid and diversified with a closely interconnected network. Raw materials involved in the supply chain include IC, PCB, electronic components, cables, plastic parts, metal parts, packaging materials and so on. LITE-ON works with more than 1,600 suppliers of raw materials worldwide. They are categorized roughly into direct material suppliers and indirect material suppliers based on the counterparty in the transaction. Direct material purchases have been the bulk of all purchases for most of the time over the years. Direct purchases amounted to NTD107.7 billion in total, or 92.21% of all purchases, in 2019.

Furthermore, most of LITE-ON's production sites and suppliers on the supply chain are located in Taiwan, China, and Thailand. Local purchases amounted to NTD98.5 billion in total, or 84.32% of all purchases, in 2019.

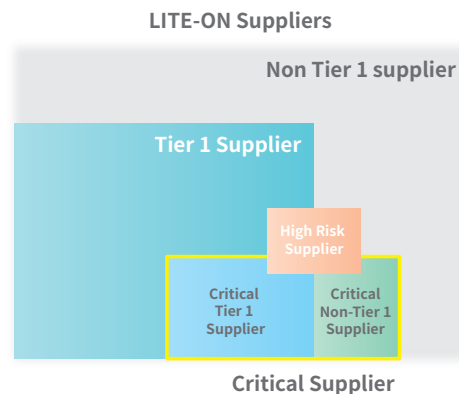
Note 1: Direct purchase is defined as a purchase made directly from a manufacturer, dealer, or distributor.

Note 2: Local or decentralized purchasing is determined by whether LITE-ON <places an order and receives the shipment> and the supplier <receives the order and dispatch the shipment> in the same geographic region and by whether the process contributes to the local economy, creates jobs, or reduces the carbon footprint during shipping.

3.2.1.4 Selection of Suppliers and Identification of Critical Suppliers

Supplier classification

LITE-ON divides suppliers into groups according to their attributes, and label them for better management. LITE-ON suppliers can be divided generally into Tier 1 Suppliers and Non Tier 1 Suppliers, Critical Suppliers (Critical Tier 1 Suppliers and Critical Non Tier 1 Suppliers), and High Risk Suppliers as illustrated below.



Supplier selection and green procurement

For effective supplier management, LITE-ON applies stringent screening criteria to the supplier selection process. In addition to the criteria for quality, cost, timely delivery, service, and technological capability, LITE-ON has implemented a green supply chain oriented procurement management system. The following principles are applied to evaluate all suppliers (and new suppliers):

- LITE-ON's material suppliers must fully comply with local laws and regulations, and have risk control practices in place to ensure compliance.
- LITE-ON's suppliers should build up management systems for quality, environmental protection, health and safety, and for no use of hazardous substances.
- Meet "LITE-ON Standard of Controlled Hazardous Substance" (LS-301)
- Provide adequate and regularly updated declarations or proofs as required under LITE-ON's Restricted Substance Management Program

Identification of critical suppliers

In order to perform better and effective supply chain management, LITE-ON has identified "critical suppliers" additionally to be the foundation of critical management. The following principles were applied to identify critical suppliers based on the products, production processes, and sales characteristics of individual business groups in 2019:

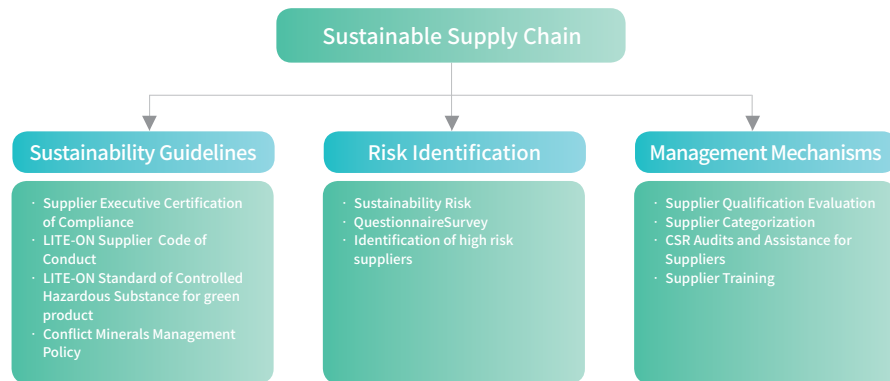
- High proportion to total revenue of procurement
- Critical parts or components
- Exclusive or non-substitutable
- Highly polluting production processes

