SAMSUNG ELECTRO-MECHANICS SUSTAINABILITY REPORT 2018

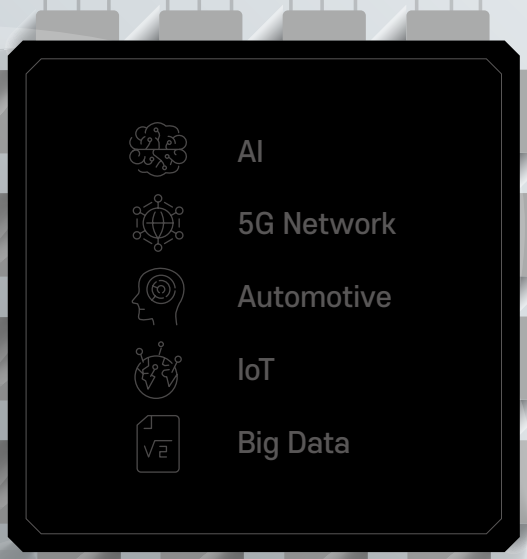
Module

MLCC

Passive Component

Inductor

WLAN



Chip Resistor

Package Substrate

HDI

Substrate

Camara Module

RF PCB

SAMSUNG ELECTRO-MECHANICS

SAMSUNG

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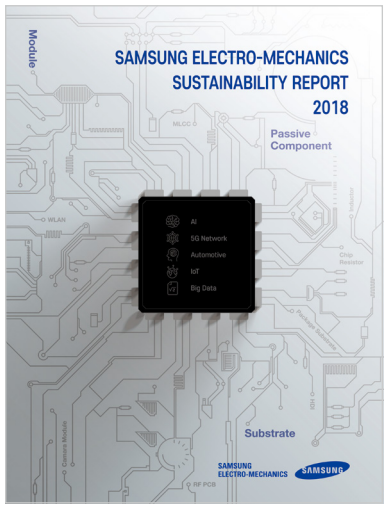


COVER STORY

Samsung Electro-Mechanics' sustainability management is to create a brighter future. We will provide the value of the digital world to our stakeholders through future technologies that utilize our core competencies so far.

Reporting Period and Reporting Cycle

The reporting period for this report is the fiscal year 2018 (January 1, 2018 to December 31, 2018). In the case of quantitative information, information for the three years from 2016 to 2018 is included for comparison with past performance. Since its first Sustainability Report in June 2006, Samsung Electro-Mechanics has published a report every two years. From 2018, Samsung Electro-Mechanics will actively communicate with stakeholders through its annual publication.

Scope of the Report

This report encompasses the economic, environmental and social performance of domestic and some overseas production/sales work sites. All data related to this report is compiled on a consolidated basis. When it comes to some indicators, however, the scope of the report has been restricted to domestic sites.

Reporting Standards

This report has been prepared in accordance with the GRI Standards: Core option.

Assurance of the Report

In an effort to more transparently convey Samsung Electro-Mechanics's sustainability management activities to all stakeholders, this report has received assurance from KMR (Korea Management Registrar). Based upon AA1000AS(2008) guidelines, the three principles, 'Inclusivity', 'Materiality' and 'Responsiveness' are applied throughout the report and at the same time, Type 2 assurance engagement has been used with moderate assurance level. For related information in this report, please refer to page 98-99.

Additional Information on the Report

The additional information related to this report can be acquired through the Annual Report, Audit Report, and website of Samsung Electro-Mechanics as well as the disclosure site of the Financial Supervisory Service.

www.samsungsem.com

www.semstory.com

www.facebook.com/samsungelectromechanics

www.youtube.com/user/ilovesemco

INTERACTIVE User Guide

This Sustainability Report was produced in the INTERACTIVE PDF with indication of linkage to related webpages for better understanding of the content. Click 'HOME' or 'CONTENTS', 'RE PAGE' to go to that page, also it is possible to 'PRINT' the page and to view the page in demand by clicking the icon at the top of the page.

HOME | CONTENTS | RE PAGE | PAGE PRINT

SAMSUNG ELECTRO-MECHANICS
SUSTAINABILITY REPORT 2018

CEO MESSAGE

"Greetings to our domestic and international stakeholders I extend my sincere gratitude for your wholehearted support for Samsung Electronics."

Samsung Electro-Mechanics has continued to respond proactively to regulations on climate change and the product environment. We have also managed Win-Win Cooperation programs with our business partners and engaged in a range of social contribution activities. Efforts like these have led to remarkable performance results and have earned Samsung Electro-Mechanics a place on the Dow Jones Sustainability World Index for 10 consecutive years, the Carbon Disclosure Project Hall of Fame for 9 consecutive years, and the FTSE4Good Global Index for 8 consecutive years.

In the electronic components market, we expect a tough business environment ahead. Low growth continues in the smartphone, TV and PC industries, and costs are rising due to factors such as the fluctuating KRW/USD exchange rate caused by the U.S.-China trade war. However, with the advent of the Fourth Industrial Revolution and game-changing technologies such as AI, autonomous cars and 5G, we also look forward to new business opportunities. This increasing complexity and performance is leading to greater component integration, advancements in areas such as miniaturization and changes in mounting technology. For companies like Samsung Electro-Mechanics, which have been producing such components, we expect to see demand increase in earnest.

By taking full advantage of such market opportunities, and by utilizing the core capabilities that we have built up over the years, Samsung Electro-Mechanics will be the first to respond to these market changes and create the basis for another leap forward.

First, we will leverage our core competencies to secure our leading position in the industry, and, by focusing on high-value products, strengthen our business.

In the components business, we will further differentiate the technologies of our high-end products and establish a high-efficiency manufacturing line. We will also increase production flexibility so that we can respond quickly to changes in market conditions. Moreover, by improving the materials technology used for our electronic components, and by integrating our new factory in Tianjin at an early stage, we will grow our electronics business and continue to generate strong profits.
As for the module business, we will reorganize our business structure to focus on high-value modules such as dual and triple multi-camera units. We will also differentiate our technology for key components, such as electro-mechanic lenses, actuators, etc. By doing so, we will strengthen our industry leadership in the growing optical zoom and electronic camera market as well.
And for circuit boards, we will continue to pursue yield and quality. We will strengthen our business by focusing on next-generation high-value areas such as the growing market for RFPCBs for flexible OLED displays and server/AI packages.

Second, we will strengthen our responsiveness to future markets by expanding our line of products in sectors that we expect to grow as part of the Fourth Industrial Revolution, such as 5G, AI and autonomous cars.

The business structure of Samsung Electro-Mechanics has prepared us to adapt to the technological changes brought about by the Fourth Industrial Revolution, such as the miniaturization and convergence of components. One of the core technologies of the Fourth Industrial Revolution is 5G. Here we will introduce new high-performance products, such as 5G antenna modules, that use technologies that only an electro-mechanics company can produce. These will include low-loss/low-permittivity circuit board materials, high-frequency designs and integrated circuit packages. With new products like these, we will lead the next-generation 5G market.

Furthermore, we will improve the performance of semiconductors by expanding our development of products containing the kind of technologies that differentiate us from our competitors. These include next-generation circuit packages for server/AI semiconductors, circuit packages with passive devices embedded and ultra-thin devices. This is how we will respond to the rising intelligence and speed of technologies like AI and autonomous cars.

Third, we will establish a basis for qualitative, continuous growth, through internal improvements and operational efficiency.

We will work to speed up innovation to maximize our profits, quality and productivity. We will also maximize flexibility at our manufacturing sites through measures such as improving our real-time response systems. Moreover, we will continue to innovate and employ new techniques, such as AI quality control systems, to create factories of the future that are a step ahead of our competitors. At the same time, we will develop innovative facilities that improve production efficiency and ensure that we compete as one of the world's best manufacturers. We will also continue to eliminate inefficiencies and prepare to respond flexibly to uncertainties in the business environment.

Under the management principle of "change, innovation and challenge," Samsung Electro-Mechanics has worked to change its fundamental business approach, which has put us on a real growth trajectory. The coming year will be a turning point in our path to a new future. We pledge to make 2019 our best year yet by taking a step forward and driving meaningful results.

To this end, all of us at Samsung Electro-Mechanics will do our utmost to achieve our goals by thinking methodically and acting boldly. We will build the best manufacturing sites, create value that goes beyond technology, and ultimately build a top-class business with high profits and sustained growth.

We ask once again for your steadfast interest and support.
Thank you.

President and CEO

Yun-Tae Lee

MANAGEMENT PHILOSOPHY

Samsung Electro-Mechanics aims to be a 'world leading company', devoting our human resources and technology to create superior products and services, thereby contributing to a better global society. To achieve this goal, we share and pursue the Samsung Values of "People, Excellence, Change, Integrity, and Co-prosperity", and the 7 Elements of a World-Leading Company, namely "Dream, Vision & Goals, Creativity & Challenges, Insight & Good Sense, Technology & Information, Trust & Credibility, Speed & Velocity, as well as Change & Innovation" and install these values and elements in all employees and throughout the organization. Furthermore, all Samsung Electro-Mechanics employees should follow the "Global Code of Conduct" as well as the Samsung Business Principles in order to comply with laws and ethical practices as well as to express our concrete commitment to social responsibility. The "Global Code of Conduct" will serve as the guiding standard for everyone in Samsung Electro-Mechanics, outlining standards of conduct in all business activities.

