

# Conflict Minerals and Supply Chain Management

As a member of EICC, Wistron roots for EICC's vision and objectives. We promise that all global operation sites will coordinate and comply with EICC's codes of conduct. Furthermore, we will support and encourage the affiliated first level suppliers to adhere to the same codes. In conformation to the common goal, we will pertinently utilize EICC's methods and tools as much as possible.

Wistron provides electronic product R&D and manufacturing services. The major supply chain involves suppliers that provide product materials and components, including electronic and mechanical materials and parts. More than approximately 900 raw material suppliers come from Taiwan, China, Japan, Korea, Philippines, Indonesia, Thailand, U.S., and Europe. The types of suppliers include manufacturers, agents and distributors. The industrial characteristics of the supply chain are technology intensive, capital intensive and labor intensive. For the manufacturing sites in China, the budget ratio of purchasing from local suppliers is 40%.

Wistron places high regard on our suppliers as our crucial partners, in order to establish a long-term stable supply chain through cooperation with them. In addition to considering the technical skills, quality, delivery dates, and price competitiveness of our suppliers, we also require our suppliers to endeavor to protect the environment, ensure the safety and health of the environment, emphasize the importance of human rights, and work with us to fulfill corporate social responsibilities (CSR).

To achieve this goal, we have established a supply chain management process, in which a supplier quality management office is set up to formulate a Standard Inspection Procedure (SIP) according to the RD-ratified specifications, manage and supervise our suppliers, and evaluate items such as quality, costs, delivery dates, human rights, forced labor, and services. Furthermore, to protect the environment, ensure the health, safety, and human rights of our employees, and secure the rights and interests of our stakeholders, we adopted a CS<sup>2</sup>R management system that manages five major aspects of product quality, green products, environmental protection, occupational safety and health, and social responsibility.

In addition to incorporating this system into daily business operations, we also request our suppliers to work with us in implementing various requirements. In product developments, Wistron persists in adhering to energy conservation and carbon reduction principles, reducing material use, avoiding the use of hazardous substances, and recycling resources to mitigate the environmental impact of its products at all stages of their life cycle.

Wistron complies with international laws, regulations, and directives, as well as customer requirements, and endeavors to simplify its design, production, and processes to build a product-friendly environment where sustainability is embraced. Currently, we are using a variety of management systems and mechanisms to execute supply chain management, the details of which are described as follows:

- Supplier investigation: We manage and evaluate new suppliers in accordance with the Supplier Evaluation Operating Procedure, focusing on the following assessment items: quality, environmental protection, employee health and safety, and human rights.

- CS<sup>2</sup>R management system: In accordance with the Supplier Corporate Sustainability and CS<sup>2</sup>R Audit Operating Procedure, Supply Quality Management (SQM) visits the production base of our suppliers to audit and determine their corporate sustainability and social responsibilities.
- Quality System Audit (QSA): In accordance with the Supplier Quality System Audit Operating Procedure, we visit the production base of our suppliers to audit and determine their quality systems.
- Quality Process Audit (QPA): In accordance with the Supplier Quality Process Audit Operating Procedure, we visit the production base of our suppliers to audit and determine their process quality.
- Supplier Performance Management (SPM): In accordance with the Supplier Performance Evaluation Regulations, we evaluate the suppliers' product quality, costs, delivery date, and service items.



● Wistron Group Vendor Conference 2016

Summary of Supply Chain Management Mechanisms

Item	2014	2015	2016	2016 Hit Rate	Time / Frequency
Supplier Assessment	92 Suppliers	37 Suppliers	38 Suppliers	100%	None AVL New suppliers Disqualified suppliers
CS <sup>2</sup> R Management System	160 Suppliers	140 Suppliers	120 Suppliers	100%	Annual
Quality System Audit, QSA	150 Suppliers	140 Suppliers	120 Suppliers	100%	Annual
Quality Process Audit, QPA	150 Suppliers	140 Suppliers	120 Suppliers	100%	Launch new project
Supplier Performance Management, SPM	330 Suppliers	386 Suppliers	391 Suppliers	100%	Monthly

and confirmation were also made at the suppliers' premises. Finally, the audit results were approved [ Note ] .

[ Note ] The audit result with lower than 60 points is Not Approved. In this case, the supplier is required to take corrective action for the unfavorable audit. It also needs to provide feedback on its improvements within one month and apply for re-audit. If the re-audit result is still Not Approved, it cannot submit an application again within 6 months. If there is a problem in the quality of the supplied material, an alternative material/supplier would be considered as replacement.

