

2.6 Sustainable Supply Chain



2.6.1 Sustainable Supply Chain Management Policy and Targets

2.6.1.1 Sustainable Supply Chain Management Policy

The products and services provided by suppliers may cause direct and tangible impacts to LITEON's products, services, and business activities. Meanwhile, the CSR practice of a supplier may cause indirect effects to LITEON's intangible reputation or turn into potential risks. As an important member of the global electronics manufacturing industry, LITEON makes continuous improvement in Sustainable Supply Chain Management (SSCM) in order to maintain the competitive advantages of LITEON and its suppliers as a whole. Therefore, LITEON selects responsible manufacturing and green products as the theme for its supply chain management strategies, and sets SDG 8 and SDG 12 as the long term goals.

The Supply Chain Management Sub-committee under the LITEON Corporate Sustainability Committee takes traditional supply chain management and adds domestic and international regulations and electronics industrial benchmark—Responsible Business Alliance (RBA) guidelines to build a strong and sustainable supply chain management framework. The framework provides the basis for LITEON's sustainable supply chain management policy. Furthermore, LITEON extends the scope of sustainable supply chain management to economics and governance, environmental protection, social inclusion and other ESG issues. Issues such as labor rights, environmental protection, health and safety, and ethics and management systems are made key components in supplier evaluation, selection and audit. This approach establishes risk controls and identifies 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 performance 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.



Vision

All members of the supply chain are LITEON's important partners on the path to sustainability. With equal emphasis on quality, cost, delivery, services, management, and innovation and technology (QCDS-MIT), LITEON looks forward to working with the supply chain in fulfilling corporate social responsibility in economics and governance, environmental protection, and social inclusion (ESGs) to increase sustainable competitiveness for a sustainable future.



Strategy and policy

- Ensure effective identification and management of economic, environmental, and social risks to enhance sustainability of the supply chain
- Strengthen responsible mineral management to ensure minerals from unqualified smelters in conflict-affected areas are not used and to build up responsible procurement practices
- Promote green supply chain concept and encourage suppliers to reduce the environmental impact of their products or business activities

2.6.1.2 Sustainable Supply Chain Management Targets

LITEON has made a promise to build a supply chain aimed at sustainable development. Supplier management guidelines and regulations are in place to ensure workplace safety is upheld along the supply chain, employees and their dignity are respected, business activities contribute to the environmental protection and ethical codes are followed. LITEON works together with suppliers to fulfill corporate social responsibility and a sustainable supply chain. In addition, to lead the way to sustainability with suppliers and fulfill the promise of responsible manufacturing to customers, LITEON implements the Supplier Code of Conduct and the Responsible Mineral Sourcing Policy. LITEON also requires that suppliers sign management commitment statements (Supplier Executive Certification of Compliance) in order to ensure their ability to meet LITEON's SCM requirements. Following the sustainable supply chain management policy above, LITEON formulated strategy and targets for ongoing promotion of supply chain management throughout the year in 2020. All of LITEON's SCM targets were completed and achieved. Furthermore, LITEON is going to launch an energy conservation assistance program for suppliers and a new ESG sustainability audit plan in 2021. LITEON hopes, by fulfilling the corporate responsibility as a customer, the company may take the entire supply chain up to the next level.

2.6.1.3 Supply Chain and Localized Purchasing

LITEON offers a diverse range of flexible products that are 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 a closely interconnected network of many different active entities. Raw materials involved in the supply chain include IC, PCB, electronic components, cables, plastic parts, metal parts, packaging materials and so on. LITEON works with 1,547 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 most of the time over the years. Direct purchases amounted to NTD 101.1 billion in total, or 95.47% of all purchases, in 2020. Furthermore, most of LITEON's production sites and suppliers on the supply chain are located in Taiwan, Mainland China, and Thailand. Local purchases amounted to NTD 93.4 billion in total, or 88.19% of all purchases, in 2020. Despite decreases in both direct purchases and local purchases due to COVID-19 in 2020 compared to 2019, LITEON kept trying to increase the percentage of direct and local purchases over the year. The amounts rose by 3.53% and 3.87%, respectively.