PHILOSOPHY

Samsung Electro-Mechanics aims to be a 'world leading company', devoting our human resources and technology to create superior products and services, thereby contributing to a better global society.

BUSINESS PRINCIPLES

1

We comply with laws and ethical standards

1-1 We respect the dignity and diversity of individuals.
1-2 We compete fairly in accordance to law and business ethics.
1-3 We maintain transparency of accounts with accurate recording of transactions.
1-4 We do not intervene in politics and maintain neutrality.
1-5 We protect information on individuals and business partners.

2

We maintain a clean organizational culture with high integrity

2-1 We make a strict distinction between public and private affairs in our duties.
2-2 We protect and respect intellectual properties of the Company and others.
2-3 We create a sound organizational atmosphere.
2-4 We maintain the dignity of Samsung Electro-Mechanics in our external activities.

3

We respect customers, shareholders and employees

3-1 We put priority on customer satisfaction in management activities.
3-2 We pursue management focused on shareholder value.
3-3 We endeavor to improve our employees' quality of life.

4

We care for the environment, health, and safety of all

4-1 We pursue environment friendly management.
4-2 We value the health and safety of human beings.

5

We are a socially responsible corporate citizen

5-1 We respect the social and cultural values of local communities and practice co-existence.
5-2 We build up relationships of co-existence and co-prosperity with business partners.
5-3 We respect the present social and cultural characteristics and have cooperative management (mutual prosperity/cooperation).

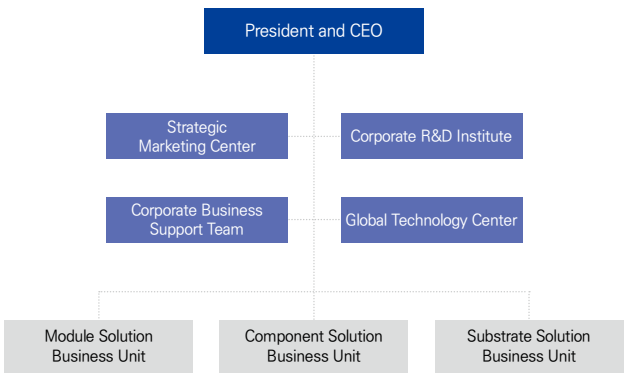
COMPANY PROFILE

Established in 1973, Samsung Electro-Mechanics has become a remarkable developer and manufacturer of key electronic components not only in Korea but also around the world.

Samsung Electro-Mechanics began as a producer of audio/video parts, the foundation of the company that gave rise to the technological autonomy of the parts industry in Korea. During the '80s, Samsung Electro-Mechanics diversified its business activities and included materials and computer parts within its business scope, while during the '90s, it placed its focus on the development of next-generation products, including chip components, telecommunications parts, and optic parts. Since the turn of the century, Samsung Electro-Mechanics has been leveraging its technological excellence in key areas, such as high-frequency wireless materials and power/precision mechanics to further develop its strategic technology and to generate a synergic effect in its businesses.
Through this, Samsung Electro-Mechanics continues to focus on developing its business in boards, chip parts, camera modules, and communication modules with the aim to become the world leadaer in each of those fields.

Samsung Electro-Mechanics will continue to expand its business portfolio through quality enhancement, technological advancement, and the development of new products. It also aims to foster next-generation business opportunities to jump forward as a leader in the electronic parts industry.

Organization Chart



Employees by Region

(coverage: consolidated basis, unit: persons)

37,472

11,724 Korea	25,676 Asia
42 Americas	30 Europe

Global Network

Production bases	Sales offices and subsidiaries	R&D centers
10 sites in 5 countries	16 sites in 8 countries	2 sites in 2 countries
10	16	2

Sales by Region

(coverage: consolidated basis, unit: KRW million)

8,002,008

3,019,065 Korea	1,632,826 Southeast Asia	207,930 Europe
2,827,747 China	287,333 Americas	27,107 Japan

PRODUCTS&APPLICATIONS

COMPONENT SOLUTION

MODULE SOLUTION

SUBSTRATE SOLUTION

ECO-FRIENDLY PRODUCT

Component Solution

MLCC (Multi-Layer Ceramic Capacitor)

If electricity is analogous to water as a component that enables the flow of a necessary amount of current in an electronic device, the MLCC plays the role of a dam that temporarily stores the water and supplies the current to required locations.

Tantalum

A component with the functions of removing noise and charging/discharging of electric charges in the form of a tantal metal-based capacitor, widely used in electronic devices.

Common Mode Filter

A component to remove only noise by distinguishing normal signals and noise in data transmission in high-speed communications utilized by smartphones, laptops and smart TVs, etc.

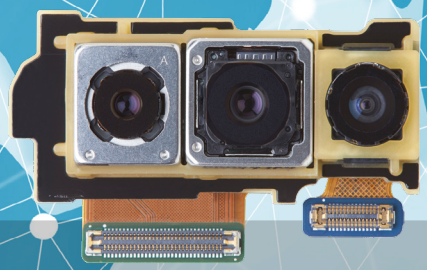
Power Inductor

A core component embedded in digital devices including smartphones, maintaining the chip/sensor voltage at a stable level. The product line-up covers all sorts of power inductors-stacking type, coil former type and thin film type, etc.

Chip Resistor

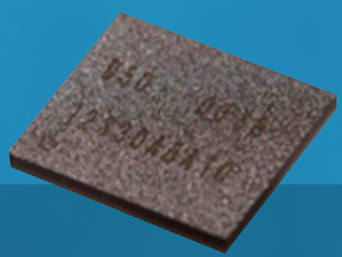
A chip resistor limits DC or AC. This feature can be used to lower the voltage in an electronic circuit or to ensure a consistent flow of current.

Module Solution



Camera Module

Components that provide still image and video recording functions in smartphones, tablet PCs and other electronic devices and maximize user convenience by offering various features including high resolution, micro-size auto focus, and image stabilization.



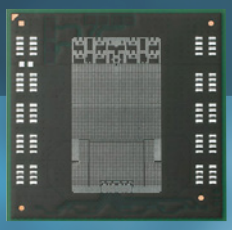
Wifi Module

NFC modules providing wireless Internet or wireless communication among devices including smartphones, tablets, PCs and home appliances. Providing high-density small-scale module solutions by applying small/thin-type components and small packaging techniques.

Substrate Solution

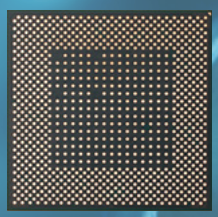
FCBGA(Flip Chip Ball Grid Array)

A component that acts as a PCB for PKG that plays a role in electrically/physically connecting a PC's motherboard with a semiconductor.
Its strengths include fast signaling and noise reduction.



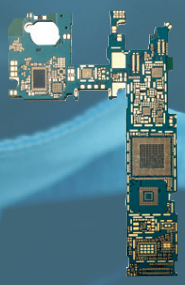
RFPCB (Rigid-Flex Printed Circuit Boards)

A board composed of a rigid board and a flexible one where a 3-dimensional circuit connection is possible due to the flection in the flex segment. Small-size and light-weight devices can be produced using 3-dimensional wiring in different forms.



FCCSP(Flip Chip Chip Scale Package)

A component used to send electrical signals and of which board is connected to a semiconductor chip by means of ball bumps instead of the wire bonding method.



HDI(High Density Interconnection)

A high-density circuit board that sends electrical signals among components of electronic devices (including smartphones, tablet PCs, laptops, digital cameras, etc.)

Eco-Friendly Product

Camera Modules

High-performance modules are used in currently available smartphone cameras equipped with functions including image stabilization, high resolution and low-light shooting. A greater priority has been placed on low-power solutions that minimize battery consumption amid the problem of battery replacement since embedded batteries are used for design aesthetics, waterproofing, and other purposes. Against this backdrop, Samsung Electro-Mechanics developed camera module products, which have improved power consumption by 15% and reduced size by 30% compared to previous ones while maintaining various functions required by utilizing software and hardware competencies. These modules have been supplied to various smartphone manufacturers. Samsung Electro-Mechanics plans to continuously expand its camera module business driven by differentiated competitiveness in terms of high efficiency compared to its competitors.

Communication Modules

There is a heightened interest in 5G (fifth generation) components that enable high-speed, real-time data transfer with enhanced capacity focusing on establishing standards, securing technologies, and commercialization amid IT upscaling. Competition for the commercialization of 5G communications will intensify with 5G demonstrations during the PyeongChang 2018 Olympic Winter Games. Samsung Electro-Mechanics has added near/far field communication-based line-ups featuring high-efficiency, high-performance, and ultra-small components and modules, while securing core technologies for 5G communication modules. We are also working on collaborating with platform makers to enter new markets and expand our market share in existing ones.

Business Vision

Sales KRW 8,000.2 billion

Operating profit KRW 1,014.9 billion

Technological convergence and sophistication has brought IT not only to communications, but to a range of industrial sectors, including finance and automobiles. This trend is likely to intensify as new technologies, such as artificial intelligence (AI) and 5G, come out of the Fourth Industrial Revolution. Therefore, Samsung Electro-Mechanics has focused its business activities on three main technologies – materials, multi-layer thin film molding and high-frequency circuit design – to become the world's best component manufacturer and a leader in the electronic component industry of the future.

