



COMPANY: **Apple, Inc.**
COUNTRY: **China**
ASSESSMENT DATE: **12/22/14**
MONITOR: **Openview Service Limited**
PRODUCTS: **Electronics [of all types, including software and other content]**
PROCESSES: **Other**
NUMBER OF WORKERS: **65000**
NUMBER OF WORKERS INTERVIEWED: **778**
ASSESSMENT NUMBER: **AA0000000618**

FLA Comments

RESTRICTED AREAS: The assessment team checked all FLA-affiliated company production areas (Buildings F1, F2, F3, F4, F5, F6 and F7), except for the sections mentioned below. Due to Apple's new and ongoing product development, the FLA assessment team's access to certain areas was restricted. As a result of these restrictions, this report does not cover any observations for the following areas representing 15% of total production areas: Building F1: 5% of 1st floor; 33% of 4th floor Building F2: 100% of 3rd floor Building F5: 5% of 1st floor; 20% of 2nd floor; 33% of 3rd floor; 50% of 4th floor. Any findings and recommendations for this area come from document review or worker interviews only. **REMEDIATION PLANS:** In response to the FLA assessment, Apple and Pegatron have developed remediation plans for code violations noted in the report. The remediation plans are publicly disclosed below and have not been reviewed by the FLA.

What's Included in this Report

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Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

Glossary

De minimis: A de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of such facility. The FLA Charter states that in no event shall de minimis facilities constitute more than 15% of the total of all facilities of a Company, and the list of facilities designated as de minimis by a Company is subject to the approval of the FLA. Please note that collegiate-producing factories cannot count as de minimis.

Facility performance: how a facility rates in terms of a particular employment or management function, with 100% being the best possible score.

Fair labor standards: the minimum requirement for how workers should be treated in a workplace, as outlined in the [FLA Workplace Code of Conduct](#).

Employment life cycle: all aspects of an employee's relationship with the employer, from date of hire to termination or end of employment.

Code violation: failure to meet standards outlined in the FLA Workplace Code of Conduct in the workplace implementation of employment or management functions.

Employment Functions: The different components of the relationship between management and employees in a factory. An employment function is a process regulating an aspect of the employment relationship, such as the recruitment of workers. All employment functions together constitute the employment relationship between an employer and an employee.

1. Recruitment, Hiring & Personnel Development (e.g., performance reviews)
2. Compensation (e.g., wages, health care)
3. Hours of Work (e.g., overtime, documentation of working hours)
4. Industrial Relations (e.g., collective bargaining agreements)
5. Grievance System (e.g., worker communication with management)
6. Workplace Conduct & Discipline (e.g., discrimination, harassment)
7. Termination & Worker Retrenchment (e.g., downsizing, resignation)
8. Health & Safety (e.g., exposure to chemicals)
9. Environmental Protection (e.g., energy saving)

Management functions: violations or risks related to an employment function could be caused by the absence – or a problem in the operation – of any one of the management functions or in more than one.

1. Policy
2. Procedure
3. Responsibility & Accountability
4. Review Process
5. Training
6. Implementation
7. Communication & Worker Involvement
8. Support & Resources (only for the in-depth level)

Finding: indicators of potential gaps between desired and actual performance of the workplace on different employment functions.

Finding type

- **Immediate action required:** discoveries or findings at the workplace that need immediate action because they not only constitute an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to

the environment, but also are clear non-compliances with the FLA Workplace Code of Conduct and local laws. Examples include a finding by the assessor that crucial fire safety elements are not in place or that there is underpayment of wages and/or worker entitlements or that there is direct discharge of waste water, etc.

- *Sustainable improvement required*: findings that require sustainable and systematic actions. The factory will be asked to tackle the underlying root causes and to do so in a long-term and systematic manner to bridge the gap between actual and desired performance. Examples include a finding by the assessor that there is lack of termination policies and procedures in the workplace, lack of grievance system, etc.
- *Notable feature*: indicates a remarkable feature or best practice at a workplace. Examples might include workers' wages and benefits that are significantly above the industry average, or community benefits such as free daycare.

Local law or Code Requirement: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

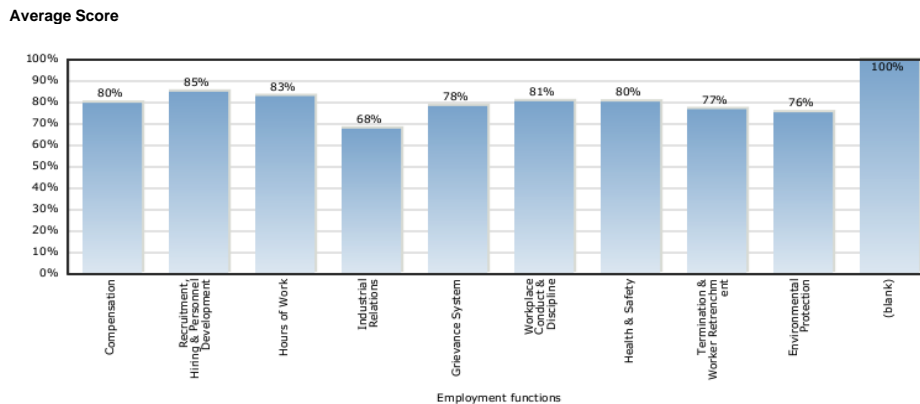
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that the worker did not use the hearing protection equipment because such equipment was not provided by management. However, upon a more thorough evaluation of available information, the assessor might find that the worker was indeed supplied with hearing protection equipment and with written information about the importance of wearing hearing protection, but was not trained on how to use the equipment and that use of the equipment was not enforced in a consistent manner by management.

Company action plan: a detailed set of activities outlined by the sourcing company and/or direct employer to address FLA findings.

Factory Profile

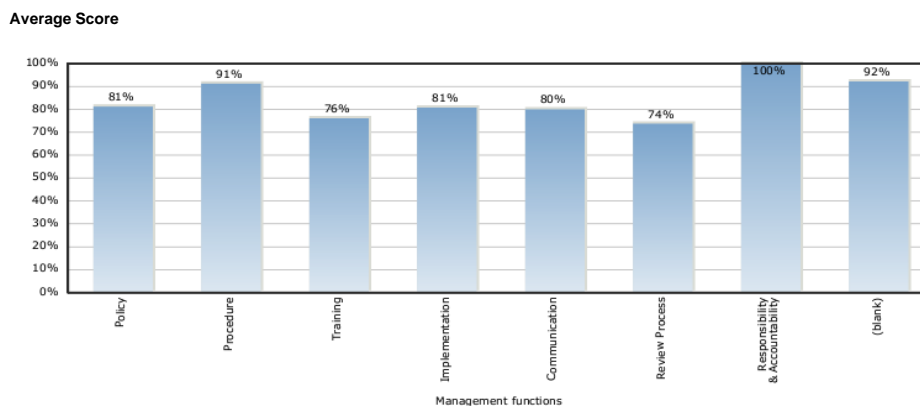
Score by Employment Function

Scores indicate a factory's performance related to a specific employment function based on an FLA assessment. A score of 100 percent indicates flawless operation of an employment function. A score of less than 100 percent indicates need for improvement.



Score by Management Function

Scores indicate a factory's performance related to a specific management function based on an assessment conducted for FLA by independent, accredited assessors. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

| Management Functions | Recruitment, Hiring & Personnel Development | Compensation | Hours of Work | Industrial Relations | Grievance System | Workplace Conduct & Discipline | Termination & Worker Retrenchment | Health & Safety | Environmental Protection |
|---------------------------------|---|--------------|---------------|----------------------|------------------|--------------------------------|-----------------------------------|-----------------|--------------------------|
| Policy | 75% | 77.78% | 84.62% | 50% | 66.67% | 83.33% | 63.64% | 75% | 71.43% |
| Procedure | 94.44% | 100% | 94.44% | 64.71% | 88.89% | 100% | 90.48% | 91.94% | 100% |
| Responsibility & Accountability | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Review Process | 100% | 50% | 50% | 100% | 100% | 50% | 100% | 33.33% | 83.33% |
| Training | 78.57% | 66.67% | 66.67% | 50% | 50% | 90% | 50% | 80.58% | 20% |
| Implementation | 85.85% | 83.84% | 82.56% | 70% | 100% | 81.25% | 77.78% | 77.3% | 76.7% |
| Communication | 66.67% | 100% | 90% | 50% | 100% | 83.33% | 87.5% | 62.5% | 50% |

Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

| FLA Code Element | Number of Violations | Violations |
|--|----------------------|---|
| Compensation | 2 | General Compliance Compensation Timely Payment of Wages |
| Child Labor | 2 | Government Permits and Parental Consent Documentation Employment of Young Workers |
| Employment Relationship | 14 | General/Human Resource Management Systems Terms and Conditions/New Employee Orientation Terms and Conditions/Communication Terms and Conditions/Supervisor Training Administration of Compensation/Timing and Completeness General/Documentation and Inspection Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Production and Incentive Schemes Industrial Relations/Right to Organize, Bargain and Participate in Legal Strikes Work Rules and Discipline Recruitment and Hiring/Employment Decisions Health, Safety, and Environmental Management System/Policies and Procedures Recruitment and Hiring/Proof of Age Documentation Recruitment and Hiring/Employers Agreement with Employment Agencies |
| Forced Labor | 2 | Freedom of Movement Freedom of Movement/Workers Ability to Terminate |
| Freedom of Association and Collective Bargaining | 8 | General Compliance Freedom of Association Employer Interference Employer Interference/Constitution, Elections, Administration, Activities and Programs Employer Interference/Registration Employer Interference/Favoritism Employer Interference/Police and Military Forces Facilities for Worker Representatives Right to Freely Associate |
| Harassment and Abuse | 2 | General Compliance Harassment or Abuse Discipline/Freedom of Movement |
| Hours of Work | 3 | General Compliance Hours of Work Rest Day Maintenance of Reasonable Levels of Staff |
| Health, Safety and Environment | 13 | General Compliance Health, Safety, and Environment Protection Reproductive Health Ventilation/Electrical/Facility Installation and Maintenance Machinery Safety, Maintenance and Workers Training Proper Use of Machinery Ergonomics Sanitation in Workplace Facilities Document Maintenance/Workers Accessibility and Awareness Dormitory Facilities Notification and Record Maintenance Permits and Certificates Evacuation Requirements and Procedure Chemical Management and Training |
| Non-Discrimination | 7 | General Compliance Nondiscrimination Recruitment and Employment Practices/Job Advertisements, Job Descriptions and Evaluation Policies Compensation Discrimination Pregnancy Testing Marriage or Pregnancy Discrimination Pregnancy and Employment Status Protection and Accommodation of Pregnant Workers and New Mothers |

Findings and Action Plans

FINDING NO.1

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Currently, there are only 12 disabled workers in the factory, which is below the legal requirement (1.6% of total workforce

or 1,144 workers based on the number of workers at the time of the assessment). Local law allows the factory to contribute to the Employment Security Fund in lieu of employing disabled workers; however, the factory has not contributed to the Fund.

Local Law or Code Requirement

Regulations on the Employment of Persons with Disabilities of Shanghai City, Articles 4 and 5; China Labor Law Article 58; FLA Workplace Code (Nondiscrimination Benchmark ND.2; Employment Relationship Benchmark ER.3)

Root Causes

1. As the type and severity of disability is an important factor for deciding if a candidate is suitable for the workplace/task to which they will be assigned, factory finds it difficult to recruit eligible disabled workers.
2. The factory management explained that the local government did not deduct the Employment Security Fund actively.
3. This issue has not been brought to the attention of factory management during previous external audits.
4. Management is not well aware of the FLA Workplace Code and Benchmarks related to employment discrimination.

Recommendations for Immediate Action

1. Employment Security Fund contributions should be paid, and the payment receipts should be maintained.

COMPANY ACTION PLANS

1. Immediate Actions:

- 1) Pegatron will pay the employment security fund contribution and keep payment receipts.

Sustainable Actions:

- 1) The IE and EHS departments will identify positions suitable for disabled workers including the characteristics, quantity and types.
- 2) Pegatron will keep devoting great effort to recruiting disabled workers.
- 3) Pegatron will keep aligning recruitment policies and procedures with legal requirements with respect to the recruitment of disabled workers.
- 4) Pegatron will enhance its internal monitoring to ensure the effective implementation of written policies and procedures.