3.2.2 Supply Chain Sustainability Management

3.2.2.1 Sustainable Supply Chain Management Framework

LITE-ON lists three mainstreams of sustainable supply chain management: sustainability guidelines, risk identification, and management mechanisms. LITE-ON starts by establishing basic sustainability guidelines and requiring supply chain members comply with the guidelines, uses risk identification tools to find high risk factors and industries, and then deploys various management mechanisms to manage the entire supply chain.

3.2.2.2 Sustainable Supply Chain Guidelines



LITE-ON has implemented the "Supplier Executive Certification of Compliance " by referring the Responsible Business Alliance (RBA) Code of Conduct, United Nations Guiding Principles on Business and Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the Universal Declaration of Human Rights. The Supplier Executive Certification of Compliance is a kind of declaration or statement which requires the suppliers to conduct all business activities in compliance with the rules therein regarding workers/labors, health and safety, the environmental protection, business ethics, and management systems. It also requires suppliers comply fully with the laws and regulations in the countries/regions where they operate their businesses. Meanwhile, LITE-ON requires Tier 1 suppliers impose the same guidelines and requirements on suppliers on the next tier.

3.2.2.3 Identification of Supply Chain Risk

Risk assessment process

LITE-ON considers supply chain risk management as one of a company's competitive advantages. The process begins with screening the factors such as the place of manufacture, the nature of service, being a critical supplier or otherwise, to survey supplier status initially. The preliminary supplier assessment assigns key control points on the issues of labor rights, environmental protection, and health and safety practices along the supply chain, and conducts a sustainability risk questionnaire survey on critical suppliers. At the end, high risk suppliers are identified when the survey is completed. Onsite audits have been performed first on high risk suppliers. Improvement measures are implemented and followed up to ensure defects are corrected adequately to reduce risks. 2 suppliers were classified as high risk suppliers and placed at the top of the list of onsite audits in 2019. Improvement measures were implemented and followed up to ensure errors were corrected adequately to reduce risks.

Aspects of risk assessment

LITE-ON assesses risks in three aspects: economy, environment, and society. The factors in the risk assessments include the following.

Economy	Environment	Society
<ul style="list-style-type: none"> · Quality, costs, delivery date, services and technical capabilities · Business Ethics · Business integrity · Exclusive or critical source · Supplier's automation capability 	<ul style="list-style-type: none"> · Environmental law compliance · Environmental management systems · Climate change · Water resource management · Waste and air pollution management 	<ul style="list-style-type: none"> · Employee health and safety · Human rights · Labor practices · Conflict minerals management · Work hours

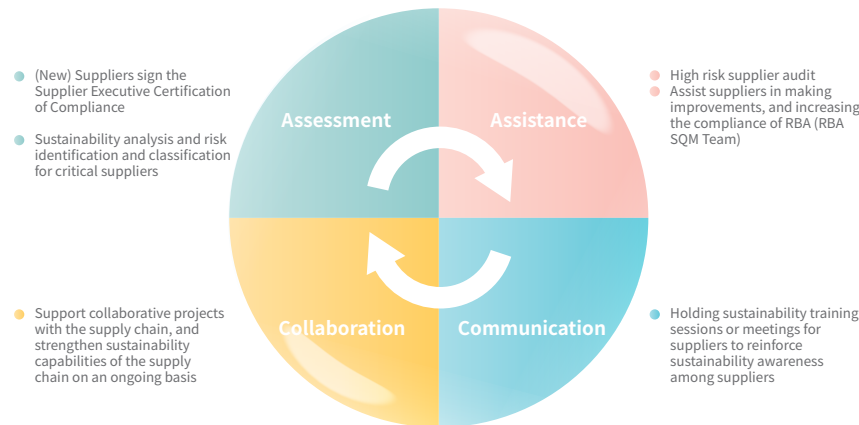
High sustainability risk factors and high risk supplier categories in 2019