Our core businesses cover three main areas: Component Solutions, Module Solutions and Substrate Solutions. We have four domestic business sites located in Suwon, Busan, Sejong, and Ulsan. The Suwon site is where we run our R&D, marketing and support operations. The Busan and Sejong sites serve as principal domestic manufacturing bases and mainly produce high value-added products, including next-generation integrated circuit packages and passive components. The Ulsan site serves as the basis for the procurement of key raw materials. Overseas, there are six production sites in four countries: China (Tianjin, Gaoxin, Kunshan), Thailand, the Philippines and Vietnam. There are also five primary sales offices in the Americas, Europe, Southeast Asia, China and Japan. Together, these sites make up our global network.

In 2018, Samsung Electro-Mechanics recorded annual sales of KRW 8,000.2 billion, with an operating profit of KRW 1,014.9 billion. Based on the three key technologies mentioned above, we will look to advance our business and prepare for the future to make Samsung Electro-Mechanics a global technological leader in the component industry.

Component Solution
Module Solution
Substrate Solution

Technological convergence and sophistication has brought IT not only to communications, but to a range of industrial sectors, including finance and automobiles. This trend is likely to intensify as new technologies, such as Artificial Intelligence(AI) and 5G, come out of the Fourth Industrial Revolution.

Component Solution Business

The component business refers to passive electronic components, with the primary products being multi-layer ceramic capacitors (MLCC), inductors and chip resistors. Passive electronic components are essential parts that are needed in a variety of areas, from smart IT and household appliances to electronic devices in cars and medical devices. The component business also includes material and device production, built on the fundamentals of raw materials, production technology and facilities technology. That means the component business requires know-how in core production technologies, such as distribution, molding, printing, laminating and plastics, as well as source material technologies, such as dielectrics, magnets and conductive pastes. It is a business with high barriers to entry.

Growth in high-performance devices such as smartphones, tablet PCs and smart TVs is increasing demand for ultra-small components. The same is true in the auto industry, where demand is rising on the use of electronic devices to make driving more convenient and to help improve automotive safety and fuel efficiency.

Samsung Electro-Mechanics has gained a competitive edge in the market by increasing its development speed and its manufacturing competitiveness. This was made possible by improvements to our competitiveness in subminiature high-capacity material technology and core production technologies such as molding, printing, laminating and plastics. Furthermore, by improving productivity and increasing inter-product synergy, we aim to strengthen our market position. We are also expanding our line-up of inductor products, such as power inductors, to actively meet the demands of our customers.

Another way in which we are meeting customer needs is with products such as the ultra-small MLCC with 0402 (0.4mm × 0.2mm) dimensions. We continue to develop and supply ultra-high capacity products based on our material and production technologies. To lead the market moving forward, we will continue to diversify our line-up through the development of new products; we will raise our global market share by responding to customers in both advanced and emerging markets in a balanced way; and we will secure our profitability. Moreover, by increasing MLCC development, we will expand our share in growth markets such as automobiles and industrial components.

Module Solution Business

The module business consists of products such as camera modules and communication modules. The backbone of the business is optical technology, circuit design technology and packaging production technology. As an applied products business, it has to ceaselessly create SET-leading solutions through new passive components and material convergence, and so it is an intensively technological industry where the importance of digital controls and software technologies is becoming ever clearer.

The application for camera modules is in personal mobile devices such as smartphones, but this is expanding to include automobiles, smart home appliances, security solutions and the Internet of Things (IoT). Of particular note is the adoption of multi-camera such as dual and triple camera and the enhancement in the functions of camera modules. This, along with the advancement of other features such as lenses and actuators, has led the market to grow.

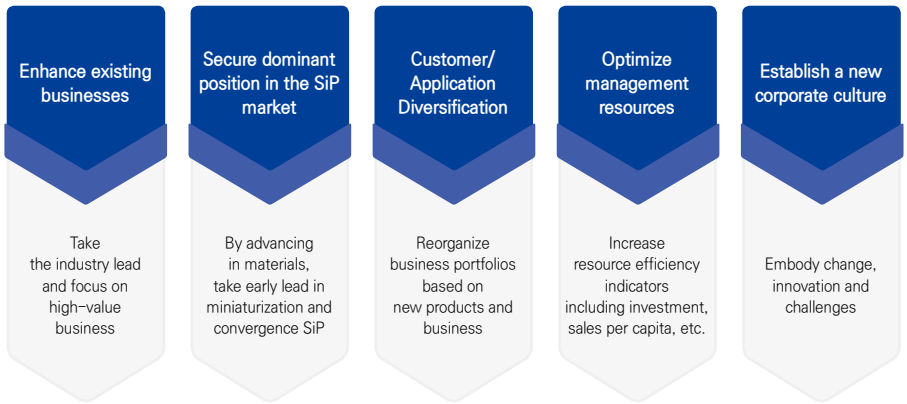
In the area of communication modules, we expect the 5G era to see growth in ultra-high frequency response, low-loss modules. Furthermore, with the emergence of IoT, we expect the market for Machine-to-Machine (M2M) communication modules to flourish, and we foresee an influx of products and services that utilize communication technologies among devices of various identities.

At Samsung Electro-Mechanics, we combine our optical lens designs, circuit designs, packaging, and software technology with our material capacity to provide a wide range of modules and solutions to meet our customers' needs, including cameras and wireless communication modules. As for camera modules, we are able to offer optimal solutions thanks to our lens designs and die and mold technology, as well as our ability to manufacture high-precision, high-performance actuators used for autofocus and image stabilization. We also offer the relevant software technology. Based on these advantages, the company is focusing on expanding the camera module business into other areas, such as automobiles.

We are also embedding our core technologies, such as circuit design, into our communication module business, and pursuing advances in low-loss, high-heat protection, subminiature and composite modules using our unique package technology. In addition, we are promoting technological convergence in various areas of application by utilizing our own technological competencies, such as passive electronic components, magnetic materials and circuit boards.

With a focus on growth markets, we will enhance the line-up of our high-performance products and develop new ones with differentiated features, all as we continue to provide customized marketing and technical support. We will also work tirelessly to improve our competitiveness through cost reductions, and to strengthen our market position.

Five Major Strategies



Substrate Solution Business

The substrate business refers to the business of printed circuit boards. They are components that electrically connect semiconductors and electronic components and that mechanically support circuit connections. Major products include semiconductor package circuit boards and high-density multi-layer boards. They are needed in almost all industries, from IT and home appliances to automobiles, aircraft and ships. The upstream business is the electronics industry, including smartphones and computers. The downstream business is the materials industry, such as ink and boards, and the facility industry, such as plating, printing and exposure. Therefore, there is a close relationship between the downstream and upstream businesses, and the resulting ripple effects are significant. Moreover, the equipment industry requires massive investment and multiple technologies, such as chemical, electrical and mechanical processing, thus raising the barriers to entry.

As more and more high-end smartphones require higher density components, we are seeing leading companies change their PCB designs to adapt to next-generation technologies, and therefore we expect an expansion of high-value products.

Furthermore, emerging markets such as India, South America and Africa, have growth rates higher than the global average and are experiencing rapid industrialization. Through this increasing demand in emerging markets, we expect the upstream business to flourish, including entry-level smartphones, TV and laptops, and we expect this to lead to the growth of the PCB industry.

As IT devices become faster and lighter, the demand for thinner and smaller higher-density multi-layer boards and semiconductor package boards is continuing to rise.

Moreover, as demand rises for wearable/ foldable devices, we also expect greater demand for Rigid-Flexible PCBs (RFPCB).

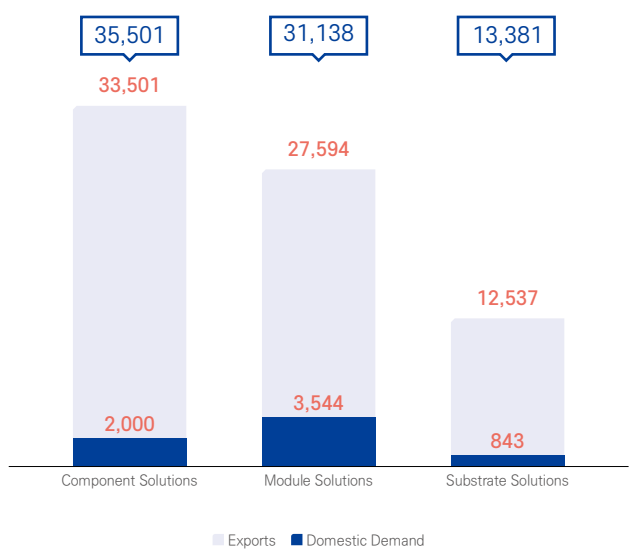
With a foundation of accumulated material control technologies, production technologies, product technologies, and a stable supply capacity, Samsung Electro-Mechanics has been able to maintain close partnerships with its customers. We are also using our outstanding research and development capabilities to continue developing new technologies and products, such as micro-circuit patterns and embedding.

With smartphone growth slowing down in the developed markets, competition between the major businesses is becoming fiercer. To strengthen our lead in the market, we have been responding to demand for faster and smaller IT devices by working continuously to make thinner and lighter semiconductor package boards and high-density multi-layer boards.

Building on our foundation of material and facility technologies, we will continue striving to meet customer demands with our unique technological capabilities, such as our bend-prevention technology for thinner PCBs and fine line implementation technologies.