Action plan status: Planned

Planned completion date: 01/30/16

FINDING NO.2

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Although all young workers had pre-employment health examinations, there is no tracking system in place to ensure that young workers' regular health examinations are performed on a timely basis. For example, in 2014, the factory arranged for health checks in March and December. One young worker, born on April 4 1996, received a health examination when she joined the factory on July 26, 2013, and the next health examination was not scheduled until December 15, 2014, although it was supposed to have been conducted on April 4, 2014. Approximately 30% of young workers were affected, and the longest delay was more than seven months.

Local Law or Code Requirement

Circular of the Ministry of Labor on Issuing the Provision on Special Protection for Juvenile Workers, Articles 6 and 9; FLA Workplace Code (Employment Relationship Benchmark ER.14; Child Labor Benchmark CL.4)

Root Causes

1. According to the factory's Standard Operating Procedure (SOP) for Young Workers' Regular Health Examination, the factory uniformly provides health examination for young workers twice a year regardless of workers' hiring dates and birth dates, which results in delays. The factory is revising the SOP to provide health examination on a monthly basis.

2. Due to a high turnover rate, the factory's current HR resources are insufficient to manage and control young workers' health examinations on a regular basis.
3. There is no close coordination between the HR and EHS departments in important areas, such as written procedures for Recruitment, Hiring & Personnel Development.
4. This issue has not been brought to the attention of the factory management during previous external audits.

Recommendations for Immediate Action

1. Ensure that young workers' health examinations are conducted within the legally required timeframe. Management should review the health examination status of all current young workers and conduct examinations for those whose examinations are overdue.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Pegatron began to provide health examinations for all juvenile workers timely since January 7, 2015 by using the below method:

HR Department sends the juvenile workers' list to EHS monthly; EHS team arranges health exams based on the provided list monthly, which ensures that all juvenile workers can receive health examinations on time.

Sustainable Action:

- 1 Pegatron revised the Standard Operating Procedure for the Workers' Regular Health Examination to a monthly schedule for the juvenile workers' health examination.
- 2 Pegatron added this item into the internal audit system and periodically checks the medical exam status of juvenile workers.
- 3 Pegatron keeps medical exam records of juvenile workers.

Action plan status: Planned

Planned completion date: 01/07/15

FINDING NO.3

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Approximately 38% of the total workforce were dispatch workers at the time of the assessment, and have been widely assigned throughout the production lines. Factory management does not distinguish regular job positions from temporary, auxiliary, or substitute job positions, as required by law. As a result, most dispatch workers were currently working in regular positions alongside permanent workers. Around 80% of the workers originally hired as dispatch workers have become permanent workers after three to five months of employment at the factory.
(Note: new national regulation allows for a two-year timeframe for employers to bring the share of the dispatch workers in the workforce within the legal limit of 10%; the deadline is February 29, 2016.)

Local Law or Code Requirement

China Labor Contract Law, Article 66; Interim Provisions on Labor Dispatch Articles 3, 4, and 28; FLA Workplace Code (Employment Relationship Benchmark ER.14)

Root Causes

1. Increased use of dispatch workers has become an endemic phenomenon across China.
2. By employing dispatch workers, employers can bypass many of the obligations stemming from recruiting regular workers, e.g., severance payment, bonuses/allowances. Employers usually prefer to use dispatch workers because it enhances flexibility and cost-effectiveness. Due to uncertainties in their production schedules (e.g., changes in deadlines/order quantities, delays in raw material arrival) employers often resort to using dispatch workers to adjust for fluctuations in production volume.
3. The factory finds it difficult to only assign dispatch workers to temporary, auxiliary, or substitute job positions, due to high worker turnover.
4. Factories have until February 29, 2016 to reduce the share of the dispatch workers in the workforce in line with Article 28 of Interim Provisions on Labor Dispatch.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Pegatron will clearly define the temporary, auxiliary and substitute job positions of dispatched workers according to legally applicable laws.
- 2) Pegatron will announce and implement accordingly after review and approval by the labor union in May, 2015.

Sustainable Action:

- 1) Pegatron adjusted the recruitment plan and registered with the Human Resources and Social Security Bureaus as legally required. The percent of dispatched labor will be controlled within the government required limits by February 2016.
- 2) Pegatron will continue to comply with legal requirements to use dispatched workers.

Action plan status: Planned

Planned completion date: 05/25/15

FINDING NO.4

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory requires (chest) X-ray examinations as part of the recruitment process, although it is not legally required. 80% of interviewed female workers reported that they were asked if they were pregnant prior to the examination. While the factory's policies prohibit discrimination based on "fertility status," the practice carries risk of discrimination against pregnant applicants.

Local Law or Code Requirement

Chinese Labor Law Article, 13; Employment Promotion Law of the People's Republic of China (2008), Article 27; FLA Workplace Code (Nondiscrimination Benchmarks ND.5 and ND.7)

Root Causes

1. The medical examination during hiring requires an X-ray examination, so the factory asked workers if they are pregnant to avoid potential risk to a fetus. The factory explained that the X-ray examination is used to test for communicable diseases.
2. There is a possibility that the dispatch agencies providing services for other sourcing factories, that do not hire pregnant workers, have raised questions regarding pregnancy during recruitment for this factory.

Recommendations for Immediate Action

1. Cease the practice of X-ray examinations for all workers prior to hire, except for the workers to be placed in high-risk positions, and, if absolutely necessary, conduct X-ray examinations upon hire, and after inquiring with the workers about pregnancy.
2. The factory should inform dispatch agencies and HR staff to stop asking pregnancy-related questions during the hiring process.

COMPANY ACTION PLANS

1. Immediate Action:

We do not agree with the FLA recommendation that "not to arrange X- ray examination prior to hire".

The purpose of the practice (x-ray examination) is to do risk management of epidemic disease, which is NOT violating, or being prohibited by, applicable laws/regulations.

- 1) Pegatron always strictly follows the related procedures concerning non-discrimination and hiring of pregnant workers.
- 2) Pegatron continues to communicate with workers that they also accept medical exam records from any other hospitals that are legally founded or verified by the company.
- 3) For those workers who take part in health exams at Pegatron's campus, Pegatron will have a sign in the exam area to inform employees that the X-ray examination has radiation hazards for unborn children and if you are pregnant, please tell the doctor and you can be exempt from the examination.

Sustainable Action:

- 1) Continue to communicate and provide related training to staff and labor dispatch companies to ensure the implementation of the related procedures.
- 2) Pegatron will keep using the established monitoring system to ensure proper implementation of anti-discrimination policies and procedures and assign staff to monitor it.
- 3) Pegatron will keep following its internal mechanisms to discipline any employee or dispatch agents who engage in discriminatory recruitment practices.

Action plan status: Planned

Planned completion date: 02/25/15

FINDING NO.5

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There are 1,600 workers from the sister factory in another city (Kunshan) working in the factory as short term, supportive workforce since December 2014. The factory management explained that the purpose of the transfer was training. However, the workers did not have written agreements to reflect the change in location. Also, based on interviews, the workers were unclear as to the purpose of the transfer; several workers reported that they came as supportive workforce, while others said they were at the facility for training purposes.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1)

Root Causes

1. The factory has not clearly communicated the purpose of the transfer to the concerned workers.
2. Current HR resources are insufficient to manage the transfer of workers between different employment units.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Pegatron communicated the training purpose and related rights before the workers came to Shanghai. Workers went to Shanghai for short-term training voluntarily and they came back to Kunshan after the short-term training.
- 2) Protek legal department has initiated an agreement for these workers, in which the training purpose, duration, location, benefits and accommodation were clearly shown.
- 3) All the Kunshan workers trained in Shanghai have signed the agreement since February, 2015.

Sustainable Action:

- 1) Pegatron strictly implemented related internal temporary transfer regulations in their established procedures.
- 2) Workers trained in Shanghai shall sign written agreements and Pegatron will keep related documents.

Action plan status: Planned

Planned completion date: 02/25/15

FINDING NO.6

COMPENSATION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory has not paid the overtime premium for workers who were on night shift, which partly fell on a statutory holiday, in a timely manner. For example, one employee worked 4 hours of overtime work on April 5, 2014 (Tomb-Sweeping Day),

and the factory paid 100% of normal wage on May 10, 2014. However, the additional 200% of normal wage was paid on June 10, 2014.

2. The sick leave payment practice was not in line with local law requirements. Based on a review of payroll records, sick leave policy and records, and management interviews, for workers who have been at the factory for less than 2 years, the factory only pays 60% of the basic wage as sick leave payment (CNY 50.2 per day), although it should be at least 80% of the legal minimum wage (CNY 66.9 per day).
3. The factory did not pay the workers for hours (about 2 to 6 hours per new employee) spent on onboarding procedure, including signing of employment contract, factory instruction and orientation training, etc. This practice does not comply with legal requirements or FLA benchmarks.

Local Law or Code Requirement

Provision of Shanghai Municipality on the Wage Payment to Employees Articles 6, 7 and 11; The Opinion of the Ministry of Labor on Several Questions Concerning the Implementation the China Labor Law, Article 59; FLA Workplace Code (Compensation Benchmarks C.1, C.4, and C.5; Hours of Work Benchmarks HOW.16)

Root Causes

1. Factory management does not consider this to be an issue as the delayed payment affected only a few workers who worked overtime on statutory holidays, and the premium rate balance is paid on the following regular payday.
2. The factory does not fully understand of the sick leave requirement of local law.
3. The delayed payment for work on statutory holidays and the underpayment of sick leave were not identified in previous external audits.
4. The lack of payment for onboarding process has been raised in FLA affiliated company's previous audit, but the remediation has yet to be completed. Previously, the factory management thought that the time spent on the onboarding process did not need to be compensated.

Recommendations for Immediate Action

1. Management should ensure that all overtime wages are paid on time as legally required.
2. Management should ensure that sick leave is paid according to legal requirements.
3. Management should ensure that employees are fully paid for the time spent during the onboarding process in accordance with legal requirements. Management should also pay the workers retroactively for the compensation owed for the time spent during onboarding.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Protek will revise wage calculation system to ensure that all overtime wages are paid on time as legally required.

Sustainable Action:

- 1) Pegatron will provide refresh training to relevant staff to emphasize the importance of timely payment.
- 2) Pegatron will conduct regular internal audits to ensure timely payment.

Action plan status: Planned

Planned completion date: 05/25/15

2. Immediate Action:

- 1) Pegatron is checking the payment of sick leave between January and December 2014 and will repay any discrepancy.
- 2) Pegatron adjusted the system of sick leave wages calculation to ensure that all workers are paid at least 80% of the legal minimum wage. The system adjustment was completed on January 25, 2015.

Sustainable Action:

- 1) Provide refreshed training to employees based on internal sick leave payment procedure, which complies with the law.
- 2) According to updated legal requirements, Pegatron will regularly assess compliance of related policy and procedures.
- 3) Pegatron will add this issue into their internal audit.

Action plan status: Planned

Planned completion date: 07/10/15

3. Immediate Action:

- 1) Pegatron does not agree with this FLA finding as it is not reasonable:
The so-called onboarding procedure actually is part of an interview process. This is an open session before employment and workers can leave if they do not want to join the factory. In this session Pegatron introduces the campus layout , living

conditions and entertainment facilities to attract workers. For the onboarding training, that is started after hiring workers and paid according to legal requirements.

2) To make sure that workers' benefits are protected to the great extent, after an internal check, Pegatron found that 30 minutes of wages and benefits introduction was presented in the interview process from August to December 2014, and Pegatron removed this part from interview process and will repay for that to anyone affected.

Sustainable Action:

- 1) Pegatron will regularly monitor the sessions of factory introduction to ensure no any job-related training done during these sessions.
- 2) Pegatron will provide communication and training to hiring staff to implement the requirement that no job-related activities before employment.
- 3) Pegatron set up a reimbursement mechanism to repay any unpaid job-related activities before employment.