- Note:
1. Direct purchase is defined as a purchase made directly from a manufacturer, dealer, or distributor.
 2. Local or decentralized purchasing is determined by whether LITEON <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 distribution/shipping.
 3. The number of suppliers is reduced due to the successful sale of the Solid-State Drive Business Unit (SSD BU) to KIOXIA-Holdings Corporation on July 1, 2020, also because of LITEON internal organizational changes in 2020.

2.6.2 Sustainable Supply Chain Management Framework

LITEON lists three areas of sustainable supply chain management: sustainability guidelines, risk identification, and management systems. LITEON 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 supplier industries, and then deploys various management mechanisms to manage the entire supply chain.

Sustainable supply chain management framework



2.6.2.1 Sustainable Supply Chain Management Guidelines

Regarding sustainable supply chain management, LITEON has implemented the Supplier Code of Conduct and Supplier Executive Certification of Compliance by adopting the Responsible Business Alliance (RBA) Code of Conduct and considering international regulations including the 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 Code of Conduct and Supplier Executive Certification of Compliance require all suppliers conduct all business activities in compliance with the rules therein regarding labor rights, health and safety, the environment, business ethics, and management system. It also requires suppliers comply fully with the laws and regulations in the countries/regions where they operate their businesses. Meanwhile, LITEON requires first tier suppliers impose the same guidelines on suppliers on the next tier.

Supplier Executive Certification of Compliance

_____, (hereinafter referred to as "we" or "our company") as a supplier of LITEON Technology Corp. and its subsidiaries and/or affiliated companies (hereinafter referred to as "LITEON Technology"), we sign this Certification of Compliance to commit:

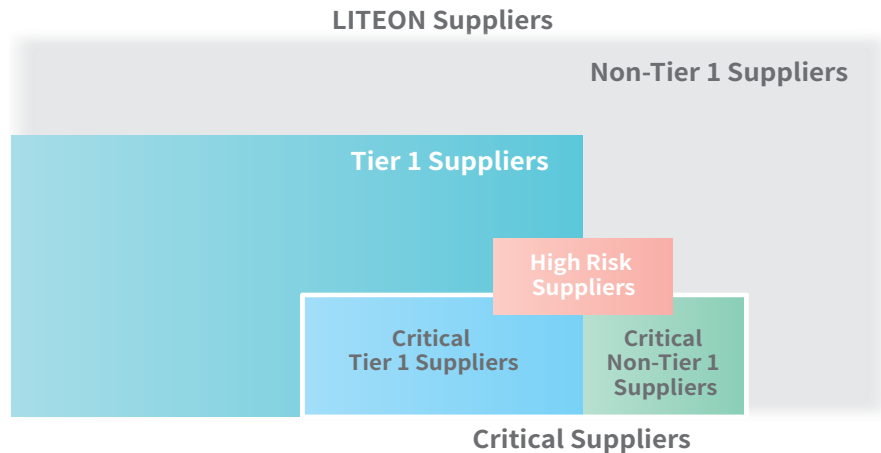
- Our company has read carefully with full understanding and shall comply with "LITEON Supplier Code of Conduct" including but not limited to, (a) operating the company's business in compliance with laws and regulations, and (b) not engaging in any illegal, improper or unfair competition business conduct; (c) providing employee safety and healthy working place, respect employee and endowed with dignity, and (d) relevant environmental protection responsibilities and business ethics must also be fulfilled when performing our company business. At the same time, our company's suppliers are also required to jointly implement this commitment.
- In the future, our company agree to actively cooperate with LITEON's audits and related investigations related to this Certification of Compliance, and will actively participate in LITEON's promotion and activities of relevant regulations and standards, and also agree that if our company violate this Certification of Compliance, our company is willing to cooperate and accept punishment from LITEON, including but not limited to terminating the business relationship between the two parties, etc.