Sales by Business Division

(Consolidated basis, unit: KRW 100 million)



Risk Management

Internal Accounting Management

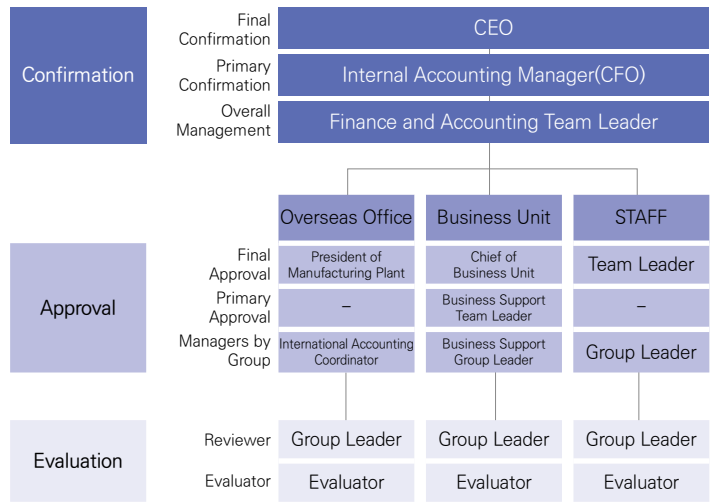
To increase transparency in our accounting data and provide trustworthy information to interested parties, we operate an internal audit management system, following rules laid out in the internal audit management regulations and the internal audit management system guidelines.

Through this system, we hold periodic evaluations (monthly, quarterly and annually), appraising the entire company's activities and the individual processes and activities of our global network.

We evaluate the activities and individual processes of our headquarters and overseas branches (including business departments, branches, staff, etc.), looking at 12 areas of business (human resources, sales, operations, etc.).

To ensure accuracy and procedural compliance in the evaluations, a third party assessment is carried out on the quarterly evaluations made by the head office, and in the case of overseas branches, there is an inspection of operating conditions.

Organizational Structure and Roles



For the purpose of transparency of accounting data and trustworthiness of the information disclosed to our stakeholders, Samsung Electro-Mechanics operates under an internal audit management system.

Compliance Risk

Samsung Electro-Mechanics manages compliance risk to prevent employees from violating rules and regulations in their duties. To prevent illegal practices, we check the status of relevant regulations on a regular basis, including their establishment and revision, assess risks in each sector, devise response measures and then provide risk guidelines to our employees.

Business Continuity Management

Outline and Measures

Samsung Electro-Mechanics contributes to sustainable growth by ensuring a stable supply of products and services to customers based on continuity of production. We have established business continuity management plans in case of business suspension due to unexpected incidents.

In 2012, Samsung Electro-Mechanics acquired the BS 25999 certification related to business continuity management for adopting a system that enables us to restore our core businesses in the shortest time possible.

The ISO 22301 certification has been extended to our domestic business sites from 2013. Domestic sites are verified for their suitability through regular annual assessments, and we are making efforts to further develop the company's business continuity management systems.

Major Activities

Samsung Electro-Mechanics has established measures for business continuity management and formed operational units to fulfill relevant roles and responsibilities. We analyze key factors that may affect production activities in case of unforeseen incidents by identifying conditions for organizational activities through research on internal and external stakeholder issues, environmental analysis and business impact analysis.

ISO 22301

Certification on business continuity management

Compliance Risk Mitigation

Preemptive responses in preparation for strengthened regulations

- Provide training programs and conduct inspections in accordance with the enactment of the Improper Solicitation and Graft Act (the "Graft Act" of Korea)
- Review transactions with business partners amid the revision of the Fair Transactions in Subcontracting Act
- Inspect internal transactions according to strengthened regulations on illegal support activities between affiliates

Establishment of a continual monitoring system

- Reinforce the preliminary review process for internal transactions
- Establish a continual risk monitoring system to prevent violations of the Fair Transactions in Subcontracting Act

We conduct risk analysis on possible incidents that may disrupt each core task and establish diverse strategies accordingly. We establish business continuity procedures to return to normal production activities after incidents based on relevant priorities. We conduct internal and external reviews each year to check whether such activities are carried out accordingly and are making efforts to help employees understand the business continuity management system and enhance their execution capabilities by providing education and training programs on a regular basis.

Financial Impacts of Climate Change

Samsung Electron-Mechanics was selected as a business subject to the allocation of emission permits according to the Emissions Trading Scheme (ETS) in 2015 and has been participating in the scheme since then. We report to the Audit Committee after reporting to the CEO once a year on matters related to GHG emissions reductions and third-party verification results via the internal control evaluation system.

We put in place a decision-making process to respond to the ETS by operating the Climate Strategy Committee and share information and opinions on emissions trading with the financial, legal and other related departments.

We develop an emission database, operate a monitoring system on a continual basis, and regularly analyze emission trends as well. Samsung Electro-Mechanics projects emissions volumes and their intensity by identifying production lines to be expanded, production increase estimates, and GHG emission trends over the past 3 years as a company-wide energy management policy with regard to GHG reduction activities amid strengthened domestic regulations on the environment. The company also establishes and implements GHG reduction plans to achieve its annual targets.

Information Security

We prescribe information security regulations and implementation guidelines to protect the critical information and assets of Samsung Electro-Mechanics and operate physical and technical protection measures to abide by them. This, along with periodic inspections and improvement activities, helps us to minimize security risks.

Organizational System

Samsung Electro-Mechanics formed exclusive teams for the purpose of information protection, and appointed executives to oversee security to protect corporate assets and information. The teams prescribe corporate security policies and reflect legal, management environment and technological changes related to information security at home and abroad into security policies, and implement related policies, and manage risks in each sector. The company also conducts inspections on individual sites, provides consulting services to enhance security at overseas sites, and continues to carry out activities to discover and improve on weaknesses.

Information Asset Protection

Samsung Electro-Mechanics places CCTVs and security staff on the outskirts of plants and major facilities and access to such places is limited to authorized personnel to protect the company's information assets, employees and facilities. The company also prepares for all types of physical threats including natural disasters with measures such as facility protection and crime prevention.

Samsung Electro-Mechanics allocates and manages multiple security systems to ensure the technical protection of systems and networks as well as the physical security infrastructure to protect core technologies and information assets. We guard against the hacking of industrial secrets and leakage incidents by putting in place enterprise-wide information protection management systems.

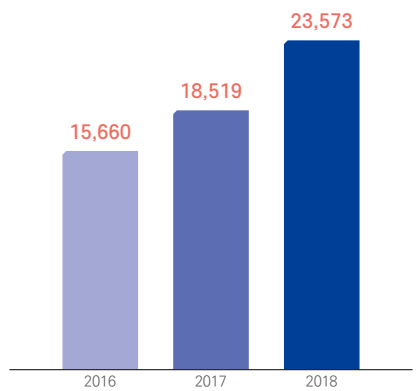
Training

We have been providing over one-hour of training a year targeting employees and business partners, aiming to prevent security incidents and raise the sense of security. We also sign Non-Disclosure Agreements (NDAs) with external parties depending on the nature of business. In addition, we are marking efforts to raise the sense of security enjoyed by our employees through internal broadcasting and diverse promotional materials.

For overseas subsidiaries, training focuses on the code of conduct for information protection for overseas employees to the same level of those provided to workers in Korea. Employees sign a 'Pledge of Information Protection inclusive of Business Secrets' and a 'Consent Form for the Collection and Use of Personal Information' each year. In this way, measures to protect business secrets and personal information are implemented on a continual basis. Training for security staff is provided on a regular basis to prevent human rights issues in the course of security screening.

Training on Information Protection

(coverage: domestic basis, unit: persons)



Compliance Management

Compliance Policy

Samsung Electro-Mechanics has established a code of conduct in compliance management and conducts a compliance program in order to observe the management philosophy, core values, and management principles of Samsung. We discover compliance risks through site monitoring to check regulatory compliance in general.

Compliance Action Team Operation

Samsung Electro-Mechanics has formed and operates a system for compliance action teams to ensure systematic and effective compliance management. The 'Compliance Committee', as the highest unit in the compliance organizational structure, provides directions and decides on major compliance items after receiving reports on key management activities.

A designated Compliance Team develops and operates compliance programs to support the compliance activities of each functional team. Samsung Electro-Mechanics appointed CP supervisors in charge of overseeing compliance activities in each functional team at home and abroad encompassing staff, business units, overseas branches, and CP leaders in charge of practical tasks so that all teams can actively respond to issues when they occur.

Samsung Electro-Mechanics reports the outcomes of compliance activities of the previous year and compliance plan for the current year at meetings of the board of directors with attendance by both internal and outside directors in accordance with Article 542-13 of the Commercial Act, stipulating that compliance officers shall verify whether the compliance guidelines are complied with and shall report the outcomes thereof to the board of directors.

Major Compliance Activities

Compliance Checks

With a continual supervision and monitoring system, Samsung Electro-Mechanics is committed to discovering potential risks in advance and looking for improvements to the process. From 2016 to 2018, 23 compliance checks were conducted across diverse categories including fair trade, business secrets, internal subcontracting, and human rights and labor. Our compliance checks are also conducted at overseas subsidiaries and sales offices, as well as at domestic sites.

Issues found during compliance checks are discussed with related departments to come up with response measures, and the results of any improvements are reported to executives. The CEOs and related departments frequently discuss actions taken for improvement and any delays through a follow-up system.