Action plan status: Planned

Planned completion date: 07/10/15

FINDING NO.7

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There was no effective control over the labor dispatch agents to ensure that dispatch workers were fully provided with social insurance in accordance with legal requirements. At the time of this assessment factory used nine dispatch agencies, but documents were only available for three of them. When assessors randomly checked nine workers hired through these three dispatch agencies, they found that social insurance was not provided for them for one to three months. For example, one employee joined the factory in July 2014, but the dispatch agency only started paying into the social insurance in November 2014. Also, 80% of interviewed dispatch workers reported that labor dispatch agents did not provide social insurance for them. Based on sample records from the three dispatch agents, the social insurance was paid since December of 2014.
2. The factory only paid into the legally required Housing Provident Fund for workers who are registered as urban residential, but not for workers who are registered as suburban residential (local and migrant), who made up 97.4% of the total workforce.

Local Law or Code Requirement

China Labor Law, Article 73; Social Insurance Law of the People's Republic of China, Article 58; Regulations On Management Of Housing Provident Fund Article 15; FLA Workplace Code (Employment Relationship Benchmarks ER.6 and ER.22; Compensation Benchmarks C.1 and C.5)

Root Causes

1. The factory has only been monitoring the dispatch agencies through the facsimile sent by these agencies, which is not a proper and effective method to monitor the performance of the dispatched agencies.
2. Shanghai local regulations regarding the Housing Provident Fund are not aligned with national law. The local government treats contribution to the Housing Provident Fund as optional for workers who are registered as suburban residential, while national law mandates it for all employees.
3. Most workers are unwilling to contribute to the Housing Provident Fund, as it would reduce their take-home income.
4. The Housing Provident Fund system has come under criticism for the complicated process to claim the benefits, especially for the migrant workers. Only very recently (2014.10.20 and 2015.1.20), the national authorities have announced the amendments that simplify the claim process for buying or renting house/apartment:
http://www.mohurd.gov.cn/zcfg/jsbwj_0/zfbzygjddgls/201410/t20141017_219344.html
http://www.mohurd.gov.cn/zcfg/jsbwj_0/zfbzygjddgls/201501/t20150129_220233.html

Recommendations for Immediate Action

1. Retroactive payment should be made for dispatch workers for the shortfalls in their social insurance contributions. While the responsibility for the retroactive payment for dispatch workers lies with the dispatch agencies, the factory should closely monitor their compliance.

COMPANY ACTION PLANS

1. Immediate Action:

Pegatron does not agree with the finding description, because they had provided the written documentation for all the workers that the assessors selected from all 9 dispatch agencies.

1) Pegatron checked the social insurance status of 2014. The actual status is as below. Pegatron will make retroactive payments and will ensure all workers social insurance is provided on time.

2 After confirmation, the reasons for not participating on time for social insurance payments was as below:

A. Labor agents tried to provide workers social insurance on time, however, due to inaccurate records provided by workers, the application was not accepted by local social security bureaus. E.g., worker's personal information was different from that in local social insurance systems including names' spelling, identification number etc., which caused the failed participation.

B. Labor agents missed to provide social insurance in a timely manner by mistake in peak season and Pegatron did not note that through its previous sampling check.

3 Pegatron also did an internal sampling interview and found that workers had misunderstood and decided whether they had been paid the social insurance by the following ways:

A. Some workers found no social insurance deduction on the payroll, so they thought that the dispatch agency did not provide them social insurance. In fact, the dispatch agency afforded both employer & employee social insurance contributions for dispatch workers, that was why there was no social insurance deduction item on the payroll.

B. Some workers thought that if they were provided social insurance, they should have received the healthcare card and no healthcare card received meant no social insurance. While there were many reasons for that they did not get a healthcare card.

a. The healthcare card application, handling and distribution needs about 3 months. Some workers who were hired for just a few months could not get cards, which was one reason for the misunderstanding.

b. The local company that the worker received their 1st job with should distribute the healthcare card. If the worker used to work in other companies, then the dispatch agency did not have the rights to distribute the healthcare card to them as per legal requirement. Even if the dispatch agency had provided them social insurance, they still could not receive the healthcare card from dispatch agency. If the worker lost the healthcare card which they should have received from their 1st employer other than the dispatch agency, the worker should go to the social security office to apply for another one, while many workers thought that if they move to another factory, they should be provided with another healthcare card.

c. Some workers were not willing to get their healthcare card.

4) Pegatron will keep enhancing communication with workers.

Sustainable Action:

1) In terms of the contributions of dispatched workers' social insurance, Pegatron will conduct 100% sampling check on the social insurance register, and a 5% random sampling e-system check to ensure 100% social insurance participation in a timely manner.

2) Protek will enhance the labor agent disciplinary procedures to manage dispatch companies with respect to the participation of dispatched workers' social insurance.

Action plan status: Planned

Planned completion date: 05/25/15

2. Immediate Action:

Pegatron disagrees with the FLA since they comply with local legal requirements

Based on local law, Pegatron will keep current practice:

1) Provide housing provident fund for workers who are registered as urban residential.

2) Provide housing provident fund for workers who are registered as suburban residential once they apply for it.

Sustainable Action:

1) Pegatron will confirm and discuss with local authorities to ensure that they are in compliance with local laws.

2) Pegatron will periodically collect related updates of local laws and regulations and adjust procedures accordingly.

3) Pegatron will provide training for the workers on the Housing Provident Fund benefits and application procedure.

Action plan status: Planned

Planned completion date: 12/26/14

FINDING NO.8

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Wages of terminated workers were paid on the next regular pay day, instead of on the last workday as legally required. For example, one worker's last workday was September 12, 2014, but this worker was paid his final wage on Oct. 10, 2014. The longest delay was nearly one month.

Local Law or Code Requirement

Interim Provisions on the Payment of Wages, Article 9; FLA Workplace Code (Compensation Benchmark C.4)

Root Causes

1. In addition to the basic wage, workers have production bonus, which relates to collective performance and is calculated on a monthly basis. Therefore, factory finds it difficult to manually process the payment for terminated workers ahead of the regular payday.
2. The worker turnover rate is high in the factory, and there is not sufficient accounting staff to handle the wage calculation and payment for terminated workers.
3. This issue has not been raised during previous external audits.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Protek will continue to pay final wages on the next regular pay day for terminated workers, according to related terms in contract.
- 2) In the Application for Resignation, its described clearly "I agree that my final wage will be calculated following the regular pay period, and paid on the next regular pay day as written in the contract" and it should also be signed by workers themselves.

Sustainable Action:

- 1) Protek will strengthen to communicate with workers and ensure that they have a clear knowledge of final wage paid on the next regular pay day.
- 2) Protek will strictly implement the internal payment procedure to ensure that final wage can be paid timely and accurately.

Action plan status: Planned

Planned completion date: 12/26/14

FINDING NO.9

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. During the period from January to June of 2014, 1829 workers on 17 production lines were not provided with an adequate rest period during their lunch breaks. As per the factory policy, the lunch break should be 50 minutes, while these workers received only 40 minutes of rest on average.
(Note: This issue was identified during FLA affiliated company's audit in June 2014 and factory immediately stopped the practice. During the FLA assessment, assessors, through a review of sample documents, verified that the factory has completed the retroactive pay for the 10 minutes of untaken rest at the premium rate as per law.)
2. Young workers were charged for health examinations by labor dispatch agencies before June 2014, although the health examination fee should be borne by the employer as per law.
(Note: This issue was identified during the FLA affiliated company's audit in June 2014 and factory immediately stopped the practice and reimbursed the workers for the health examination fees in July and August 2014.)

Local Law or Code Requirement

Provision of Shanghai Municipality on the Wage Payment to Employees Article 3; Provision on Special Protection for Juvenile Workers, Article 10; FLA Workplace Code (Compensation Benchmark C.1)

Root Causes

1. The line leaders on these 17 lines were new and in an effort to meet the production targets and prove themselves in their new positions, they made the workers work for part of the lunch break.
2. The factory has no policy for punching cards before and after lunch break and therefore, the line leaders can alter the break time at will.
3. Factory did not provide training for dispatch agencies on the legal requirements regarding young worker health examinations.
4. Monitoring of the dispatch agencies is not effective, due to insufficient human resources.

Recommendations for Immediate Action

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Pegatron has corrected this issue, which was verified & confirmed by FLA.

Sustainable Action:

- 1) Pegatron will reinforce to provide effective training for all supervisors to ensure that grassroots level leaders can take part in the training at least once a year. Accordingly, we will also draw up and take some disciplinary measures.
- 2) Pegatron will strengthen to provide training for all workers to let them have a good knowledge of their rights and ask for timely help if anything.
- 3) Pegatron will closely monitor this issue and conduct line leader performance appraisal once two weeks. The results will affect their performance bonus.

Action plan status: Completed

Planned completion date: 08/10/14

Progress update: 06/01/15 : The issue has been verified during FLA audit

Completion date: 08/10/14

2. Immediate Action:

- 1) Because of negligence in March 2014, the dispatch agency did not reimburse the health examination fee to young workers on time. Pegatron immediately reimbursed the workers for the health examination fees after Pegatron noted that in June 2014.

Sustainable Action:

- 1) Pegatron will keep monitoring to ensure the implementation of young worker health examination fee as per legal requirements.
- 2) Pegatron will provide training for dispatch agencies on legal regulation of young worker health examination fees to make sure no juvenile workers' medical exam fees are charged by dispatch agencies.

Action plan status: Completed

Planned completion date: 08/10/14

Progress update: 06/01/15 : The issue has been verified during FLA audit

Completion date: 08/10/14

FINDING NO.10

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory does not have an effective system to control overtime work for employees who are more than seven-months pregnant. For instance, one employee, who was pregnant for seven months on November 6, 2014, worked overtime work on November 15, 2014 (Saturday). Nine pregnant, non-production employees (tracking materials, rework rates, etc.) were affected in the last 12-month period.
2. There were a total of 22 interns from three secondary vocational schools employed at the factory from December 2013 to July 2014. These interns worked 5 to 38 hours of overtime during this period, in violation of the law. College student interns

at grade two to three from five-year vocational college school also worked overtime in violation of the law. (Note: These issues had been identified through FLA affiliated company's internal audit. The factory has ceased the practice of overtime work for vocational school interns and hiring them. The factory had started hiring college school interns in July 2014.)

Local Law or Code Requirement

Special Provisions on Labor Protection for Female Employees, Article 6; Regulations of Secondary Vocational School Students Internship Management, Article 5; Several Opinions from Department of Education regarding How to Implement Higher Vocational and Technical Education (2002), Article 1; FLA Workplace Code (Hours of Work Benchmarks HOW.1 and HOW.5)

Root Causes

1. The issue of overtime work for pregnant workers has not been raised during previous external audits.
2. Adjusting working hours for pregnant workers raises difficulties for production planning.
3. The factory did not know about the law prohibiting overtime work for interns from secondary vocational schools until the FLA affiliate company's audit in April of 2014. Afterwards, the factory adopted a new policy and ceased overtime work for this category of employees.
4. Student interns are used as supportive workforce to meet variable production needs.

Recommendations for Immediate Action

1. Management should ensure that workers who are more than seven-months pregnant do not work overtime.
2. Management should ensure that student interns do not work overtime.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) According to the antenatal care records, workers who are pregnant more than seven months can not apply for overtime. Pegatron will also send their attendance data to their first and second level supervisors to double check and remind them. Pegatron put it into effect from January 25, 2015.
- 2) Pegatron drafted a specification regarding to pregnant women' rights on January 25, 2015.
- 3) Pegatron will give them specifications when pregnant women apply for exempt from security check or antenatal care.

Sustainable Action:

We do not agree with FLA's below recommendations for sustainable improvement as based on legal requirement, workers who are pregnant less than 7 months have the right to conduct overtime work :

FLA recommendation a. Working Hours Policy should be revised to include the prohibition of arranging overtime for pregnant workers and student interns. It is important that this arrangement does not unreasonably affect the employment status, including compensation of pregnant workers.

FLA recommendation b. Production planning should be reviewed on a regular basis to ensure that the production capacity does not rely on overtime work by pregnant workers and student interns.

Our sustainable actions are as below

- 1) HR system will track workers' pregnancy time.
- 2) When pregnant workers apply for BA form (business communication form) for the first time, the department assistant should check if any adjustment of job position is needed and inform that to EHS and EHS should confirm on that.
- 3) Add the specification of the rights of pregnant workers into antenatal care application form and the assistant should print and send it to the worker.
- 4) As legally required by law, we will use system to control the overtime working hours and night shift application of those who are pregnant for more than 7 months. To protect those pregnant workers, the system will send email to remind their supervisors not to arrange overtime and night shift one week before they get pregnant for 7 months.

