3.4 Supply Chain Management

3.4.1 Supply Chain Sustainability Management

Purchasing decision is not only base on the production, service and operational concerns, but also need to be response with corporate social responsibility. Thus LITE-ON builds supply chain management on compliance with its regulatory obligations, and focuses on workers' rights, environmental conservation, and health and safety along the supply chain as key control points for identifying high risk suppliers. Assessment results are used to devise improvement plans to help suppliers enhance their management practices. The objective is to reduce business risks and costs for both LITE-ON and its suppliers and develop sustainable partnerships.

3.4.1.1 Supply Chain Management Commitment

- Establish a sustainable supply chain.
- Leading suppliers' dedicate on corporate social responsibility on environmental protection, health and safety, and human rights.
- Encourages supplier develop innovative business models to reduce environmental impact.
- Enhance competitiveness through supply chain quality, cost, delivery, service and sustainability capabilities.
- Ensure sourcing and products not contain with Conflict Minerals.

3.4.1.2 Supply Chain Management Aspect

Supply chain management aspect:

- Supplier Executive Certificate of Compliance
- Hazardous Substances Free Management
- Promotion of Green Procurement Guideline
- Conflict Minerals Policy
- Local procurement
- Critical suppliers
- High risk suppliers' identification
- Non-tier1 suppliers management
- New suppliers selection process
- Grading suppliers' management
- Conduct supplier training
- Audit and counsel supplier's corporate social responsibility capability

3.4.1.3 Supplier Sustainability Guidelines

Supplier executive certificate of compliance

LITE-ON has set up a adopted the Responsible Business Alliance(RBA) Code of Conduct and references international regulations including the Guiding Principles on Business and Human Rights, International Labor Organization's Declaration on Fundamental Principles and Rights at Work and the Universal Declaration of Human Rights etc., and requires its suppliers to comply with the rules herein regarding workers, health and safety, environmental concerns, business ethics, and management structures and comply with the laws and regulations in the countries/regions where they operate their businesses. Meanwhile, LITE-ON requires first tier suppliers implement the same guidelines as suppliers on the next tier.

Green procurement and supplier selection

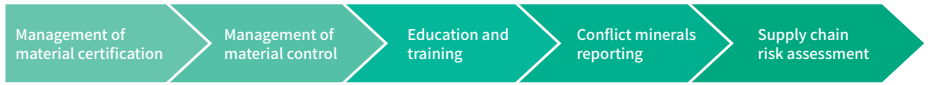
In addition to evaluate suppliers' quality, cost, timely delivery, service, and technological capability, LITE-ON has adopted the following supplier evaluation principles with procurement management based on green supply chain:

- Suppliers of LITE-ON must establish relevant systems for the management of environmental protection, health and safety of employees, and the control of hazardous materials.
- Meet the LS-301 standards of LITE-ON on “Concentration limit of toxic chemical substances in prohibited materials”.
- Provide suitable and updated declaration documents or evidence in line with the requirements of the hazardous substances free management plan of LITE-ON.

3.4.1.4 Management of Conflict Minerals

LITE-ON supports the Responsible Business Alliance (RBA) and its Responsible Minerals Initiative (RMI), and requires suppliers buy conflict free materials. LITE-ON has imposed full restrictions against the use of minerals sourced from conflict mines in Africa since 2010, and adopted the tools suggested by RBA 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



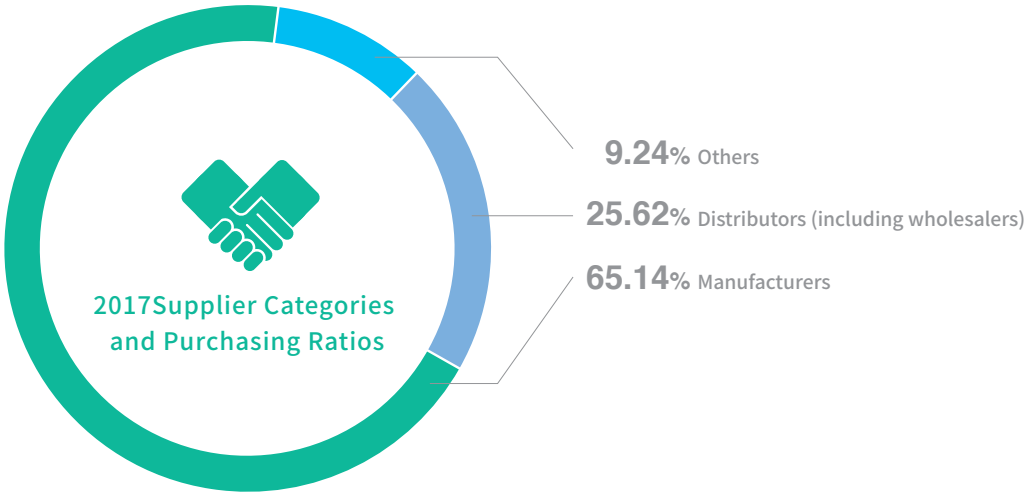
3.4.2 Supply Chain Risk Management

LITE-ON considers supply chain risk management is one of a company's competitive advantages and expects suppliers to work together with the company to strength supply chain. Therefore, LITE-ON teams up with several Taiwanese ICT companies to form the “Corporate Green Competitiveness Alliance, CCGA”, which supports a mutually beneficial and sustainable environment to respond to green regulations around the world and follow green trends to create green value.