Voluntary Compliance Activities

All employees of Samsung Electro-Mechanics take part in the Compliance Action Pledge to reaffirm their commitment to compliance measures.

Compliance Checks

(coverage: consolidated basis, unit: times)

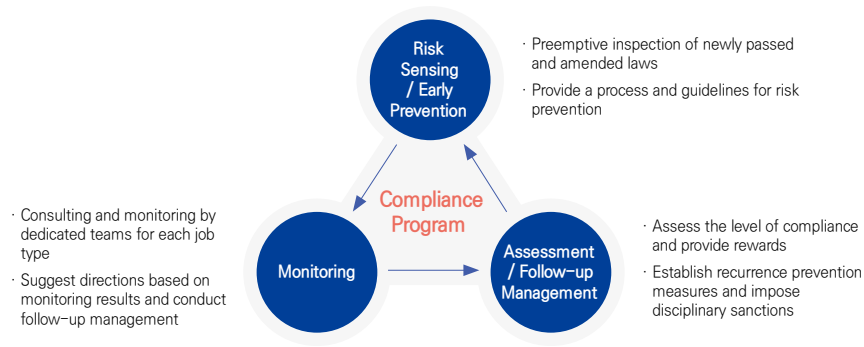
Employees participate in compliance training programs, compliance action seminars and conduct self-inspections to enhance their compliance capabilities. The company has developed a quantitative measurement system of such activities so that the results can be reflected in the performance evaluation of the executives concerned.

Samsung Electro-Mechanics promotes the importance of compliance management by communicating major compliance issues including corporate compliance activities with stakeholders, through diverse communication channels such as the publication of the Compliance Letter, organization of the Compliance Action Forum and internal broadcasting. Moreover, a reexamination of business relationships that violate compliance as well as of business partners and contractual counterparties is conducted. As such, we recommend all companies transacting with us take part in our efforts to promote compliance management.

Compliance Training

Samsung Electro-Mechanics conducts compliance training for all employees at least once per year. The training touches upon compliance issues related to fair trade, anti-corruption and anti-infringement of business secrets, which are to be complied with as per major risks related to Samsung Electro-Mechanics.

Job competency training for each department including sales, procurement and HR is underway with specialized training content used for in-depth training.



CPMS Operation

Samsung Electro-Mechanics set up a Compliance Program Management System to regularly post new compliance objectives and goals, related operating performance, regulations and guidance, a reference book and guidelines, as well as distribute such information on compliance issues to employees. 'Compliance' is positioned on the upper part of Knox Portal, the company's intranet system, to maximize accessibility. Furthermore, the portal is equipped with functions to write in inquiries, analyze prior discussions, and document autonomous compliance activities to support voluntary compliance activities by employees.

An online and offline whistleblowing system has been put in place to prevent non-compliance on a 24/7 basis. The guidelines prescribe provisions whereby the identification of whistleblowers is protected and they are not subject to any disadvantages in terms of promotions resulting from whistleblowing. In principle, we not only guarantee the anonymity of whistleblowers but also prohibit any disadvantages in future promotions due to whistleblowing in order to facilitate the whistleblowing system. The system is available both online and offline, preventing non-compliance at all times.

Identification of Amended Regulations and Provision of Guidelines

Samsung Electro-Mechanics has a list of laws and regulations related to the company and regularly updates the status of their revision or amendment. When revised or amended regulations are found, they are immediately forwarded to the related departments or employees.

We are constantly analyzing the status of revisions and amendments of related regulations at home and abroad by checking on newsletters and e-mail notices from major law firms. Based on this, we develop guidelines on related laws for employees to comply with and which include specific work processes and a code of conduct so that employees do not violate laws. The updated guidelines are regularly posted on the Compliance Program Management System (CPMS) so employees can easily access them via CPMS whenever needed.

Disciplinary Sanctions

As of 2018, Samsung Electro-Mechanics has never received penalties or other disciplinary sanctions for legal violations of fair trade laws. There are currently no alleged violations or pending lawsuits against the company as well. Samsung Electro-Mechanics will continue to prioritize compliance management to grow and develop into a leading company that is trusted and respected by society by being true to its management principles in the areas of legal and ethical compliance.

Compliance Management Items

Fair Trade
- Prohibiting unfair joint actions
- Prohibiting unfair internal trading
- Prohibiting unfair subcontracting

HR
- Equality in employment
- Compliance with work standards

Ethics
- Preventing corruption (prohibiting bribery)

Intellectual Property
- Prohibiting the infringement of business secrets
- Prohibiting the illegal use of software

Environment & Safety
- Complying with environmental and safety regulations

Others
- Complying with disclosure/ the board of directors' regulations
- Prohibiting internal trading
- Complying with customs regulations

Sustainability Management

Vision

Samsung Electro-Mechanics promotes sustainable management to create value for stakeholders. All departments of Samsung Electro-Mechanics are systematically managed and operated to promote economic, social, and environmental sustainability and the company makes efforts to cater to stakeholder demands, centering on a task force devoted to ensuring sustainability. Samsung Electro-Mechanics strives to incorporate comprehensive global management trends that can serve as a pillar of the company's decision-making process by linking the environment, social, and governance (ESG) factors with existing management activities and strategies. We will work hard to be a company that embraces a higher level of corporate social responsibilities.

Sustainability Management Organizational Structure

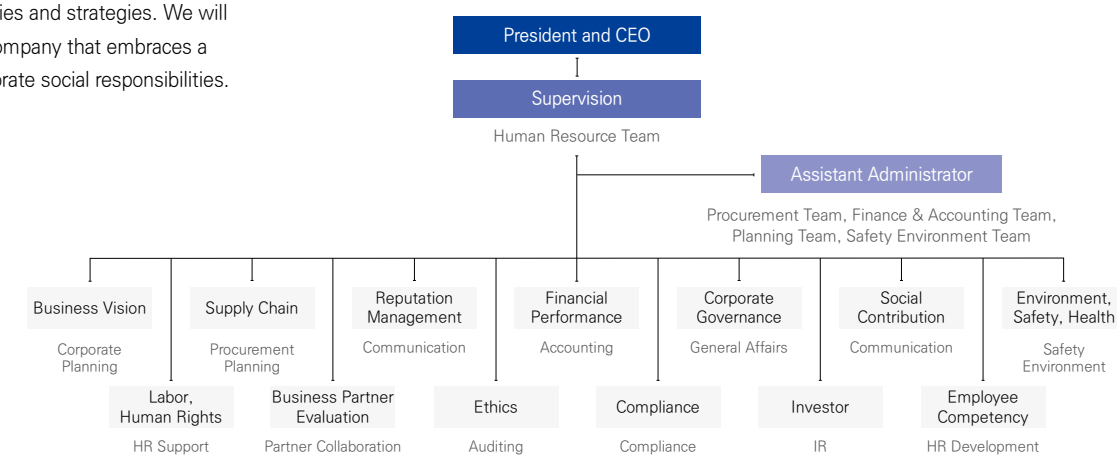
Samsung Electro-Mechanics runs a task force on sustainability to manage various risks related to sustainability management effectively and efficiently. We provide training programs each year on the theme of sustainability management to enhance the competency of the task force and remain sensitive to global trends.

The task force on sustainability responds to the sustainability management assessment made by global investment evaluation agencies and customers, publishes sustainability reports, and carries out other activities related to sustainability management.

27 Issues Selected

Responding to future issues

Organization Chart



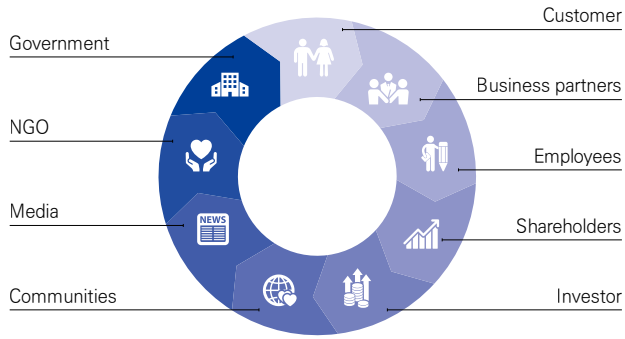
Stakeholder Communication

Samsung Electro-Mechanics actively collects diverse opinions from different stakeholders by using a separate point of contact department for each type of stakeholder and is making efforts to satisfy stakeholders' right to know by continuing to increase both the quality and quantity of information made available via its homepage and sustainability reports.