Action plan status: Planned

Planned completion date: 01/25/15

2. Immediate Action:

- 1) The issues has been corrected since June 21, 2014, which was verified and confirmed by FLA
- 2) We begun to daily track the working hours of interns of secondary vocational schools to make sure no overtime for them from June 21, 2014.

Sustainable Action:

Pegatron does not agree with the FLA's recommendations for sustainable improvement that Working Hours Policy should be revised to include the prohibition of arranging overtime for student interns. And they also disagree that production planning should be reviewed on the basis that there be no overtime work for student interns. Because as required by local laws, only

secondary vocational school interns are prohibited to conduct overtime work. The sustainable actions would be as follow:

- 1) Enhance E-Working Hour system for the working hours management of secondary vocational school interns.
- 2) Add this item into the internal monitoring procedure to prevent the recurrence of this issue.

Action plan status: Completed
Planned completion date: 06/21/14
Progress update: 06/01/15 : The issue has been verified during FLA audit
Completion date: 06/21/14

FINDING NO.11

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The monthly overtime hours for 51.2% to 75.6% of sampled workers exceeded the legal limit of 36 hours from March to May 2014, with a maximum of 103.5 hours in May 2014.
2. Time records for 7.1% to 14.2% of sampled workers indicated that daily overtime hours exceeded the legal limit of three hours, up to 5.5 hours of overtime on two to five weekdays per month from March to May 2014. Note: The factory has obtained a Cumulative Working Hours System Approval for two periods: from March 2013 to Feb 2014 and from June 2014 to May 2015.
3. 2% to 9% of the workers worked more than 60 hours (regular hours plus overtime) per week in 80% of the workweeks between December 2013 and August 2014 and in December 2014. During the peak season from September through November of 2014, 23% of the workers worked more than 60 hours/week, with a maximum of 84.5 weekly hours in one week of September 2014, which affected 50 workers in the technical department.
4. Except for about 1% of the workforce, the workers received the legally required 24 consecutive hours of rest in every seven-day period during the 10 months from December 2013 to August 2014 and in December 2014. However, this was not the case during the peak season from September through November 2014 when on average 9.7% of the workers did not have one rest day rest in every seven-day period, with a maximum of 21 consecutive days in September 2014, by 17 workers in the engineering department.

Local Law or Code Requirement

The Labor Law of the People's Republic of China, Article 61; FLA Workplace Code (Hours of Work Benchmarks HOW.1 and HOW.2)

Root Causes

1. Although Chinese labor law places strict working hours limits, they are not effectively enforced.
2. A major reason for the excessive overtime is the FLA affiliated company's needs/expectations. The need for overtime during the peak season was communicated to and agreed by the FLA affiliated company.
3. Weekly "cut time" in the factory was from Sunday to Saturday which caused more consecutive working days without one day off in a seven-day period. Starting in 2015, the factory will revise the weekly "cut time" from Monday to Sunday.
4. The factory's current HR resources are insufficient to control working hours to be within the limits of local law and FLA Code & Benchmarks.
5. High worker turnover rate results in decreased levels of productivity and efficiency, which, in turn, requires workers to work more hours to be able to meet production targets.
6. The highest excessive working hours were mainly due to preparation for new product lines.

Recommendations for Immediate Action

1. Management should ensure that overtime hours do not exceed three hours per day and 36 hours per month.
2. Management should ensure that weekly working hours do not exceed 60 hours, as per FLA Workplace Code & Benchmarks.
3. Management should ensure that employees have at least one day off per every seven-day period.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Pegatron had obtained the Cumulative Working Hours System Approval for the time period from June 2014 to May 2015.
- 2) Pegatron sent application materials regarding the Cumulative Working Hours System Approval of the second half of 2015 to government on May 7, 2015.

Sustainable Action:

- 1) Pegatron will communicate with Human Resources and Social Security Bureaus on the Cumulative Working Hours System Approval. To meet the limit of the Cumulative Working Hours System, they will enhance the communication with government and explain to them the effectiveness and importance of applying the Cumulative Working Hours, and that they need their timely help on the approval of CWHS
- 2) Pegatron will keep monitoring working hours related issues and work with customers to control the overtime working hours.

Action plan status: Planned

Planned completion date: 06/30/15

2. Pegatron does not agree with FLA's root cause that major reason for the excessive overtime is the FLA affiliated company's needs/expectations. And we also disagree that the need for overtime during the peak season was communicated to and agreed by the FLA affiliated company.

Immediate Action:

- 1) FLA Affiliated Company gave us clearly requirement on working hours control.
- 2) As for overtime, we will keep monitoring. Our production control department will arrange the production schedule on the basis that the working hours do not exceed 60 hours per week and based on recent records, we have met the 60 hours per week requirement.

Sustainable Action:

Pegatron does not agree with FLA's recommendations for sustainable improvement:

FLA recommendation working hours-related issues need to be closely monitored by the FLA Affiliated Company. We also disagree that it's highly recommended to include the underlying causes and potential solutions besides identification of the violations.

Pegatron's sustainable action would be:

- 1) We regularly report working hours related issues and the underlying reasons to FLA Affiliated Company to make it convenient to monitor and improve.
- 2) We developed iPad working hour control system . The system will improve working hour performance by providing real time visibility to supervisors of pending violations. It will daily remind workers how much time left for this week based on the 60 hours per week. If workers working hours reach the alerting hours level,(54 hours per week) they will have no access to the workplace.

Action plan status: Planned

Planned completion date: 06/01/15

3. Pegatron doesn't agree with the FLA's root cause that the major reason for the excessive overtime is the FLA affiliated company's needs/expectations. And Pegatron also disagrees that the need for overtime during the peak season was communicated to and agreed by the FLA affiliated company.

Immediate Action:

- 1) FLA Affiliated Company gave them clear requirements on working hours control.
- 2) As for overtime, Pegatron will keep monitoring. The production control department will arrange the production schedule on the basis that the working hours do not exceed 60 hours per week and based on recent records, they have met the 60 hours per week requirement.

Sustainable Action:

Pegatron does not agree with the FLA's recommendations for sustainable improvement. The action proposed instead are as follow:

- 1) Pegatron regularly reports working hours related issues and the underlying reasons to the FLA Affiliated Company to make it convenient to monitor and improve.
- 2) Pegatron has developed an iPad working hour control system . The system will improve working hour performance by providing real time visibility to supervisors of pending violations. It will daily remind workers how much time they have left for the week based on the 60 hours per week limit. If workers working hours reach the alerting hours level, (54 hours per week) they will have no access to the workplace.

Action plan status: Planned

FINDING NO.12

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory has a trade union under the ACFTU (All China Federation of Trade Unions) that was established in September 2007. Instead of being elected by workers directly, 175 union representatives were nominated by supervisors from each department. None of the interviewed workers were aware of their representatives.
2. The trade union has a total of eight Union Committee members including the Chairman; however, there are no workers among these committee members.
3. The factory does not provide the necessary resources that are required for the daily operation of the trade union. The factory has not provided the legally required office space and the necessary office equipment in order to enable the union to conduct daily meetings and for the union representatives to perform their functions.
4. Union dues are paid by the factory management, instead of the workers themselves.
5. Workers are not provided with a copy of the Collective Bargaining Agreement (CBA). 80% of the interviewed workers were completely uninformed about the content of the CBA.

Local Law or Code Requirement

Trade Union Law of PRC, Article 45; FLA Workplace Code (Employment Relationship Benchmark ER.16.2; Freedom of Association Benchmarks FOA. 2 FOA.10, FOA.11, FOA.12, FOA.15, and FOA.20.1)

Root Causes

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the International Labor Organization (ILO), many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.
2. Management lacks awareness of FLA Workplace Code & Benchmarks related to Freedom of Association.
3. Management lacks solid knowledge of the legal requirements pertaining to trade unions.
4. It is a common practice in China for factory management to pay union dues on behalf of the workers.
5. It is not a legal requirement to provide workers with a copy of the CBA.
6. Management lacks awareness on the importance and benefits of having worker representation and participation in different facets of factory operations.
7. These issues have not been raised during previous external audits.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Following union law, Pegatron will fully support workers union's activities .
- 2) Based on communication with the workers union, the trade union held a workers congress in May, 2015. Firstly, the union representatives were elected by workers based on department units without any management interference. Secondly, union representatives were elected based on factory units without any management interference. Pegatron has related meeting records.
- 3) Pegatron will support the worker union to enhance the publicity of the trade union, especially to those workers hired after May, 2015, to let them know the union representative of their department .

Sustainable Action:

- 1) As required by regulations and laws, the workers union shall revise the related contents concerning the frequency of the worker congress in the current trade union management procedure.
- 2) The trade union committee (around 31 people) shall conduct the meeting once every quarter and the Trade Union Congress (about 175 people) shall conduct the meeting twice every year to regularly check the implementation status and meeting records. Pegatron will provide meeting rooms and necessary support accordingly.

Action plan status: Planned

Planned completion date: 05/25/15

2. Immediate Action:

- 1) By 2014, the trade union had 31 union committee members. Afterwards, because of resignation or other factors, there were only 8 Union Committee members left. On January 20, 2015, the trade union had a by-election in the committee meeting.
- 2) The union committee members will be elected as legally required by law.

Sustainable Action:

- 1) From now on, if any union representative leaves the company, the workers union will conduct a timely election to fill the vacancy.
- 2) Pegatron will provide necessary support to workers union accordingly.

Action plan status: Planned

Planned completion date: 01/20/15

3. Immediate Action:

- 1) On January 22, 2015, Pegatron provided a proper working space in the campus for union representatives to carry out their daily work. This office is equipped with furniture and office stationery such as nameplate, service item, organization chart and so on.

Sustainable Action:

- 1) According to the scale of the trade union, Pegatron will provide enough working space, necessary furniture and office stationery for them.

Action plan status: Planned

Planned completion date: 01/22/15

4. Immediate Action:

- 1) Workers Union had conducted survey on worker's opinions about the union dues and the survey results showed that workers had extremely low enthusiasm to join in the trade union, if they were charged dues. Therefore, to improve workers' enthusiasm, factory took the measure that worker union did not deduct union fee from workers.

Sustainable Action:

- 1) The workers union will periodically confirm with the upper level worker union and monitor the union dues payment status of the electronics industry. If any change, Pegatron will review and adjust the payment method accordingly.

Action plan status: Planned

Planned completion date: 12/26/14

5. Immediate Action:

Pegatron disagrees with this FLA finding. Based on legal requirements and FLA benchmarks, both only require workers shall have the availability of the copy, but it was not a must to give copy to each worker. Pegatron has posted the CBA, and also workers can get the copy from the union if they want.

Sustainable Action:

Pegatron does not agree with the FLA's recommendation for sustainable improvement that a copy of the CBA should be provided to all workers. The sustainable action instead are:

- 1) The CBA was confirmed and announced in the worker congress, and then the trade union also posted it on the bulletin boards to let every worker know it.
- 2) If there is any need for the CBA, workers can check through the self-service system or can go to the union office to ask for a copy of the CBA.

Action plan status: Planned

FINDING NO.13

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Eighty percent (80%) of interviewed workers reported that Grade 1 workers, who make up 90% of the workforce, do not have free egress during lunch break. They have to submit an application form and get the approval from their supervisor every time they want to leave the buildings. This restriction exacerbates the capacity constraints with the rest areas, which are insufficient to accommodate all workers. As a result, most of the workers come back to the production areas and rest at their workstations instead.

Local Law or Code Requirement

FLA Workplace Code (Force Labor Benchmark F.4)

Root Causes

1. Factory management explained that they try to keep the Grade 1 workers in the production buildings during lunch break to avoid any delays/disruptions to production.
2. This issue has not been identified in the previous external audits.

Recommendations for Immediate Action

1. Management should ensure that employees have the freedom to leave the production buildings without any permission or other limitations during lunch breaks.