Furthermore, regarding ethical corporate management, LITEON started requiring that all suppliers sign the "Integrity Commitment" in 2021. The commitment letter stipulates that no bribe shall be paid or any other inappropriate gains shall be provided or given between any supplier and LITEON employee for the purpose of closing a deal or performing a contract, and a supplier shall not engage in any conduct that directly or indirectly benefits a LITEON employee or stakeholder. Regarding product production, LITEON has the LS301 standards in place for products, materials and other green products provided by suppliers. The standards provide the restricted substance guidelines for green products and the responsible mineral management policy. Please refer to the corresponding sections for more details.

2.6.2.2 Sustainable Supply Chain Management Mechanisms

Supplier screening and classification

LITEON divides suppliers into groups according to their attributes, and label them for better management. LITEON 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.



For effective supplier management, LITEON follows a set of screening criteria in the supplier selection process. In addition to the criteria for quality, cost, delivery, service, management, innovation, and technical capabilities (QCDS-MIT), LITEON implements green supply chain based procurement management system. The following principles are applied to evaluate all suppliers (and new suppliers).

- LITEON suppliers are required to sign Supplier Executive Certification of Compliance and promise compliance with LITEON Supplier Code of Conduct.
- LITEON's material suppliers must fully comply with local laws and regulations, and have risk control practices in place to ensure compliance.
- LITEON's suppliers should build up management systems for quality, environmental protection, health and safety, and for no use of hazardous substances.
- LITEON's material suppliers must comply with LITEON Standard of Controlled Hazardous Substance (LS301).
- Suppliers should follow LITEON's Restricted Substance Management Plan and provide adequate and regularly updated declarations or proofs.

Identification of critical suppliers

For more effective supplier management, LITEON has identified a list of critical suppliers on which to direct its management efforts. The following principles were applied to identify critical suppliers based on the products, production processes, and sales characteristics of individual business groups in 2020:

- Top 75% of direct materials by annual purchase
- Exclusive or irreplaceable
- Critical parts or components
- Highly polluting production processes

In 2020, LITEON followed the principles above and identified 413 key suppliers, 38 of which might have potentially adverse effects on the environment. Meanwhile, LITEON took an extra step and implemented the "Supplier Qualification Evaluation Procedure" to introduce elements of the LITEON Code of Conduct, the LITEON Supplier Code of Conduct, and the Supplier Executive Certification of Compliance into supplier qualification evaluation. Audit results were divided into three categories, and included in the sourcing decision making process for the purpose of facilitating continuous improvement. LITEON also conducted review meetings to monitor suppliers' CSR performance in various areas.

Audit and assistance on supplier CSR aspects- human rights, environment, safety, health, and management systems

LITEON has incorporated the RBA Code of Conduct into the supply chain. These rules help the company monitor suppliers on issues regarding Labor, Health and Safety, Environmental Protection, Ethics, and Management Systems. LITEON also encourages suppliers to develop materials and production processes that minimize environmental impacts or implement energy efficient and carbon emission reducing measures in production utilities. We modify the LITEON supplier audit forms according to the RBA requirements, and assess and evaluate suppliers' CSR general performance. In 2020, LITEON sent questionnaires to or performed online/on-site audits on 413 key suppliers identified as high priority, and none was listed as an unqualified supplier for violating CSR regulations.