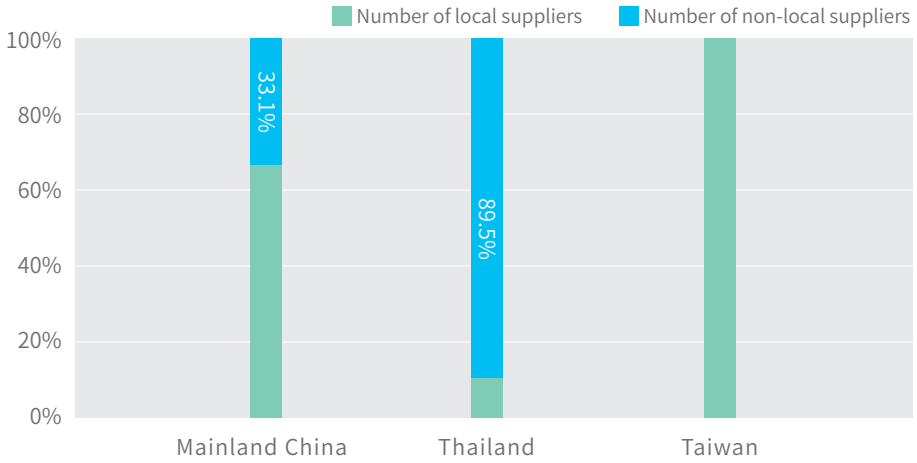
Supply chain and localized purchasing

LITE-ON offers a diverse and flexible range of products and services; it uses suppliers from various sources that form an extensive supply chain to support LITE-ON's businesses. There are 1,685 certified first tier suppliers offering an extensive variety of goods. Suppliers are mainly categorized by their relevance to LITE-ON's products, and are distinguished between direct and indirect suppliers. Direct suppliers have accounted for the majority of direct purchases made in the past, totaling 90.76% in 2017.

In 2017, 65.14% of purchases made to direct suppliers involved parts and components supplied by manufacturers; these manufacturers represented the majority of LITE-ON's supplier list at 70.39%. Distributors of critical parts and components accounted for 25.62%, whereas suppliers of indirect materials and services (including transportation and professional services) accounted for 9.24%. See the figure on the right for a detailed analysis.



Regarding the percentage supplied by local procurement, LITE-ON's production sites are mainly located in China, Thailand and Taiwan. Regarding production facilities, local suppliers represented 66.9% of the supplier list in China in 2017; and local suppliers represented 10.5%, which was lower than 35.4% in 2016, of the supplier list in Thailand. A shift in the procurement policy also means that instead of buying from local distributors or wholesalers, the company buys directly from manufacturers in China or Taiwan. Local suppliers represented 100.0% of the supplier list in Taiwan.



Critical Suppliers management

To ensure effective management of suppliers, stringent screening criteria are applied during the selection stage. Passing suppliers will be followed up with on-site inspections and review meetings to evaluate their performance. LITE-ON then focuses its management efforts on the key suppliers it identifies. In 2017, these key suppliers represented 31.81% of the suppliers, and accounted for 81.27% of LITE-ON's purchases. In particular, in 2017, the percentage of key suppliers who were also local suppliers was 60.88% in China; 3.13% in Thailand, which appeared to be on a downward trend since 2016 that was mainly attributed to the change in the number of local suppliers in Thailand in 2017; and 100% in Taiwan. Key suppliers are identified based on the following criteria:

- High proportions in LITE-ON's spending
- High technological and creative abilities
- Unique source
- High level of customization
- Labor intensive or high polluting process industry
- Ability to fulfill CSER

Identification of high risk suppliers

LITE-ON assess potential environmental or social risks faced by key suppliers based on the locations of their operations, production processes, the Global Water Tool released by the World Business Council for Sustainable Development (WBCSD), and results of its audits. The factors in the risk assessments include the following:

Economic	Environmental	Social
· Quality, cost, delivery date, services and technical capabilities · Business Ethics · Compliance · Supplier management · Capability of process automation · Critical ingredient cannot be obtained in time and in volume · Unique source	· Environmental regulation compliance · Environmental management systems Climate change · Water Resources Management · Waste and air pollution management	· Employee health and safety · Human Right · Worker's welfare · Conflict minerals management · Work hours