COMPANY ACTION PLANS

1. Immediate Action:

In April, 2015, the form was revised to cancel the approval of supervisors. In other words, workers do not have to get the approval from their supervisors when they want to leave the buildings during lunch break .

Sustainable Action

1. Provide training & communication to staff on the new process.
2. Add it into internal checklist and strengthen the audit of this issue.

Action plan status: Planned

Planned completion date: 04/01/15

FINDING NO.14

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The discipline system does not allow for a third-party witness to be present during the imposition of disciplinary actions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.27)

Root Causes

1. The factory management had a different understanding of “third-party witness” and thought that it was in reference to the witness of the misconduct, as opposed to a witness for the imposition of the disciplinary action.
2. While this practice is in line with local law and regulations, it is not in line with the FLA Workplace Code & Benchmarks.
3. This issue has not been identified during previous external audits.

Recommendations for Immediate Action

COMPANY ACTION PLANS

1. Immediate Action:

1)The trade union is defined as the third party witness to justify the process of reward and punishment. This was put in effect on February 15, 2015.

Sustainable Action:

- 1)We have revised the procedure and added the third party witness.
- 2) We will communicate the revised procedures with all employees.
- 3) We will provide training to relevant staff to implement the new procedure
- 4) We will add it into internal audit and check periodically.

Action plan status: Planned

Planned completion date: 02/15/15

FINDING NO.15

TRAINING (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory has provided various regular ongoing training sessions for workers with potential to be promoted as “multi-skill” workers and more senior level workers, including supervisors, for all Employment Functions; however, it has not provided ongoing training for most Grade 1 workers for the following Employment Functions: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; and Grievance System.
2. The factory provides two-hour ongoing training once per year on Environmental Protection and Health & Safety, but does not keep any attendance and evaluation records. Given the high worker turnover rate, the current frequency of training cannot ensure that all workers are covered in the ongoing training.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2 and ER.15.2)

Root Causes

1. The factory is unfamiliar with the FLA Workplace Code & Benchmarks.
2. The factory thought that the communication made to workers was sufficient, and that it was not necessary to allocate additional resources to ongoing training.
3. The factory's current HR resources are inadequate to manage ongoing training for all Employment Functions.
4. This issue has not been identified during previous external audits.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Pegatron will conduct training needs surveys for the on-going training for Grade 1 workers.
- 2) According to CSR related training requirements and the survey results of training needs, they will draw up training plans for grade 1 workers, including teacher's information, training materials and training location, etc.

- 3) Pegatron will provide periodic training for grade 1 level workers concerning the following employment functions: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; Grievance System; Environmental Protection and Health & Safety.
- 4) Pegatron will also keep all training attendance records.

Sustainable Action:

- 1) We will collect the information that have a close relationship with workers' life and will update them in the CSR training at regular intervals.
- 2) We will audit the on-going training periodically.

Action plan status: Planned

Planned completion date: 06/20/15

FINDING NO.16

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Based on review of Wage and Benefits Procedure (No. TH2-CS028), Production Bonus Procedure for Grade 1 Employee (No. PH2-CS010), and Monthly Performance Bonus Procedure for Grade 2 Employees (no document No. was provided), the production bonus for Grade 1 employees/monthly performance bonus for Grade 2 employees/wage for non-full attendance employees are all calculated based on calendar days; whereas, in practice the calculation is based on total days worked during the period, as required by local law.
2. A review of Leave Management Procedure (No. PH2-CS004) found that a limit of 14 days per year for personal leave, and the pregnancy examination leave limit was 10 half days of leave. While these limits have no legal grounds, the assessors found that the factory has not enforced them.

Local Law or Code Requirement

Special Rules on the Labor Protection of Female Employees (2012), Article 6; FLA Workplace Code (Employment Relationship Benchmarks ER.1.3)

Root Causes

1. The factory has not closely followed the legal requirements and the updates.
2. The factory has not established and implemented procedures to include workers' input/feedback on the creation and revision of its policies and procedures.
3. The factory has not conducted an effective internal audit for the review of written policies and procedures.
4. The law does not have a specific requirement on the frequency of pregnancy examinations, and the factory thought it was reasonable to limit it to 10 times in the written policy.

COMPANY ACTION PLANS

1. Immediate Action:

The procedures were updated in December 2014.

Sustainable Action:

- 1) Pegatron aligned the related procedures with current practice. If any changes concerning actual practice, Pegatron will revise the procedures as legally required by law to ensure that the actual practice is in accordance with procedures.
- 2) The issue whether the actual practice is in accordance with procedures will be included in the annual audit.

Action plan status: Completed

Planned completion date: 12/26/14

Progress update: 06/01/15 : The issue was verified during FLA audit

Completion date: 12/26/14

2. Immediate Action:

Pegatron collects workers' input or feedback for internal policy and procedure establishment and updates them. Currently, Pegatron has collected 60 questionnaires and then updated workers' benefits procedures accordingly.

Sustainable Action:

- 1) Pegatron is revising related procedures which will be completed on May 23, 2015.
- 2) Pegatron will provide communication & training to employees concerning the revised procedures.
- 3) Pegatron will follow the procedures, and any update of worker related procedures will be announced publicly to collect worker and union member's input and the updated procedures will be approved by the worker union congress before officially being implemented.
- 4) Pegatron will check the procedure implementation periodically.

Action plan status: Planned

Planned completion date: 06/23/15

FINDING NO.17

WORKER INTEGRATION (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

- 1. The factory has not established and implemented procedures to include workers' input or feedback on the creation and revision of its policies and procedures. Workers are neither systematically integrated in nor consulted on the decision-making processes for any of the Employment Functions, as per FLA benchmarks. Also, as per local law, factory management needs to involve union representatives in the factory's policies and decisions in regards to hours of work, compensation, social insurance, health & safety, worker protection, etc. However, the factory did not carry out worker integration or include worker input for the regulation of overtime wages. As per local law requirements, wage related issues should be communicated to and consulted with the trade union and/or concerned employees in advance. All of the interviewed workers confirmed that they had not been consulted on this draft procedure before it was put in to practice.

Local Law or Code Requirement

Trade Union Law of PRC, Article 38; FLA Workplace Code (Employment Relationship Benchmarks ER.1.3 and ER.25.2)

Root Causes

- 1. HR and CSR staff believe that it is easier and more efficient to perform management reviews without the involvement of worker representatives.
- 2. Management does not recognize the benefits of workers' input.
- 3. Management does not have solid knowledge of the local laws pertaining to this topic.
- 4. Lack of worker integration is very common in this industry across China.
- 5. Shortcomings in worker integration have not been identified in the previous external audits.

COMPANY ACTION PLANS

1. Immediate Action:

Pegatron collects workers' input or feedback for internal policy and procedure establishment and updates them. Currently, they have collected 60 questionnaires and then updated workers' benefits procedures accordingly.

Sustainable Action:

- 1) Pegatron is revising related procedures which will be completed on May 23, 2015.
- 2) Pegatron will provide communication & training to employees concerning the revised procedures.
- 3) Pegatron will follow the procedures, and any update of worker related procedures will be announced publicly to collect worker and union member's input and the updated procedures will be approved by the worker union congress before officially being implemented.
- 4) Pegatron will check the procedure implementation periodically.

Action plan status: Planned

Planned completion date: 06/23/15

FINDING NO.18

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Not all main electrical panels and floor distribution panels in the production and dormitory buildings have proper ground fault circuit interrupters (GFCI) in order to prevent potential fire and electrocution risks.
2. One electrical panel is blocked by Christmas decorations at canteen 2F in building F2. Another electrical panel is blocked by a filing cabinet at the office section of building F2.
3. Electrical cables in several different sections (e.g., kitchen, production areas, restrooms, dormitories) are fixed with tape, which poses a greater risk in areas with wet surfaces, particularly due to the lack of GFCIs in the floor panels.
4. Some electrical wires were not removed after decommissioning equipment; a 1m wire was found on the wall at east side of building F2, which is next to the air storage tank, and on the 3rd floor of building F7 a wire was found at the escape tunnel wall, next to the production line. (Note: The wires were removed right away.)
5. The cover of the fixed electrical panel beside gate 3A of building F5 was broken and fixed with tape.
6. There were three electrical panels with their covers open at the F5/F6/F7 elevator engine room.
7. Faraday cages for lightning protection on the roofs of buildings F1 and F2 are damaged in some sections and need to be repaired. (Note: The repairs were under way at the time of the assessment.)

Local Law or Code Requirement

The General Guide for Safety of Electric Use (GB/T13869-2008), Article 6.5, Article 6.7; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1 and HSE.13)

Root Causes

1. Although the factory has obtained OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policies and procedures are concerned, the implementation of the system is not effective in some areas; this is arguably due to the ineffectiveness of the HSE committee, and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system for encouraging workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all hazards and risks in the factory. Elected worker representatives did not participate in this process.
4. Workers' safety awareness is low due to ineffective safety training.
5. There is a lack of an effective internal monitoring process.
6. Management is not well informed about possible legal and financial consequences of work accidents and occupational diseases.
7. The management lacks awareness of FLA's Code and Benchmarks and international standards.
8. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.

Recommendations for Immediate Action

1. Broken and taped electrical panels and electrical cables in both the production and dormitory areas should be properly repaired and replaced immediately.
2. The damaged sections of the Faraday cages should be repaired, and grounding measurements should be taken for these cages, to verify that they are in good working condition.
3. All electrical cables remaining after equipment has been decommissioned should be removed.
4. Electrical panels should be free of obstructions and their covers kept closed at all times.

COMPANY ACTION PLANS

1. Immediate Action:

- 1) Install GFCI in all dorms.
- 2) Assess the feasibility of installing the GFCI F3F4 and placing of GFCIs on main electrical panels have been considered and then extended to other production area according to the assessment.
(Planned for 11/30/2015)

Sustainable Action:

- 1) Review and revise Electricity Maintenance Checklist to add GFCI requirement.
- 2) Train all workers and relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: Planned

Planned completion date: 11/30/15

2. Immediate Action:

Check all the electrical panels and removed two blockers immediately. Mark every electrical panels with "Keep Area Clear in Front of Electrical Panel" warning signs.

(Completed on 5/22/2015)

Sustainable Action:

- 1) Review and revise Equipment & Facility(GGD) Maintenance Checklist to add this requirement.
- 2) Train relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: Planned

Planned completion date: 05/22/15

3. Immediate Action:

Replace the broken electrical cables in different sections.

(Completed on 12/30/2014)

Sustainable Action:

- 1) Review and revise Electricity Maintenance Checklist to add electrical cable maintenance requirement.
- 2) Train relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:

Remove all the electrical cables which are remaining after equipment decommissioning.

(Completed on 12/30/2014)

Sustainable Action:

- 1) Review and revise Electricity Maintenance Checklist to add an electrical cable maintenance requirement.
- 2) Train relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions completed at the time of audit

5. Immediate Action:

Fix the broken and tape-fix electrical panels in all factories.

(Completed on 12/29/2014)

Sustainable Action:

- 1) Review and revise Equipment & Facility(GGD) Maintenance Checklist to add GGD maintenance requirement.
- 2) Train relevant management representatives on revised checklist.
- 2) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some action items completed already

6. Immediate Action:

Check and close all the electrical panels in each machine room.

(Completed on 12/29/2014)

Sustainable Action:

1) Review and revise Equipment & Facility(GGD) Maintenance Checklist to add GGD maintenance requirement.

2) Train all workers and relevant management representatives on revised checklist.

3) Enhance internal inspection frequency to ensure successful implementation of the checklist.

4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions completed already.

7. Immediate Action:

Fix all the damaged sections of the Faraday cages and conduct testing to guarantee lightening protection is functioning.

(Completed on 1/15/2015)

Sustainable Action:

1) Review and revise Equipment & Facility Maintenance Checklist to guarantee faraday cages are in good working condition.

2) Train all workers and relevant management representatives on revised checklist.

3) Enhance internal inspection frequency to ensure successful implementation of the checklist.

4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

FINDING NO.19

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There is not a system in place for marking the working pressure and maximum pressure on pressure vessel manometers.
2. Although there is a system in place for checking the safety vents of the pressure vessels, and annual inspection by a third party, there are no records of manual checks performed by the maintenance team.
3. One x-ray machine in the F7 building is not completely isolated from the production area, posing a risk of unauthorized access.
4. One air tank at the F5 building was not bolted to the ground.