Supplier training and incentives

Seminars on corporate social responsibility of suppliers

LITEON organizes a number of supplier conferences and seminars or training courses for different business groups every year. In addition to presenting latest updates on LITEON's supply chain and awards to outstanding suppliers, LITEON uses these events to provide details on the scope of CSR and related activities, including updates on RBA, the Supplier Code of Conduct, and the Supplier Executive Certification of Compliance. LITEON requires that suppliers' management teams or top managers sign the Supplier Executive Certification of Compliance to confirm compliance with the rules and the RBA Code of Conduct in their management practices. Conferences and seminars were canceled in the real world to avoid crowds in 2020 due to the COVID-19. Instead, communication was delivered by mail and other means to inform suppliers of the latest status and requirements. Depending on progress in the fight against the virus, the conferences and seminars will be held in the real world or online as appropriate in the near future.

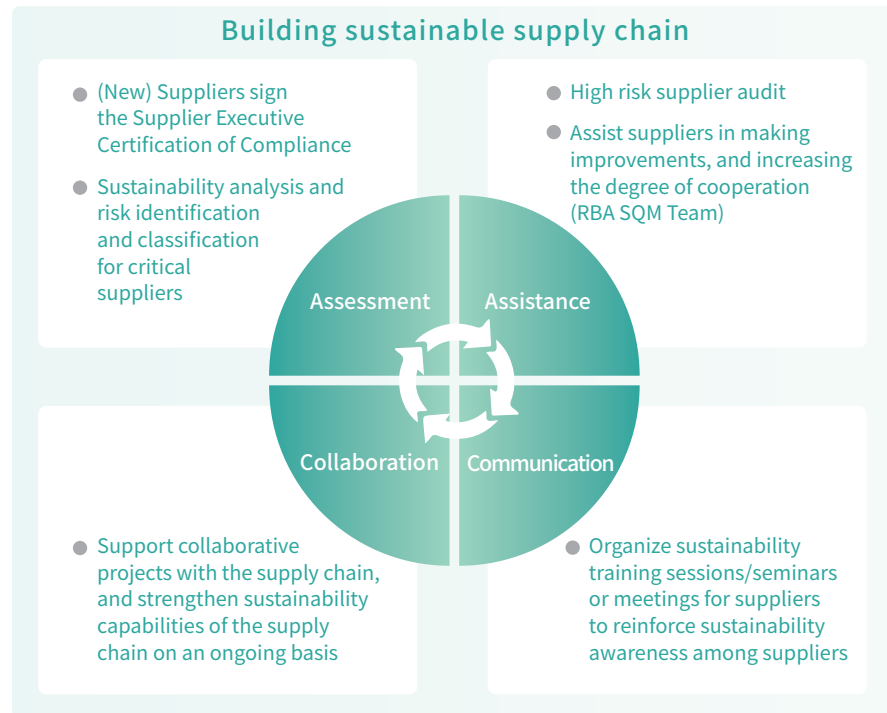
Supplier incentives for outstanding performance

The business groups implement suitable supplier incentives according to the nature of their sourcing activities and the characteristics of their suppliers. For PMS/CIPS, suppliers with (1) an outstanding QCDS (quality, cost, delivery, service, and technology) rating, (2) a total transaction amount ranked in top 30, or (3) other outstanding performance that meet the criteria will be selected as outstanding suppliers, will be presented awards at the supplier conference. Furthermore, MES presents special awards to suppliers that comply with the EU's RoHS Directive and have (1) a complete IECQ QC080000 management system, (2) an annual RSC audit score of more than 90, (3) no missing data in the GMS system, (4) no RoHS data exceeding the limits and (5) with internal testing facilities and random risk assessment mechanisms, will be presented awards at the supplier conference. AEA grants one-year audit exemption to outstanding suppliers that have passed supplier audits for three years in a row. Other business groups organize similar supplier conferences and outstanding supplier award ceremonies.

2.6.2.3 Identification of Supply Chain Risk

Supply chain management mechanisms

As part of the commitment to responsible production and the development of suitable members for a sustainable supply chain, LITEON 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.



Risk assessment process

LITEON treats supply chain risk management as one of the company's competitive advantages. In terms of the industrial sector, common economic, environmental, and social risks can generally be categorized roughly based on industry characteristics.