Materiality Analysis

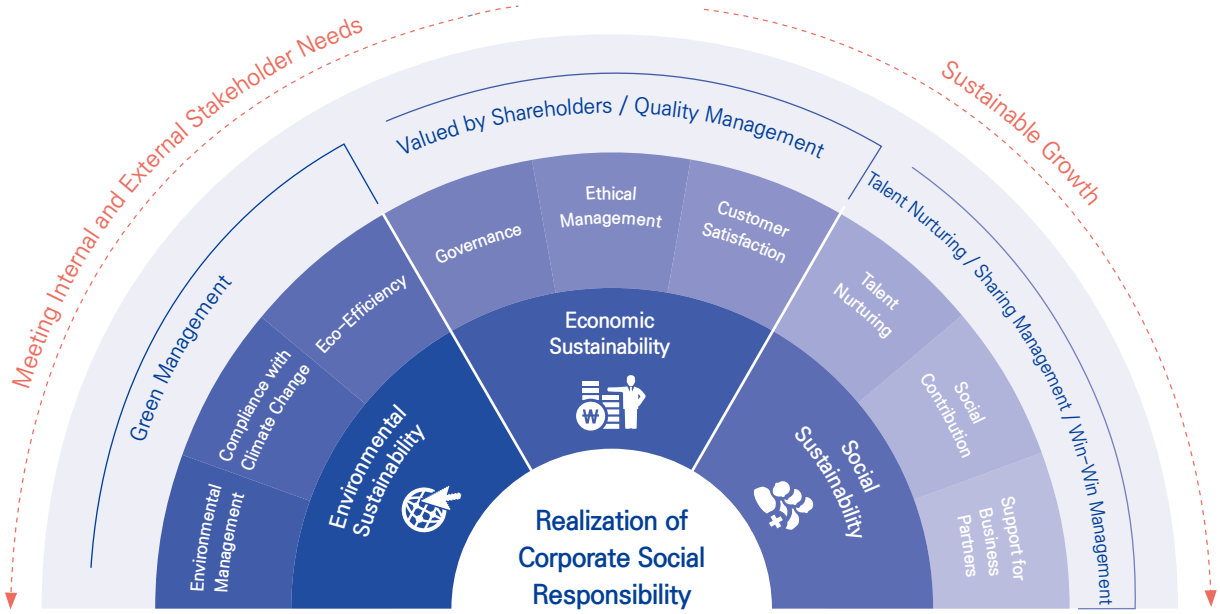
Samsung Electro-Mechanics has selected 27 issues encompassing issues related to the economy, environment, and society in order to identify current business opportunities and risks and respond to future issues. Externally, we have studied the Global Reporting Initiative (GRI) standards, topics in technology and communications suggested by the Sustainability Accounting Standards Board (SASB), and investor expectations. Internally, we have referred to relevant agenda items at BOD meetings, in internal broadcasting, and via other channels.

Stakeholder Communication



We conducted surveys of materiality for key stakeholders including investors, customers, business partners, local communities, shareholders, the government, and employees to determine priorities among the selected 27 topics. The results of the surveys were reflected in the section on 'stakeholders' level of interest' in the materiality matrix.

This report details the activities and outcomes of Samsung Electro-Mechanics as they relate to 27 issues in 2018. We strive to create the results via sustainability management based on continued discussions with related departments by considering the importance of the topics from a business perspective as well as from the vantage point of stakeholders' interests. We also plan to establish a sustainability management system to reflect such key issues in the business decision-making process.



Top 3 Topics

Ethical Management

Samsung Electro-Mechanics has achieved consistent and sound business performance results and grown into a global leader in the industry of electronic components. Accordingly, various stakeholders including customers, shareholders, and employees have high expectations and demand us to comply with diverse global standards. Today, ethics have become important to determine the survival and growth of a company and are considered an essential condition for sustainable development. Hence, we have adopted ethical management as a basis for value judgment in all our business activities.

Samsung Electro-Mechanics has established 5 management principles, 15 detailed rules, and 42 codes of conduct. The 5 principles include 'We comply with laws and ethical standards', 'We maintain a clean organizational culture', 'We respect customers, shareholders and employees', 'We care for the environment, health, and safety', 'We are a socially responsible corporate citizen'. Based on the 5 principles, we are engaged in various activities such as ethical training for employees and business partners, operation of a whistleblowing system for those witness to unethical behaviors at work, and corruption prevention training. We adopted items related to ethical behaviors to evaluate the performance of executives, providing a basis for expanding a corporate culture that is transparent and trusted by stakeholders. We are making concerted efforts to prevent violations of ethical management principles and plan to put in place a monitoring system by 2020.

Product Stewardship

With increasing environmental regulations both at home and abroad such as EU RoHS and REACH SVHC, our business partners are implementing tougher restrictions on the management of hazardous materials contained in products. More and more companies are faced with difficult situations including market pullback, a tarnished image, sales declines, penalties from the government, and criminal punishment due to the failure to manage hazardous materials within their products. Samsung Electro-Mechanics has yet to suffer from such problems. Considering the far-reaching impact of the issue, however, many stakeholders demand that we take this issue seriously. Hence, we meet and exceed regulatory standards at the upper level of statutory standards and market demands for hazardous materials within our products.

Samsung Electro-Mechanics operates a hazardous material management system in order to respond to these risks efficiently. We have established a database of information on chemical materials within all raw materials at Samsung Electro-Mechanics and have regular meetings with persons in charge of product environmental impact in related departments to monitor hazardous material regulations at home and abroad. Also, we provide regular training to persons responsible for product environmental impact at least twice each year and investigate policies and regulations on the management of hazardous materials for major customers at least once a year, which are reflected in the policies adopted by Samsung Electro-Mechanics.

As regulations on 4 types of phthalate (BBP, DBP, DEHP, DIBP) in the EU RoHS will take effect from July 2019, Submission of the detailed analysis report was made mandatory from May 2018, and voluntarily reduce the use of 4 types of phthalate (DINP, DIDP, DnOP, DnHP) by 2020 in order to satisfy other regulations.

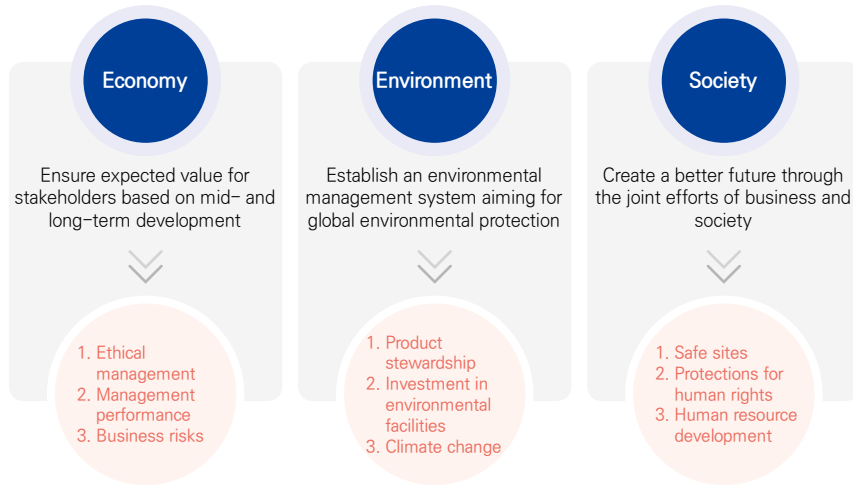
Safe Sites

Considering that accidents in manufacturing processes caused by human errors are harshly criticized by the public and there is an increasing interest in safety issues globally, industrial disasters may have a negative effect on business reputation and stock market value of a company. Furthermore, business partners are asking us to provide them with information on the number and rate of on-site disasters and global evaluation agencies also monitor such data. Samsung Electro-Mechanics puts heavy emphasis on the prevention and management of industrial disasters as they affect business expansion and the continuity of existing business relationships.

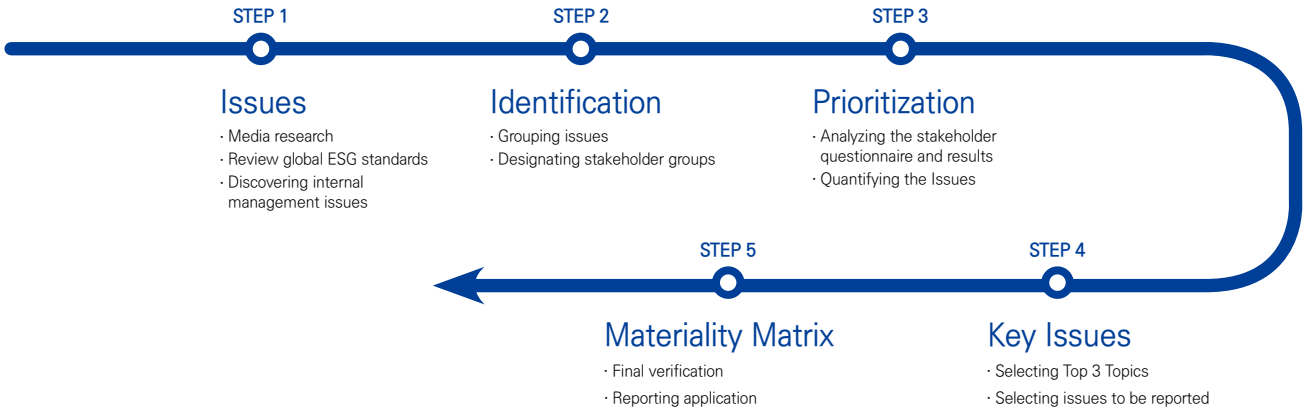
Samsung Electro-Mechanics conducts risk assessments through the Occupational Health and Safety Management System (OHSAS 18001) to ensure no accidents occur at manufacturing sites. The Industrial Safety and Health Committee is convened every quarter to handle safety-related agenda items by establishing plans to prevent industrial disasters and incorporating measures to prevent their recurrence. We are engaged in various activities such as the identification of potential risks, evaluation of working environments, and assessment of safety culture to create safe work sites.