Local Law or Code Requirement

FLA Workplace Code (Health, Safety & Environment Benchmark HSE.14)

Root Causes

1. Although the factory has obtained OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.

2. The existing manometers on pressure vessels are hindering both easy reading and marking because: manometers' reading range is almost five times higher than maximum working pressure (2.5 MPa for 0.5 MPa working pressure), and the use of MPa as a pressure unit instead of bar makes reading more difficult.
3. There is no active worker representation or participation on EHS committee. Nor is there a system for encouraging workers to actively participate in ongoing EHS efforts.
4. The risk analysis report does not cover all of the factory's risks and hazards, and elected worker representatives do not participate in this process.
5. Workers' safety awareness is low due to ineffective safety training.
6. There is a lack of an effective internal monitoring process.
7. Management is not well informed about possible legal and financial consequences of work accidents and occupational diseases.
8. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.

Recommendations for Immediate Action

1. The factory should firmly bolt the air tank to the ground, and check that the other air tanks are also firmly fixed in position.

COMPANY ACTION PLANS

1. Immediate Action:

Mark the working pressure and maximum pressure on manometers of pressure vessels.

(Completed on 1/5/2015)

Sustainable Action:

- 1) Review and revise Equipment & Facility Maintenance Checklist to add pressure marking requirement.
- 2) Train all workers and relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some action already completed

2. Immediate Action:

Testing the safety vents on a monthly basis since January 2015.

(Completed on 1/1/2015)

Sustainable Action:

- 1) Review and revise Equipment & Facility(Air Compressor) Maintenance Checklist to add manual inspection requirement.
- 2) Train all workers and relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

3. Immediate Action:

Set a warning line to forbid those who have no qualification for operating the X-ray.

(Completed on 1/5/2015)

Sustainable Action:

- 1) Review and revise X-ray Management Procedure to avoid the risk of unauthorized access.
- 2) Train all workers and relevant management representatives on revised procedure.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/10/2015)

Action plan status: In Progress
Planned completion date: 01/10/15
Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:

Bolt the air tank to the ground in F5 and also check that all the other air tanks are firmly fixed in position.
(Completed on 12/29/2014)

Sustainable Action:

- 1) Review and revise Equipment & Facility(Air Compressor) Maintenance Checklist to add air tank installation requirement.
- 2) Train relevant management representatives on revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some action already completed

FINDING NO.20

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Potable and non-potable water sources are not marked as such.
2. The maximum weight limit for hand carriage operation is not defined and labeled in production and warehouse areas.
3. There are deficiencies on the warning and hazard signs throughout the factory buildings, e.g., no color-coding, absence of pictograms, etc.
4. Some of the labels on the laser machines were insufficient and missing laser class, color of the laser, power or wavelength, etc.
5. There are no maximum height limit warning signs on the north side of the F1 building and flyover compressed air pipelines.
6. The living water tank on the top floor of building F2, the sewage pool on the north side of building F2, and the underground oil tank of building F6 do not have a confined space markings.
7. Access to the nitrogen tank area is not completely restricted; although one of the doors is closed, it does not lock because of a damaged lock, and the warning signs are rusty and illegible.

Local Law or Code Requirement

Safety Signs and Guideline for the use (GB2894-2008), Article 3.2, C.2.5; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.13; HSE.9.1, and HSE.15)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all of the factory's risks and hazards, and elected worker representatives do not participate in this process.
4. The workers' safety awareness is low due to ineffective safety training.
5. There is no effective internal monitoring process.
6. Management is not well informed about possible legal and financial consequences of work accidents and occupational diseases.
7. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.

COMPANY ACTION PLANS

1. Immediate Action:

Mark the potable and non-potable water sources.

(Completed on 12/27/2014)

Sustainable Action:

1) Review and revise Potable Water Management Checklist to add water source sign requirement.

2) Train all workers and relevant management representatives on revised checklist.

3) Enhance internal inspection frequency to ensure successful implementation of the checklist.

4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

2. Immediate Action

According to FLA's recommendation , identify and post maximum weight limit for hand carriage operations in production and warehouse areas.

(Completed on 1/16/2015)

Sustainable Action:

1) Review and revise Equipment & Facility Maintenance Procedure to add maximum weight limit requirement.

2) Train all workers and relevant management representatives on revised procedure.

3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/16/2015)

Action plan status: In Progress

Planned completion date: 01/16/15

Progress update: 06/01/15 : Some actions already completed

3. Immediate Action:

Update safety and hazard signs format according to regulations and standard. Check all existing safety and hazard signs throughout the factory and correct them.

(Completed on 1/20/2015)

Sustainable Action:

1) Review and revise Safety Sign Management Procedures according to local standards.

2) Train all workers and relevant management representatives on revised procedures.

3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 3/24/2015)

Action plan status: In Progress

Planned completion date: 03/24/15

Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:

Add laser class, color of the laser, power or wavelength on the labels of laser machines.

(Completed on 1/15/2015)

Sustainable Action:

1) Train all workers and relevant management representatives on revised laser label.

2) Enhance internal inspection frequency to ensure successful implementation of the laser label.

(Completed on 2/9/2015)

Action plan status: In Progress
Planned completion date: 02/09/15
Progress update: 06/01/15 : Some actions already completed

5. Immediate Action:

Post maximum height limit warning signs on the north side of the F1 building and flyover compressed air pipelines immediately.
(Completed on 12/24/2014)

Sustainable Action:

- 1) Train all workers and relevant management representatives on Safety Sign Management Procedure.
 - 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
 - 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

6. Immediate Action:

Mark all the confined spaces on campus.
(Completed on 12/27/2014)

Sustainable Action:

- 1) Train relevant management representatives on Safety Sign Management Procedures.
 - 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
 - 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

7. Immediate Action:

Fix the lockers, lock nitrogen tank area and replace the new warning signs of the nitrogen tank area and strongly restrict the access.
(Completed on 12/27/2014)

Sustainable Action:

- 1) Review and revise Equipment & Facility(KDON) Maintenance Checklist to add access control requirement.
 - 2) Train relevant management representatives on revised checklist.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
 - 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

FINDING NO.21

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There are no structural safety certificates (report on inspection and acceptance of completed construction project) for all production buildings, except building F6 and the dormitory buildings at dormitory area 2 (D1-D2-D3-D4).
2. A mezzanine floor has been added to factory building F1 for use as additional warehouse area. The static calculation report on load bearing for this area limit the maximum load to 750 kg/m², but it is not possible to verify if the current load on that section is within the limit. Given that some heavy machinery parts and equipment are stored in this area, and a freight lift is servicing that floor with potential trans-pallet use, the factory should either re-arrange load distribution in this area, or make structural improvements to increase the load bearing capacity of this section.
3. The width of the steps of the ladder placed on the cable channel, at the roof of factory F5 is not wide enough, and there are no handrails on this ladder. Some portable ladders are not in good condition, and are made out of bamboo.

Local Law or Code Requirement

Article 61 of Construction Law of the People's Republic of China; Safety Requirements for Fixed Steel Ladders and Platform (GB 4053.3-2009), Article 5.2.1; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.4, and HSE.25)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all of the factory's risks and hazards, and elected worker representatives do not participate in this process.
4. The training and internal monitoring systems are not effective.
5. Management is not well informed about the possible legal and financial consequences of work accidents and occupational diseases.
6. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.

Recommendations for Immediate Action

1. Obtain and provide structural safety certificates (report on inspection and acceptance of completed construction project) for inspection for all production buildings.
2. The factory should either re-arrange the load distribution in this area, or make structural improvements to increase the load bearing capacity of this section. Warning labels on the weight limit in this area should be placed in prominent places, and workers in this area should be informed about the weight limit.
3. Broken/damaged portable bamboo ladders should be decommissioned and replaced with suitable (step) ladders.

COMPANY ACTION PLANS

1. Immediate Action:

Obtain structural safety certificates of all production buildings except F6 and dormitory buildings at dormitory area 2 (D1-D2-D3-D4) .

Sustainable Action:

- 1) Review and revise EHS Permits Handling Procedure to avoid delays in processing time.
- 2) Train relevant management representatives on procedure.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 12/31/16

Progress update: 06/01/15 : Some actions already completed

2. Immediate Action:

- 1) Check and calculate stored material loading in additional warehouse area and the loading are below maximum limit of 750kg/square meter.
- 2) Post warning label of maximum limit.

(Completed on 1/20/2015)

Sustainable Action:

Action plan status: In Progress
Planned completion date: 01/20/15
Progress update: 06/01/15 : Some actions already completed

3. Immediate Action:
Replace the old ladders.
(Completed on 3/10/2015)

Sustainable Action:

- 1) Review and revise Equipment & Facility Maintenance Checklist to add ladder requirement.
 - 2) Train all workers and relevant management representatives on revised checklist.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
 - 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 03/10/15
Progress update: 06/01/15 : Some actions already completed

FINDING NO.22

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The occupational hazards control assessment reports for factories F5 and F7 are not complete.
2. Noise exposure levels at the newly built production line were not completely identified with noise measurements, and operators working in that line are exposed to high levels of noise. Furthermore, these operators have not undergone a pre-employment physical examination that covers occupational health examinations, like audiometric tests, for potential hearing loss.
3. Approximately 2.5% of operators work in areas where there are occupational risk factors, but 20% of them have not undergone off-job health examination.
4. Although there is a system in place for keeping the records of work accidents with minor injuries (small cuts) and perform root cause analysis for any reported injuries, there is no root cause analysis performed for unreported injuries such as first aid kits used by employees.
5. An empty production chemical drum is used for storing the floor cleaning chemical agent and kept in chemical storage cabinet at building F7.
6. Chemical drums are stored in the air compressor room, instead of the chemical warehouse at building F6.
7. The ventilation/exhaust system has: holes on some flexible pipes, some pipes were damaged and not properly repaired, and some pipes do not follow a direct line and are bent in many places.
8. Absorbent fabric pieces are used as caps on methanol-alcohol bottles.
9. The Material Safety Data Sheet (MSDS) for one chemical was missing in the production chemical cabinet at building F7.
10. Although chemical warehouse is equipped with a 12L eyewash device, there is no emergency shower station at the chemical warehouse. (Note: it was installed during the assessment.)

Local Law or Code Requirement

Regulation For Chemical Usage Safety in Work Place, Article 14, Article 27; Regulation for Safety of Hazardous Chemical, Article 20; Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, Article 18 and Article 36; Standards for the Design of Industrial Enterprises (GBZ1-2010), Article 8.3; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.4, HSE.9, and HSE.10)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.

2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all of the factory's risks and hazards, and elected worker representatives do not participate in this process.
4. The training and internal monitoring systems are not effective.
5. Management is not well informed about the possible legal and financial consequences of work accidents and occupational diseases.
6. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.
7. There is not an effective system in place for checking the workers' health status before assigning them to occupational risk areas and following their health status on a regular basis. High worker turnover makes it difficult for the factory to keep track of workers' health status.

Recommendations for Immediate Action

1. The occupational hazards control assessment reports for factories F5 and F7 should be completed.
2. Noise measurements should be performed in the newly built production line for measuring the actual exposure levels; operators working in that line should undergo physical examination that covers occupational health examinations like audiometric tests against potential hearing loss.
3. The first and follow-up periodic health check reports, for all workers working in occupational risk areas, should be conducted on a timely manner.
4. Discontinue the practice of using absorbent fabric pieces as caps on methanol-alcohol- bottles.

COMPANY ACTION PLANS

1. Immediate Action:
Obtain OHCA of factories F5 and F7.

Sustainable Action:

- 1) Review and revise EHS Permits Handling Procedure to avoid delays in processing time.
 - 2) Train relevant management representatives on procedure.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- (Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 12/31/15
Progress update: 06/01/15 : Some actions already completed

2. Pegatron disagrees with this FLA finding:
Workers at the workstation of the newly built production line are stable, and the noise is stationary. The third party testing company used China noise test standard of dose metric measurement (Time weighted average, TWA). All test result for new built production line is under 80dBA which is the criteria for occupational health examination according to China standard. (PS. US criteria is 85dBA.) therefore, there are no noise occupation posts in that line.