Aspects of risk assessment

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

Economic	Environmental	Social
<ul style="list-style-type: none"> · Quality, cost, delivery, services, innovation, management and technical capabilities · Business Ethics · Business integrity · Exclusive or critical source · 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 · Responsible mineral management · Work hours

High sustainability risk factors and high sustainability risk supplier categories in LITEON's supply chain in 2020 were then identified by considering the factors above in terms of the market conditions in 2020 and the supplier categories of counterparties. The results are shown in the table below.

	Economic risk factors	Environmental risk factors	Social risk factors
	<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
High sustainability risk supplier categories	IC	Printed circuit board/ power supply products/ cables/enclosure casing	Printed circuit board/ power supply products/ cables/ enclosure casing

Furthermore, LITEON performed preliminary supplier assessments based on place of manufacture, product characteristics, and nature of service, and determined whether a supplier category was a high sustainability risk one and whether a supplier was a critical supplier. Workers' rights, environmental protection, and health and safety practices along the supply chain were listed as risk control points. A sustainability risk survey was conducted specifically on critical suppliers. When the survey was completed at the end, high risk suppliers for the year were identified as those with total scores below 60 in all areas. 2 suppliers were named high risk suppliers and placed at the top of the list of onsite audits in 2020. Improvement measures were implemented and followed up on an ongoing basis to ensure errors were corrected completely and the risk levels were reduced.

2.7 Customer Service and Satisfaction

2.6.3 Responsible Mineral Management

2.6.3.1 Responsible Mineral/Metal Sourcing Policy

As a responsible corporate citizen of the world, LITEON has declared and committed to refrain from the use of metals sourced from unqualified smelters in conflict mines. The company also requires that all its suppliers comply with LITEON's responsible mineral/metal sourcing policy:

- (1) ensure the absence of "responsible minerals from unqualified smelters" in Congo and surrounding countries and regions in their products, and adhere to the applicable regional and international laws for responsible minerals.
- (2) trace sources of all Gold (Au), Tantalum (Ta), Tin (Sn), Tungsten (W), Cobalt (Co), and Mica and other sources of responsible minerals published in the Responsible Minerals Initiative (RMI) in all products; while all suppliers should complete a connection report to confirm sources of related minerals and should use a list of RMI compliant smelters/refiners to avoid mines directly or indirectly financing armed groups in conflict-affected regions.
- (3) convey these requirements to their upstream suppliers.

Note: Responsible minerals/metals refer to minerals mined under armed conflict or human rights abuses, especially minerals mined by armed groups surrounding the Democratic Republic of the Congo. These minerals include coltan, cassiterite, wolframite, cobalt and gold, and can be refined into Tantalum (Ta), Tin (Sn), Tungsten (W), Cobalt (Co) and Gold (Au). In addition, mica mined from India and other regions are also known as responsible minerals, and can be used in electronics and other products.

2.6.3.2 Responsible Mineral Management Process

Regarding the responsible mineral management process, LITEON provides information on responsible minerals to suppliers working with LITEON for the first time or suppliers who need the information. LITEON also provides basic training on using the RMI management tool, responsible mineral reporting templates, including the Conflict Minerals Reporting Template (CMRT), the Cobalt Reporting Template (CRT), and the Mica Reporting Template (MRT). The business units require that suppliers implement complete control and verify any use of responsible minerals from unqualified smelters in materials after signing a declaration against the use of responsible minerals and providing RMI forms during material acknowledgment. Meanwhile, responsible mineral data from the business units will be summarized, and a risk assessment will be performed on materials supplied by the suppliers.

Responsible mineral management process



Customer service

LITEON's each business unit has cross-function teams (CFTs) providing targeted services to individual customers; these teams bear responsibility for taking orders, performing product R&D and manufacturing, and ensuring quality, delivery, cost, and after-sales service. Our CFTs can quickly propose response methods and overall solutions based on customer issues and feedback.