	Economy	Environment	Society
	<ul style="list-style-type: none"> - Exclusiveness - Supplier's automation capability - Business integrity 	<ul style="list-style-type: none"> - Environmental law compliance - Water resource management - Climate change 	<ul style="list-style-type: none"> - Employee health and safety - Work hours
Category of high risk supplier	IC	Printed circuit board/ power supply products/ cables/enclosure	Printed circuit board/ power supply products/ cables/enclosure

3.2.2.4 Supply Chain Management Mechanisms

As part of the commitment to responsible production and the development of suitable members for a sustainable supply chain, LITE-ON employs 4 tools, assessment, assistance, communication, and collaboration, and the corresponding elements in the sustainable supply chain management framework to ensure all important issues in the framework are monitored by feasible procedures.

Building Ability for Sustainable Supply Chain



Audit and guidance on human rights - environment, safety, health, and management systems

LITE-ON has incorporated the RBA Code of Conduct into supply chain management. These rules help the company monitor suppliers on issues regarding Labor, Health and Safety, Environmental Protection, Ethics, and Management Systems. LITE-ON also encourages suppliers to develop materials and production processes that minimize environmental impacts. We utilize the RBA audit tools to review and evaluate supplier performance in fulfillment of their corporate social responsibility. In 2019, LITE-ON sent questionnaire surveys or onsite audited to 420 critical suppliers preferentially, and none was listed as an unqualified supplier for being in violation of CSR regulations.

Supplier training - supplier CSR related sessions or workshops

4 conferences and workshops on "Supplier CSR Enforcement" related issues were held in 2019 to explain the LITE-ON's CSR commitments including RBA Code of Conduct, Supplier Code of Conduct as well as Supplier Executive Certification of Compliance. Moreover, representative of executive management of suppliers were requested to sign "Supplier Executive Certification of Compliance" that require them to comply with "RBA Code of Conduct".

3.2.3 Conflict Minerals Management

3.2.3.1 Procurement Policy Regarding Conflict Minerals (Metals)

As a responsible corporate citizen of the world, LITE-ON has declared and committed to refrain from the use of metals sourced from illegal conflict mines. The company also requires that all its suppliers comply with LITE-ON's procurement policy regarding conflict minerals (metals):

- Ensure the absence of "conflict minerals" from Congo and surrounding countries and regions in their products, and adhere to the applicable regional and international laws for the conflict mines.
- All suppliers are required to complete a questionnaire to trace sources of all Gold (Au), Tantalum (Ta), Tin (Sn), and Tungsten (W) in the products, and follow the OECD Guidance to complete a survey to avoid directly or indirectly financing armed groups in conflict-affected regions.
- The requirement should be conveyed to their upstream suppliers.

Note: Conflict minerals refer to minerals mined from conflict mines within the Democratic Republic of the Congo; these minerals include coltan, cassiterite, wolframite and gold. The ore is refined into tantalum (Ta), tin (Sn), tungsten (W), cobalt (Co) and gold (Au), which are used mainly in electronics products.

3.2.3.2 Conflict Minerals Management Process

LITE-ON has imposed full restrictions against the use of illegal minerals sourced from conflict mines in Africa since 2010, and adopted the tools recommended by the Responsible Minerals Initiative (RMI) to manage its commitments. Meanwhile, LITE-ON has implemented a due diligence structure in compliance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Conflict minerals management process