Action plan status: Completed
Planned completion date: 12/22/14
Progress update: 06/01/15 : n/a
Completion date: 12/22/14

3. Immediate Action:
1) According to Pegatron's occupational hazard management procedure, they will continue informing workers with the method of the registered mail.
2) To improve the percentage of off-job health examinations they immediately contact the workers who quit their jobs to attend an off-job health examination.
(Completed on 12/27/2014)

Sustainable Action:

- 1) Review and revise Occupational Hazard Management Procedure.
- 2) Train all workers and relevant management representatives on revised policy and procedures.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/12/2015)

Action plan status: In Progress
Planned completion date: 01/12/15
Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:
Perform root cause analysis for unreported injuries.
(Completed on 1/5/2015)

Sustainable Action:
1) Review and revise First-aid Kit Usage Registration Form to perform root cause analysis for unreported injuries.
2) Train all workers and relevant management representatives on revised procedures.
3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

5. Immediate Action:
Remove the chemical drum immediately and check that all floor cleaning chemical agents are stored in right containers.
(Completed on 12/25/2014)

Sustainable Action:
1) Train all workers and relevant management representatives on Chemical Management Procedure.
2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/12/2015)

Action plan status: In Progress
Planned completion date: 01/12/15
Progress update: 06/01/15 : Some actions already completed

6. Immediate Action:
Check all air compressor rooms and remove the empty chemical drums.
(Completed on 12/27/2014)

Sustainable Action:
1) Train all workers and relevant management representatives on Chemical Management Procedure.
2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

7. Immediate Action:
Replace or fix the pipes.
(Completed on 1/6/2015)

Sustainable Action:
1) Review and revise Equipment & Facility Maintenance Checklist to add ventilation/exhaust system maintenance requirement.
2) Train relevant management representatives on revised checklist.
3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS

efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/6/2015)

Action plan status: In Progress

Planned completion date: 01/06/15

Progress update: 06/01/15 : Some actions already completed

8. Immediate Action:
Stop practice of fabric pieces being used as caps on alcohol bottles.
(Completed on 1/7/2015)

Sustainable Action:

- 1) Review and revise chemical management procedure to add this requirement.
- 2) Train all workers and relevant management representatives on revised policy and procedures.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/7/2015)

Action plan status: In Progress

Planned completion date: 01/07/15

Progress update: 06/01/15 : Some actions already completed

9. Immediate Action:
Post MSDS form of the chemical on the chemical cabinet.
(Completed on 1/7/2015)

Sustainable Action:

- 1) Train relevant management representatives on Chemical Management Procedures.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/7/2015)

Action plan status: In Progress

Planned completion date: 01/07/15

Progress update: 06/01/15 : Some actions already completed

10. Immediate Action:
Install emergency shower station in chemical warehouse.
(Completed on 12/24/2014)

Sustainable Action:

- 1) Review and revise Chemical Management Procedure to add this requirement.
- 2) Train relevant management representatives on revised procedures.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/29/2015)

Action plan status: In Progress

Planned completion date: 01/29/15

Progress update: 06/01/15 : Some actions already completed

FINDING NO.23

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There is no construction fire safety acceptance inspection certificate for building F7.
2. The fire hydrant keys and portable hoses are not located in easily accessible areas that are close to fire hydrants.
3. One sprinkler zone valve appeared to be shut, but after a test by technical staff on the spot, it was confirmed that the pressure reading was low due a manometer malfunction.
4. Zone and drain valves should are not clearly marked.
5. Cable trays or ventilation/vacuum lines are blocking some sprinkler heads.
6. There is no proper system in place for periodic pressure tests for fire pumps.
7. Fire drill logs do not have information such as: attendance time, problems observed during the evacuation process, problems observed with emergency illumination and fire alarm systems, and the department of the last person to arrive at the emergency assembly area.
8. One piece of emergency illumination equipment, along the stairs in building F6, is not operational.
9. One emergency exit is blocked in the waste storage area.
10. Some of the workstations in the production areas are blocked.
11. Some LPG canisters were temporarily stored at the hazardous waste warehouse.
12. The factory defines a maximum storage limit at the chemical warehouse for flammable chemicals, but it is not posted on the wall. (Note: Labels were provided during the assessment)
13. The following problems were observed with emergency evacuation plans: some emergency evacuation routes are blocked with equipment & material, several plans have not been updated with changes to the actual layout (e.g., "you are here" labels designating the wrong location), a small part of the escape route map on door 3A (Building F5) was accidentally painted over, the size (A3) of the evacuation maps is not big enough.

Local Law or Code Requirement

1. Fire Prevention Law of the People's Republic of China Articles 11, 16, and 28; Fire Safety of Building Design Regulation GB50016-2006, Article 11.3.4.1; Regulation on Fire-safety Management for State Organs, Organizations, Enterprises and Institutional Organizations, Article 26; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.4, HSE.5, and HSE.6)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all of the factory's risks and hazards, and elected worker representatives do not participate in this process.
4. The training and internal monitoring systems are not effective.
5. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.

Recommendations for Immediate Action

1. Obtain the construction fire safety acceptance inspection certificate for building F7.
2. All sprinkler zone valves should be kept in the open position.
3. Sprinkler heads should be kept free from any obstructions.
4. Fix the malfunctioning emergency illumination equipment in building F6.
5. Emergency exits should be kept free from any obstructions.

COMPANY ACTION PLANS

1. Immediate Action:

Obtain a fire safety acceptance inspection certificate of building F7.

Sustainable Action:

- 1) Review and revise EHS Permits Handling Procedure to avoid delays in processing time.
- 2) Train relevant management representatives on procedure.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 12/31/16

Progress update: 06/01/15 : Some actions already completed

2. Immediate Action:

Set fire hydrant keys and portable hoses close to every factory's outdoor fire hydrants and also post the usage instructions.
(Completed on 1/5/2015)

Sustainable Action:

- 1) Review and revise Fire Control Equipment Checklist to add fire hydrant key requirement .
 - 2) Train relevant management representatives on revised checklist.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
 - 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/5/2015)

Action plan status: Completed

Planned completion date: 01/05/15

Progress update: 06/01/15 : Actions already completed

Completion date: 01/05/15

3. Immediate Action:

Replace the manometers in order to read pressure easily
(Completed on 1/20/2015)

Sustainable Action:

- 1) Review and revise Automatic Fire Protection Equipment Checklist to add pressure gauge selection requirement.
 - 2) Train relevant management representatives on revised checklist.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
 - 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/30/2015)

Action plan status: In Progress

Planned completion date: 01/30/15

Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:

Mark all the zone and drain valves.
(Completed on 1/4/2015)

Sustainable Action:

- 1) Review and revise Automatic Fire Protection Equipment Checklist to add zone drain sign requirement.
 - 2) Train all workers and relevant management representatives on revised checklist.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
 - 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

5. Immediate Action:

Modify the sprinkler heads which are blocked by the cable trays and ventilation ducts that are over 1.2 meters.
(Completed on 10/30/2015)

Sustainable Action:

- 1) Train relevant management representatives on Fire Safety Management Procedure.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

6. Immediate Action:

Conduct periodical pressure tests of fire pumps.

(Completed on 3/15/2015)

Sustainable Action:

1) Review and revise Automatic Fire Protection Equipment Procedure to set clear guidelines on tests of pumps.

2) Train relevant management representatives on revised policy and procedures.

3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 3/20/2015)

Action plan status: In Progress

Planned completion date: 03/20/15

Progress update: 06/01/15 : Some actions already completed

7. Immediate Action:

Add attendance time, problems observed during the evacuation process, problems observed with emergency illumination and fire alarm systems and the department of the last person to arrive at the emergency assembly area into fire drill logs.

(Completed on 1/8/2015)

Sustainable Action:

1) Train relevant management representatives on revised fire drill logs.

2) Enhance internal inspection frequency to ensure successful implementation of Fire Safety Management Procedure.

(Completed on 4/20/2015)

Action plan status: In Progress

Planned completion date: 04/20/15

Progress update: 06/01/15 : Some actions already completed

8. Immediate Action:

Check and fix broken emergency illumination equipment.

(Completed on 1/5/2015)

Sustainable Action:

1) Train relevant management representatives on Fire Control Equipment Checklist.

3) Enhance internal inspection frequency to ensure successful implementation of the checklist.

3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

9. Immediate Action:

Remove the waste immediately to ensure that emergency exits are kept free of any obstructions.

(Completed on 1/8/2015)

Sustainable Action:

1) Train all workers and relevant management representatives on Fire Safety Management Procedure.

3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/8/2015)

Action plan status: In Progress
Planned completion date: 01/08/15
Progress update: 06/01/15 : Some actions already completed

10. Immediate Action:

Optimize the placement of the boxes:

- 1) Define the number of boxes behind workstations.
- 2) Set aside enough space in order to escape with no resistance.
- 3) Check all station and improve similar issues such as portable charging cars etc.

(Completed on 1/7/2015)

Sustainable Action:

- 1) Train all workers and relevant management representatives on Fire Safety Management Procedures.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/7/2015)

Action plan status: In Progress
Planned completion date: 01/07/15
Progress update: 06/01/15 : Some actions already completed

11. Immediate Action:

Remove LPG canisters immediately from the hazardous waste warehouse.

(Completed on 12/25/2014)

Sustainable Action:

- 1) Review and revise Store Code Of Hazardous Waste to add LPG storage requirement .
- 2) Train relevant management representatives on revised procedures.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/7/2015)

Action plan status: In Progress
Planned completion date: 01/07/15
Progress update: 06/01/15 : Some actions already completed

12. Immediate Action:

Post maximum storage limit labels on the wall of the chemical warehouse.

(Completed on 12/29/2014)

Sustainable Action:

- 1) Review and revise the list of Daily Check Chart Of Chemical Use And Store to add maximum storage requirement .
- 2) Train relevant management representatives on the revised checklist.
- 3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/27/2015)

Action plan status: In Progress
Planned completion date: 01/27/15
Progress update: 06/01/15 : Some actions already completed

13. Immediate Action:

- 1) Remove equipment & material which block the emergency evacuation plans.

- 2) Update and post the emergency evacuation plans.
- 3) Change the size of emergency evacuation maps to A2 size.
(Completed on 2/6/2015)

Sustainable Action:

- 1) Train all workers and relevant management representatives on Emergency Response Management Procedures.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 2/6/2015)

Action plan status: In Progress

Planned completion date: 02/06/15

Progress update: 06/01/15 : Some actions already completed

FINDING NO.24

HEALTH, SAFETY & ENVIRONMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The environmental impact assessment reports of factory buildings F3 and F4 have not yet been renewed, as factory management has not submitted them to the local authorities.
2. Management has submitted the environmental impact assessment report for buildings F1 and F2 to the local authorities for renewal, but has not received approval yet.
3. There is solid waste around factory buildings and on the rooftops of the factory buildings, such as: leftover paint mixed with water and used paintbrush (rooftop of building F7), and empty chemical drums, electrical waste & assorted waste (electrical, painting, etc.) stored next to the wall.
4. Hazardous and non-hazardous solid production waste is mixed together outside the waste container at building F5.
5. A small area (around 0.5 meter square) is contaminated with diesel fuel, due to diesel fuel dripping from a diesel fuel filling point at building F3.
6. Secondary containment is missing for: containers at the nitrogen tank area, batteries in chemical warehouse, and chemical drums in the compressor room, among others. (Note: Secondary containment for batteries was provided during the assessment.)
7. Although there is a drainage system for oil-contaminated water coming out of dryers, air tanks, and compressors, there are many leaks in the pipes. Furthermore, this contaminated water is discharged directly outside, instead of being processed through an oil separator and disposed of by a waste management company.
8. The sewage tank at the back of the dormitory area (near building F7) has a direct discharge pipe connected to the storm water system to be used in case of a potential pump failure. Also, another sewage tank nearby the Coretek building (near building F2) was overflowing during the assessment.
9. There is no a system in place for collecting the contaminated water coming out of emergency showers & eyewash stations.
10. Emissions from the power generators used during the summertime are not measured or monitored.