- In the annual Vendor Conference, we commend vendors, who were reported in the Corporate Sustainable Management and Social Responsibility and Greenhouse Gas Inventory Report as having showed outstanding performance. We invited third-party GHG auditors, third-party RoHS inspectors, and GHG guidance companies to the 2016 CS<sup>2</sup>R/ GHG Supplier Conference to conduct educational training. We also communicated corporate sustainable management and social responsibility management policies, and provided a channel for employee complaints.
- Until 2015, approximately 91 suppliers have been registered as Wistron's supplier in EICC-ON website.

## Supplier's Social Responsibility Management

Annually, Wistron prepares audit plans on sustainable operations and social responsibility for risky suppliers, which are listed under the Department KPI for supplier audit and assessment. The following items are listed under the assessment criteria for new suppliers; namely, respect for human rights, care for labor, environmental protection and fulfillment of social responsibilities. The 2016 achievements are described below:

- Wistron prepared the 2016 audit plans for sustainable operations and social responsibility for 120 suppliers, which were divided into two stages: (1) the first half of the year, and (2) the second half of the year. A site audit



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Summary of Supplier Requirements and Management Practices in 2016

Requirement	Management Practice
Human Rights	<ul style="list-style-type: none"> <li>• In accordance with the EICC regarding suppliers' management of human rights, 120 suppliers were evaluated and were found to have met the requirements. This reflects a 100% compliance rate, which is adjusted on a yearly basis depending on requirements.</li> <li>• In accordance with the EICC, suppliers are encouraged to guarantee employees freedom of association and collective bargaining rights to avoid ill-communication or adverse suppression. No violation incidents occurred in 2016.</li> <li>• Suppliers are required to clearly define and support the humane treatment provision specified in the EICC and convey it to laborers, and sign the Declaration of Non-use of Conflict Minerals. A total of 1036 companies have signed the declaration and abide by it. Those who violate it will have their Wistron supplier qualification canceled. No suppliers violated it in 2016.</li> <li>• All new suppliers (except for customer-designated suppliers) have obtained ISO 9001/ISO 14001 quality certifications, as requested by Wistron.</li> <li>• Future suppliers will be required to comply with 9001/ISO 14001, IECQ QC 080000, and OHSAS 18001(ISO 45001) certification systems.</li> </ul>
Labor Care	<ul style="list-style-type: none"> <li>• In accordance with the EICC, no child laborers are allowed to be employed. Juveniles under 18 years old are not allowed to engage in any work that may harm their health and safety. If such things have been discovered, the suppliers will lose their Wistron supplier qualification. As of the end of 2016, 91 suppliers can access their performance through EICC-ON website. No such violation by suppliers was detected in 2016.</li> <li>• The company hosts supplier exchange meetings and demands suppliers never to employ child labor as a solution for manpower shortage or wage issues.</li> </ul>
Environmental Protection	<ul style="list-style-type: none"> <li>• The company instructs suppliers to make appropriate GHG emission reduction suggestions and proposals, and provide inventory report and requirements. These were provided by 170 suppliers in 2016, and 38 suppliers have provided third-party ISO 14064-1 verification statements, while six suppliers have submitted carbon disclosure reports. The company supervises and reminds supply chains as well as the supplier companies to shoulder the responsibility of environmental protection. For those who fail to do so, improvement suggestions are put forward.</li> <li>• New suppliers are required to sign the EICC. They must monitor and sort waste before disposal so as to minimize environmental pollution.</li> <li>• Suppliers are requested to continue to avoid negative incidents and provide essential assistance at any time.</li> <li>• The company encourages excellent suppliers and set up the annual best environmental protection award.</li> <li>• The goal for 2017 is set to at least 180 suppliers.</li> <li>• Wistron will continue to increase local procurement, reduce CO<sup>2</sup> emissions, and mitigate global warming.</li> </ul>
Social Responsibility	<ul style="list-style-type: none"> <li>• The company chooses suppliers that adhere to the concept of social responsibility, CS<sup>2</sup>R certification and have signed the EICC agreement.</li> <li>• The EICC regulations regarding corporate codes of conduct towards society are used as a prerequisite for choosing suppliers.</li> <li>• Approximately 91 suppliers authorized Wistron to access their performance through the EICC-ON website.</li> <li>• Suppliers are required to strictly follow EICC requirements in their daily operations</li> <li>• Wistron encourages suppliers to issue CS<sup>2</sup>R reports. Approximately 51 suppliers issued CS<sup>2</sup>R reports.</li> </ul>