Major sustainability risks in 2017

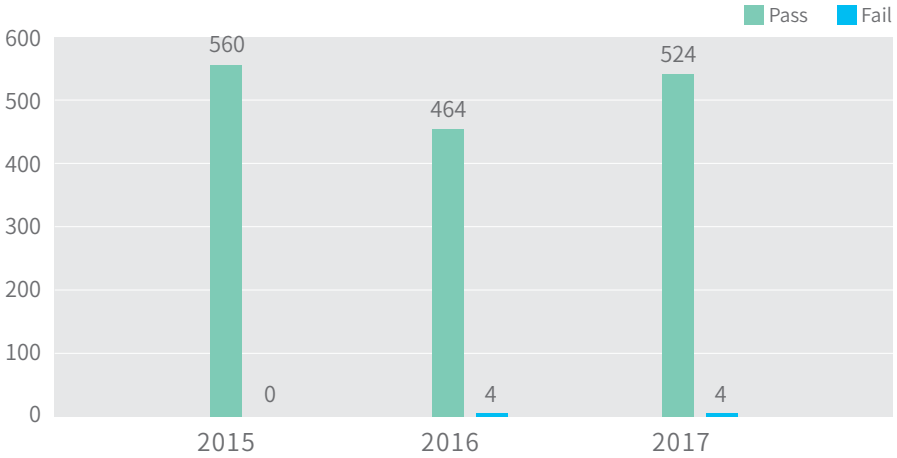
	Economic · Exclusiveness · Supply of key rare metals · Supplier's automation capability	Environmental · Environmental law compliance · Water resource management · Climate change	Social · Employee health and safety · Work hours
High risk suppliers' Category	IC	Printed circuit board/ power supply products/ cables/casing	Printed circuit board/ power supply products/ cables/casing

- Management of sustainability risks in tier 1 supplier
  In 2017, LITE-ON added 171 companies (excluding suppliers specified by clients) to its suppliers list; 100% of which passed LITE-ON's EICC audit and satisfied company standards regarding environmental protection, worker's welfare, human rights, and social impact. Meanwhile, 31 suppliers were removed from the list due to change of supplier name and lack of competitive costs.
- Non tier1 supplier management
  In addition to our requirements for tier1 suppliers, we also require that our suppliers manage their tier1 suppliers in order to create a more reliable supply chain.

3.4.3 Supplier Management Mechanisms

Audit and Guidance on Supplier CSR - Human Rights, Environment, Safety, Health, and Management Systems

LITE-ON has incorporated the RBA Code of Conduct into the supply chain. These rules help the company monitor suppliers on issues regarding management ethics, protection of workers' rights, and health and safety management practices. 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 2017, LITE-ON performed audits on 528 key suppliers identified as high priority, and none was listed as an unqualified supplier for being in violation of CSR regulations. The audit results over the years are shown in the chart below.



Supplier seminars on "Supplier Fulfillment of Corporate Social Responsibilities"

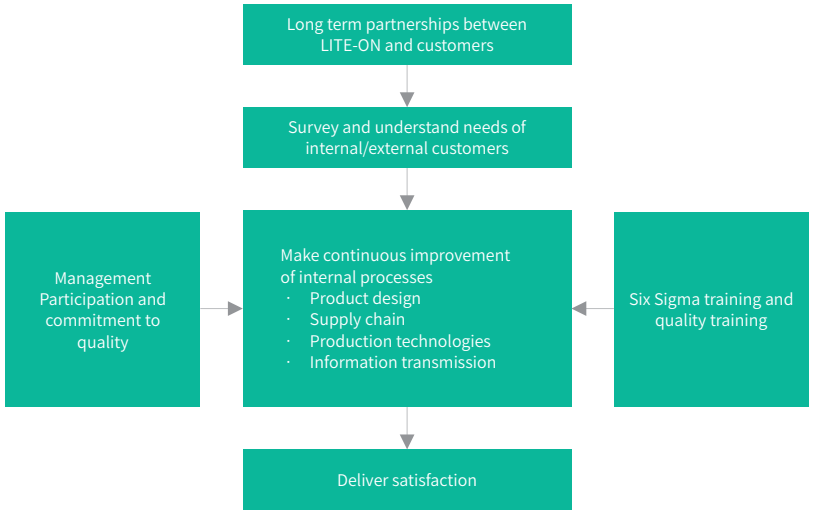
9 seminars and workshops on "Supplier Fulfillment of Corporate Social Responsibilities" were held in 2017 to explain the company's CSR commitments. Executive management of suppliers was requested to sign "Management Commitments" that bind them to comply with "RBA standards".

3.5 Customer Service and Satisfaction

3.5.1 Customer Service

Customer satisfaction is one of our core values. At LITE-ON, we deliver excellent execution to provide quality and innovative services that consistently meet our customers' high standards and make us the best partner for our customers.

Our business units all have 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.



In order to satisfy customers' needs for prompt delivery; we handle purchasing, planning, logistics, and cash flow processes online, and use online information as the basis for our operations. We also integrate data from external suppliers, customers, and banks, etc., to ensure that management and delivery information is correct and up-to-date. Furthermore, to shorten the processing time for technical support, transport and delivery, and after-sale services, LITE-ON has installed production facilities, branches, and distribution warehouses in locations close to customers around the world that are able to respond promptly to customers' needs.