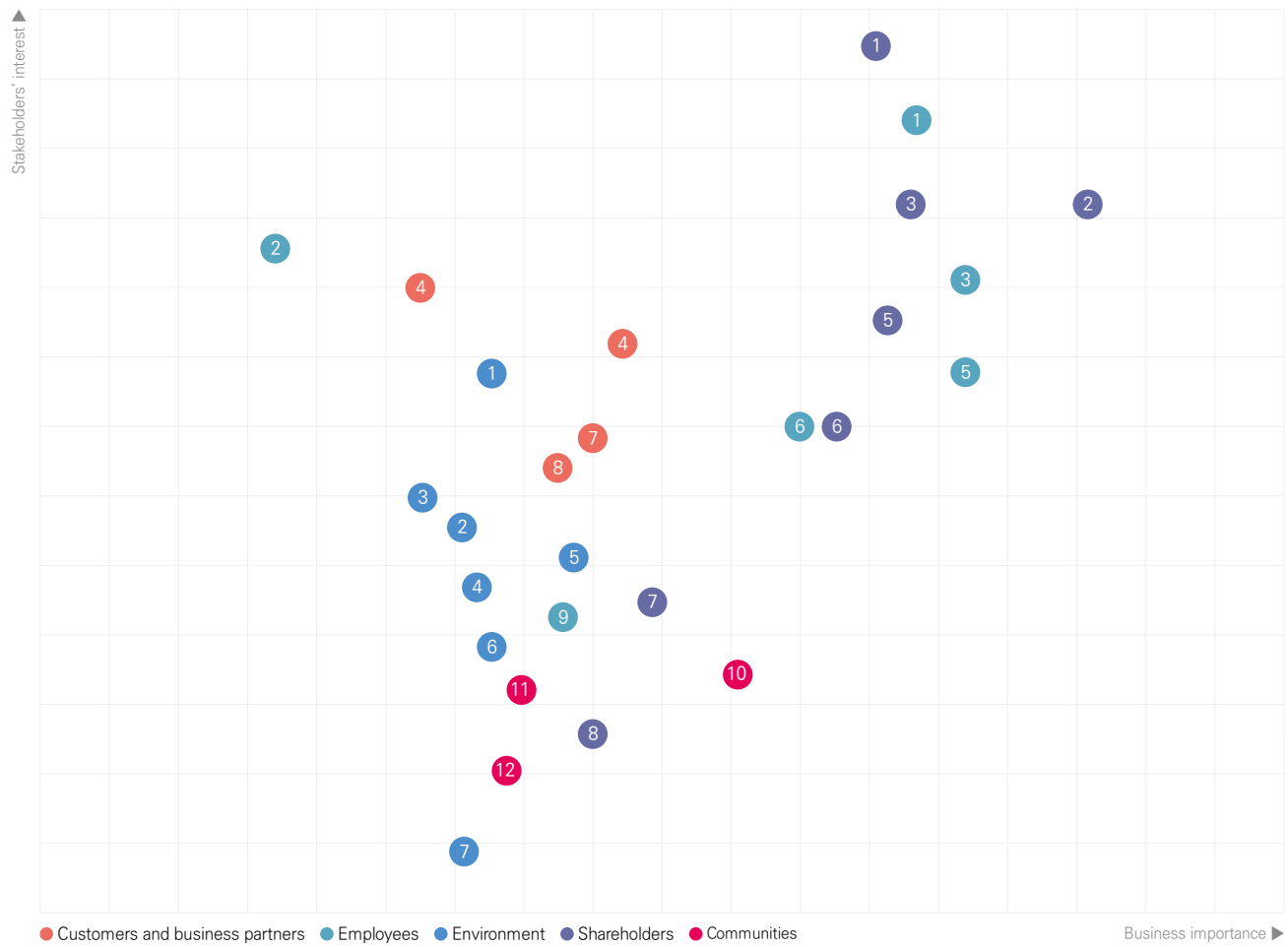
Issues related to industrial disasters are reflected in the performance evaluation of executives to prevent industrial accidents at sites. Samsung Electro-Mechanics plans to guarantee the safety of all employees and thereby achieve solid growth by 2020.

Top Topics by Sector



Discovery Process for Matrial Topics





Economy

1 Ethical management
2 Management performance
3 Business risks
4 Customer satisfaction management
5 Industrial leadership
6 Governance
7 Shareholders' rights
8 Tax payment strategies

Environment

1 Product stewardship
2 Reducing environmental impact
3 Climate change
4 Sustainable resource use
5 Investment in environmental facilities
6 Water resources
7 Biodiversity

Society

1 Establish safe sites
2 Protections for human rights
3 Human resource development
4 Supply CSR Risks
5 Improvement of labor-management relations
6 Welfare benefits of employees
7 Win-win partnership
8 Communication in the supply chain
9 Securing diversity in employees
10 Social contribution
11 Safety and health in communities
12 Facilitation of the local economy

MUTUAL GROWTH

Customers and Business Partners

Samsung Electro-Mechanics strives to become a leading global company enhancing the win-win growth of business partners and achieving sustainable growth.
Value creation through customer satisfaction with the creation of a future-oriented corporate ecosystem and win-win growth based on trust are the major cornerstones that underlie Samsung Electro-Mechanics.
Samsung Electro-Mechanics reinforces its strategic partnership with business partners through the establishment of a mutually horizontal cooperation network based on mutual trust to take the lead in spreading the culture of win-win growth, while strengthening internal competencies by developing new products and new quality management techniques in order to lead the global market with quality competitiveness.

CUSTOMER AND QUALITY

We increase our brand value by inculcating a quality management culture at sites and intensifying internal quality competitiveness

Creation of Customer Value with the Highest Quality

Adhering to the quality management policy of Samsung Electro-Mechanics to create customer value by ensuring the highest quality (amended in 2015), we have established 3 codes of conduct including customer-centered thinking (examine problems from the perspective of customers), sticking to the basics (thoroughly comply with Rules and Processes), and pursuit of innovation (improve the quality of warehousing materials through the participation of all members) with all employees engaged in 'quality first management' activities.

> "I believe that the company's camera module technology is superior to other companies'. Xiomai's R&D Division trusts Samsung Electro-Mechanics. Sales agents of the company have provided prompt responses even to abrupt requests for urgent delivery or on other issues. I think this responsiveness is part of the company's outstanding competitiveness and strength as well"
>
> **LIUDI**
> Purchasing Director, Xiaomi

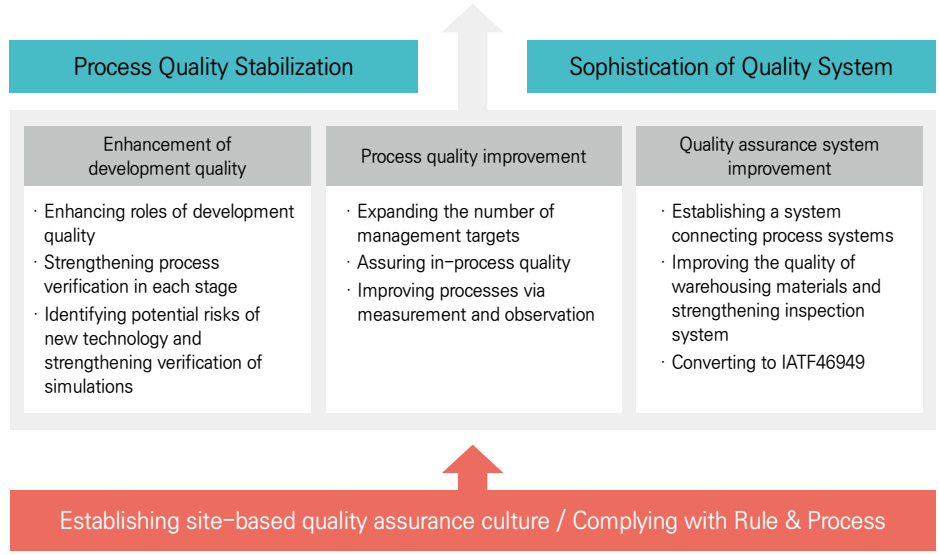
Early discovery of potential problems that are inherent in existing products or that might occur in the production of new products is conducted through on-site analysis, so that we can ensure proactive and preemptive responses for quality improvement. We use the Plan-Do-Check-Act (PDCA) cycle when quality issues arise to make continued improvements and operate a closed loop process to devise fundamental solutions so that the same issues do not recur. As such, specific man-agement measures are put in place to prevent the occurrence of the same causes, block the spread of issues and take follow-up action. Such efforts have helped to gradually reduce customer complaints.

Each business unit of Samsung Electro-Mechanics has a dedicated quality assurance team, who audit all production activities to see if they are complying with agreed rules and processes based on the ISO quality system.

Our specialized workforce conducts inspections based on the Man, Machine, Material, Method, Measurement, and Environment (5M+1E) method, which are recognized as the major causes for defects at all sites.

To enhance our quality management system, we are working to adopt the newly established automotive quality management system, IATF 16949 (established in 2016), starting in 2018. Also, the Quality Innovation Group under the Global Technology Center helps to achieve company-wide quality goals by frequently conducting inspections on development quality, component quality, process quality and customer quality. Samsung Electro-Mechanics is securing global quality competitiveness through customer-oriented thinking and prevention of the spread of defective products based on strengthened verification in the development phase (enhancing the role of development quality, improvement of the development processes in each stage and strengthening verification, and identifying potential risks of new technology as well as strengthening the verification of simulations), process quality improvements

Global World Top Quality



(expanding the number of management targets, assuring in-process quality, and improving the process), and improving the quality assurance system (establishing a structure to link process systems, improving the quality of warehousing materials and strengthening inspection systems by converting to IATF16949).