Local Law or Code Requirement

China Environmental Impact Assessment Law, Article 24; China Law of Prevention and Treatment of Environmental Pollution by Solid Wastes, Article 58 and Article 29; Standard for Pollution Control on Hazardous Waste Storage GB 18597-2001, Articles 6.2.4 and 6.2.5; China Law of Prevention and Treatment of Air Pollution, Article 36; FLA Workplace Code (Health, Safety & Environment Benchmark HSE.1)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
3. The management lacks awareness of FLA's Workplace Code and Benchmarks and international standards on environmental protection.
4. These issues have not been adequately addressed during previous external audits, which have focused on documentation, providing inadequate information, and guidance on environmental requirements and standards.

5. EHS staff is trying to deal with all environmental issues on their own, and is not collaborating with the EHS committee.

Recommendations for Immediate Action

1. Management should submit the environmental impact assessment reports for buildings F3 and F4 to the local authorities for renewal.
2. Management should follow up on the progress of the environmental impact assessment reports for buildings F1 and F2 with the local authorities.
3. Spillage from overflowed sewage tank near the Coretek building should be cleaned, and the direct discharge pipe connected to storm water system should be disconnected.

COMPANY ACTION PLANS

1. Immediate Action:

Obtain EPCA of buildings F3 & F4.

Sustainable Action:

- 1) Review and revise EHS Permits Handling Procedure to avoid delays in processing time.
- 2) Train relevant management representatives on procedure.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 12/31/16

Progress update: 06/01/15 : Some actions already completed

2. Immediate Action:

Obtain EPCA of buildings F1 & F2.

Sustainable Action:

- 1) Review and revise EHS Permits Handling Procedure to avoid delays in processing time.
- 2) Train relevant management representatives on procedure.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 12/31/16

Progress update: 06/01/15 : Some actions already completed

3. Immediate Action:

Check and remove the solid waste.

(Completed on 1/5/2015)

Sustainable Action:

- 1) Train relevant management representatives on Waste Management Procedure.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:

Reclassify these wastes immediately.

(Completed on 12/23/2014)

Sustainable Action:

- 1) Train all workers and relevant management representatives on Waste Management Procedures.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.

3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

5. Immediate Action:

Use concrete on the area to prevent soiled contamination and require vendors to provide the tray to prevent the dropping of diesel fuel.
(Completed on 12/30/2014)

Sustainable Action:

1) Review and revise Equipment & Facility Maintenance Checklist to add diesel fuel filling requirement.
2) Train relevant management representatives on revised checklist.
3) Enhance internal inspection frequency to ensure successful implementation of the checklist.
4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

6. Immediate Action:

1) Clean and remove the containers and drums.
2) Provide secondary containment for batteries.
(Completed on 12/24/2014)

Sustainable Action:

1) Train relevant management representatives on revised Chemical Management Procedure.
2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

7. Immediate Action:

Install six oil separators and replace the six leakage pipes to ensure the contaminated water is processed through the oil separator and the pipes.
(Completed on 4/30/2015)

Sustainable Action:

1) Train relevant management representatives on Waste Water Management Procedure and Equipment & Facility(Air Compressor) Maintenance Checklist.
2) Enhance internal inspection frequency to ensure successful implementation of the checklist.
3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 5/9/2015)

Action plan status: In Progress
Planned completion date: 05/09/15
Progress update: 06/01/15 : Some actions already completed

8. Immediate Action:

- 1) Remove the discharge pipe immediately.
- 2) Completed the construction of the sewage tank nearby the coretek building and there is no more overflow.
(Completed on 1/5/2015)

Sustainable Action:

- 1) Train relevant management representatives on Waste Water Management Procedure.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 01/05/15
Progress update: 06/01/15 : Some actions already completed

9. Immediate Action:

- 1) Add the waste water out of the emergency showers & eyewash stations to the environmental aspect identification form.
- 2) Treat waste water from emergency showers & eyewash stations as hazardous waste.
(Completed on 1/6/2015)

Sustainable Action:

- 1) Review and revise Waster Water Management Procedure to add emergency waste water requirement .
- 2) Train relevant management representatives on revised procedures.
- 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 3/13/2015)

Action plan status: In Progress
Planned completion date: 03/13/15
Progress update: 06/01/15 : Some actions already completed

10. Immediate Action:

- Conduct monitoring test of the emissions from power generators.
(Completed on 1/7/2015)

Sustainable Action:

- 1) Review and revise the annual monitoring plan.
- 2) Train relevant management representatives on revised annual monitoring plan .
- 3) Enhance internal inspection frequency to ensure successful implementation of the plan.
- 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
(Completed on 1/15/2015)

Action plan status: In Progress
Planned completion date: 01/15/15
Progress update: 06/01/15 : Some actions already completed

FINDING NO.25

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The total sleeping room area of the dormitory is 22.8 square meters per room, with balcony and restrooms (two restrooms) yielding another 12.12 square meters, with a total of 34.92 square meters. Sleeping and balcony areas combined yields 28.92 squares meters. Given that ten workers stay in some of these rooms, the total living space per person is 2.9 square meters, excluding restroom and including balcony. The factory is recommended to limit the number of occupants per room

- to a maximum of eight, as per FLA affiliated company's own standards.
- 2. The cleaning agent was stored on the same shelf as packed dried foods in one of the kitchens of Campus II.
- 3. Some dry food is not stored in sealed boxes/drums after their packages are opened.
- 4. The drinking water dispenser at the solid waste collection of building F2 is not protected from potential contaminants, such as dust.

Local Law or Code Requirement

FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.22, HSE.23, and HSE.25)

Root Causes

- 1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
- 2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
- 3. The management lacks awareness of FLA's Workplace Code and Benchmarks and international standards on environmental protection.
- 4. The risk analysis report does not cover all of the factory's risks and hazards and elected worker representatives do not participate in this process.
- 5. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.
- 6. Kitchen and canteen operations are outsourced to a service provider contractor, and not properly monitored during internal audits.

COMPANY ACTION PLANS

1. Immediate Action:

- 1 All outside dorms have met the 8 individuals per room and 3 per occupant requirement since March 2015.
 - 2) All inside dorms will meet 8 individuals per room and 3 per occupant requirement by July 2015.
- (Completed on 7/1/2015)

Sustainable Action:

Enhance the new dormitory evaluation standard to prevent recurrence.
(Completed on 1/5/2015)

Action plan status: In Progress
Planned completion date: 07/01/15
Progress update: 06/01/15 : Some actions already completed

2. Immediate Action:

Store the cleaning agent and packed dried foods separately.
(Completed on 12/27/2014)

Sustainable Action:

- 1) Train relevant management representatives on Food Hygienic Management Procedure.
 - 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
 - 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 1/9/2015)

Action plan status: In Progress
Planned completion date: 01/09/15
Progress update: 06/01/15 : Some actions already completed

3. Immediate Action:

Store the dry foods in sealed boxes/drums after their packages are opened.
(Completed on 12/27/2014)

Sustainable Action:

- 1) Train relevant management representatives on Food Hygienic Management Procedure.
- 2) Enhance internal inspection frequency to ensure successful implementation of the procedure.
- 3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS

efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/9/2015)

Action plan status: In Progress

Planned completion date: 01/09/15

Progress update: 06/01/15 : Some actions already completed

4. Immediate Action:

Place drinking water dispensers from cleaning service vendors at designated areas away from contaminants.

(Completed on 12/27/2014)

Sustainable Action:

1) Train relevant management representatives on Potable Water Management Procedure.

2) Enhance internal inspection frequency to ensure successful implementation of the procedure.

3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 1/5/2015)

Action plan status: In Progress

Planned completion date: 01/05/15

Progress update: 06/01/15 : Some actions already completed

FINDING NO.26

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Although there is a procedure for selection and approval of Personal Protective Equipment (PPE), the following issues were observed:

1. It is not clear why workers are using carbon-layered facemasks in production areas where there are no air quality issues. Unnecessary use of PPE causes discomfort for workers.
2. There are no clear guidelines for PPE replacement.

Local Law or Code Requirement

FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.8 and HSE.9)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all of the factory's risks and hazards, and elected worker representatives do not participate in this process.
4. The management lacks awareness of FLA's Code and Benchmarks and international standards on PPE.
5. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.
6. Both workers and first level managerial staff have a low awareness of the importance of the effective use of PPE.

COMPANY ACTION PLANS

1. Immediate Action:

Reevaluate PPE assessment and distribute PPE according to assessment result.

(Completed on 3/10/2015)

Sustainable Action:

- 1) Review and revise PPE Management Procedure to add PPE international standards.
 - 2) Train all EHS committee members and relevant management representatives on revised procedures.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
 - 4) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 3/15/2015)

Action plan status: In Progress

Planned completion date: 03/15/15

Progress update: 06/01/15 : Some actions already completed

2. Immediate Action:

Review and revise PPE replacement procedures.
(Completed on 3/10/2015)

Sustainable Action:

- 1) Review and revise PPE Management Procedure to add PPE international standards.
 - 2) Train all EHS committee members and relevant management representatives on revised procedure.
 - 3) Enhance internal inspection frequency to ensure successful implementation of the procedure.
 - 4) Elected worker representatives have been placed in EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.
- (Completed on 3/15/2015)

Action plan status: In Progress

Planned completion date: 03/15/15

Progress update: 06/01/15 : Some actions already completed

FINDING NO.27

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The ergonomic assessment was still in process, and, therefore, ergonomic risks in this factory have not been completely identified.
2. Chairs do not have the proper backrest to support the lower back.
3. There are no removable armrests on chairs.
4. There are no back supports on the stools.
5. The chairs and stools are made of uncomfortable material, i.e., they are not made of breathable, non-slip material.
6. There are problems with the height, width and area of the workstations (In many areas of assembly lines, workers are positioned very close to each other, as close as 10-20 centimeters.) This reduces their ergonomic comfort, as there is not enough space provided for separating their usual and occasional work areas.
7. Workers are hunching or leaning during the production process.
8. The use of pneumatic tools and equipment is creating vibration issues.
9. Not all workers who work in a standing position use anti-fatigue mats.
10. The factory provides very basic ergonomics training as part of the orientation training; however, there is no detailed or specific training for workers working under different conditions.

Local Law or Code Requirement

Health Standard for Design of Industrial Enterprises, Articles 6.4.4.1 and 6.4.4.2; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1 and HSE.17)

Root Causes

1. Although the factory has obtained an OHSAS 18001 certificate, and the Health & Safety system is well developed as far as written policy and procedures are concerned, the implementation of the system is not effective in some area; this is arguably due to the ineffectiveness of the HSE committee and of the methodology and tools used for internal audits and routine HSE inspections, along with absence of an effective review process.
2. There is no active worker representation or participation on the EHS committee. Nor is there a system to encourage

- workers to actively participate in ongoing EHS efforts.
3. The risk analysis report does not cover all of the factory's risks and hazards and elected worker representatives do not participate in this process.
 4. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.
 5. Training and internal monitoring systems are not effective.
 6. The management lacks awareness of FLA's Code and Benchmarks and international standards on ergonomics.
 7. Management is not adequately informed of the potential benefits of ergonomic improvements, such as increasing productivity and attendance levels, while reducing risk of work accidents and musculoskeletal disorders.

COMPANY ACTION PLANS

1. Immediate Action:

Develop an ergo project and improve the conditions.

(Planned on 12/31/2015)

Sustainable Action:

1) Train all EHS committee members and relevant management representatives on Ergo Management Procedure.

2) Enhance internal inspection frequency to ensure successful implementation of the procedure.

3) Elected worker representatives have been placed on the EHS Committee so that they can participate in ongoing EHS efforts and facilitating their participation in Risk Assessment studies.

(Completed on 3/25/2015)

Action plan status: In Progress

Planned completion date: 03/25/15

Progress update: 06/01/15 : Some actions already completed

2. Immediate Action:

According to the recommendation of the FLA, Pegatron revised its training course (by adding ergonomics related content), and issued it to all the departments.

(Completed on 5/21/2015)

Sustainable Action:

1) The requirement of ergonomics training has been written in Ergonomics Risk Identification And Prevention Procedure.

2) Train all EHS committee members and relevant management representatives on revised procedure.

3) Enhance internal inspection frequency to ensure successful implementation of the procedure.

(Completed on 5/21/2015)

Action plan status: In Progress

Planned completion date: 05/21/15

Progress update: 06/01/15 : Some actions already completed