Strengthening Internal Quality Competitiveness

Samsung Electro-Mechanics adopted a daily yield drop management system to intensify internal quality competitiveness. A drop in yield is to be immediately reported to the CEO along with progress reports. This helps the top management to be directly engaged in on-site improvement actions.

Also, we analyze specific causes and devise improvement measures, to verify validity. As such, we do the utmost to enhance our quality competitiveness and address problems from the root cause.

We conduct quality control activities on key elements of each process, with the heads of divisions directly organizing related activities. Likewise, we are continuously making efforts to ensure robust internal quality.

Online Communication

Samsung Electro-Mechanics communicates with diverse groups of customers without limiting itself to the B2B sector as it expands and operates various online channels to convey information that is prompt and accurate.

We strive to convey the image of a global company leading the electronic component industry and enhance brand value by providing information related to the differentiated technologies and business competency of Samsung Electro-Mechanics via online channels including the company's website, Facebook, LinkedIn, etc.

Website

We operate a website with additional online marketing features and provide unified information on our products in each category to improve customer access. We reply promptly to all customer inquiries received via the company's website, providing customer-centered services to enhance the level of customer satisfaction.

> "Samsung Electro-Mechanics is equipped with core materials technologies such as powder and pastes and able to develop and produce high-end products and solutions responding to market changes and demands in advance. Outstanding production capabilities and prompt adoption of technologies, and a full product line-up help the company provide a high level of technologies and products that satisfy customers' needs in various areas including IT, industry, and electronic parts."
>
> **TIM HUANG**
> Purchasing Director, Quanta

Monthly newsletters and event newsletters are sent to customers and members to share the company's updates and information on products. The website is composed of UI design and reactive design for user convenience and has been granted a certificate in web accessibility for people with disabilities so that all customers including the socially disadvantaged can access the site more conveniently and easily.

Social Networking Service

Samsung Electro-Mechanics operates various social media channels including Youtube, LinkedIn, Facebook, blogs, and others to provide customized information.

> "Samsung Electro-Mechanics focuses on the substantial impact of sustainability on the entire value chain and integrates sustainability into its corporate value. We have successfully developed a culture of business continuity and environmental management. Our overall sustainability management system meets diverse international standards. Samsung Electro-Mechanics is a company that represents a responsible business model in terms of supply chains."
>
> **SS LEE**
> Procurement General Manager, ASE corporate

SUPPLY CHAIN

We evaluate business partners comprehensively to establish a competitive supply chain

Purchasing Measures

In order to fulfill its social responsibilities as a global corporate citizen based on ethical management principles, Samsung Electro-Mechanics requires not only itself but also its business partners to agree on complying with ethical and compliance management standards and Corporate Social Responsibility (CSR) measures.

This is to ensure compliance with global regulations including the eradication of child labor, human rights protection, anti-discrimination and non-use of minerals from conflict zones. We extend institutional support to withhold trade with business partners that violate these rules.

Samsung Electro-Mechanics seeks to realize the values of mutual trust and achieve development based on a high level of business ethics and a clean corporate culture.

Current Status of Procurement and the Global Supply Chain

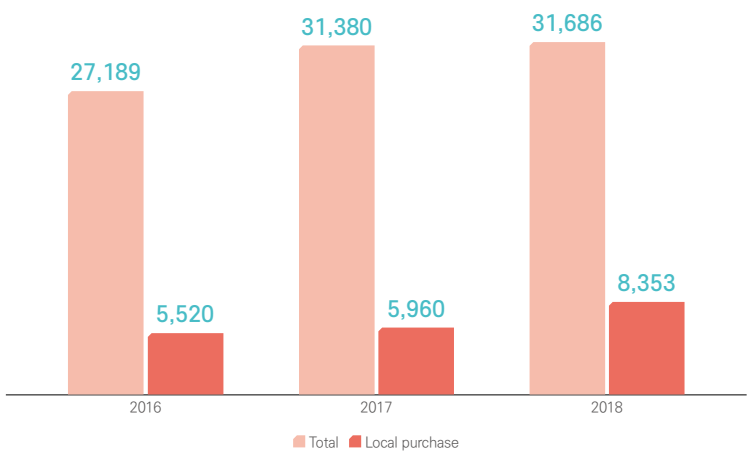
Samsung Electro-Mechanics, as Korea's largest comprehensive component manufacturer, conducts business mostly driven by its 3 business units (Component Solutions, Module Solutions and Substrate Solutions). We procure raw materials worth KRW 3 trillion a year, which are mainly semi-conductors, semi-finished products, raw materials and medicinal products from about 250 business partners in 20 countries. Samsung Electro-Mechanics continues to implement policies to procure products which are produced locally, thus contributing to the social development of local production sites.

Development Cooperation and Communication Channels with Supplier

Samsung Electro-Mechanics is making concerted efforts to upgrade its product competitiveness through communication and development cooperation with business partners and provides customers with the highest quality products.

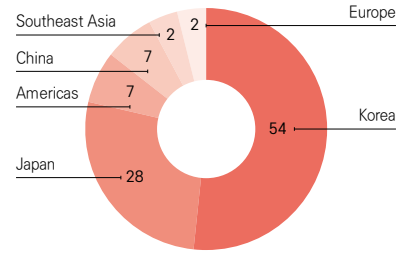
Cost of Raw Materials

(coverage: consolidated basis, unit: KRW 100 million)



Procurement by Region

(coverage: consolidated basis, unit: %)



In particular, diverse communication channels are in place with business partners, and cooperation activities are underway with about 20 companies a year through global sourcing exhibitions.

We deliberated on 21 tasks suggested by business partners in 2018, selected 4 of them as outstanding tasks, and conducted joint development on them. This helped us to enhance the technological competitiveness of both Samsung Electro-Mechanics and its partners during the development of new products.

Samsung Electro-Mechanics continues to listen to the VOC of its business partners. To this end, a communication channel open 24x7 has been put in place on the company's website and its procurement system (MaPS). We strive to expand the scope of communication by actively collecting opinions and suggestions from our business partners.

Selection and Registration of Suppliers

Samsung Electro-Mechanics selects business partners and cooperates with them based on transparent and fair evaluation criteria. Compliance management and environmental assessment have been designated as mandatory requirements when we select new business partners, not to mention general evaluations (on processes and management status) and quality and production evaluations.

Comprehensive Evaluations System of Suppliers

They are also required to submit i) the 'CSR Compliance Consent Form' covering compliance with the Responsible Business Alliance (RBA) ban on using minerals from conflict zones, and ii) the 'Environmental Management Warrant' touching upon RoHS and REACH. These documents are translated into multiple languages and provided to all our business partners.

We demand all of our business partners duly practice the 7th 'Charter for Ethical Partners' and the code of action through the 'Pledge of Action for Ethical and Compliance Management.'

Moreover, we evaluate their financial capabilities in a constantly changing business environment and select those with a rating higher than the threshold level.

Comprehensive Evaluations of Suppliers

Samsung Electro-Mechanics conducts annual comprehensive evaluations of all business partners with whom the company has established business relations for more than 1 year. The comprehensive evaluation is composed of 8 critical criteria to judge if it is possible to continue with the partnership. To be specific, the 8 items included in the comprehensive evaluation are divided into categories evaluating the capabilities of business partners such as quality, delivery, transaction scale, technological competence, and finance, and the ones related to the assessment of non-financial risks including compliance, environment, and response capability.

We establish operational strategies for our business partners based on sophisticated comprehensive evaluations and execute a two-track approach in dealing with our business partners. First, we implement strategies to motivate competent business partners. Second, we develop improvement strategies for partners with poor performance and determine whether to continue with the partnership.

Supply Chain Risks

In the midst of an unpredictable global business environment with greater uncertainties, risk management has become an essential element for companies to survive and secure competitiveness.

Samsung Electro-Mechanics has made efforts to minimize financial risks by periodically conducting credit assessments on all business partners through professional credit rating agencies. We also conduct sophisticated annual comprehensive assessments of business partners for complete management of supply chain risks.

Samsung Electro-Mechanics has established the Masterpiece of Procurement System (MaPS) to form a network in which the HQ and person in charge of each subsidiary can share information when risks such as natural disasters, legal violations, a drop in credit ratings, and other risks occur.

Accordingly, we are equipped with capabilities to respond to and manage various risks effectively. Samsung Electro-Mechanics has entered into a Long Term Agreement (LTA) for its core components and conducts regular technical review meetings (TRMs) and technology exchange meetings with its core suppliers to seek ways to secure long-term and stable supply chains. In the case of parts with high risk of supply disruption, we are strengthening our supply chain by diversifying our suppliers and diversifying our supply bases, and actively responding to unexpected risks such as natural disasters.

SUPPLIER RESPONSIBILITY

We operate a system for early detection and preemptive responses to business partner risks

Conflict Minerals

Samsung Electro-Mechanics does not use conflict minerals that are unethically mined in 10 countries including the Democratic Republic of Congo and adjacent conflict zones and lays down principles to ban the use of uncertified minerals (Tantalum, Tin, Tungsten, Gold and Cobalt) to fulfill its corporate social responsibilities.

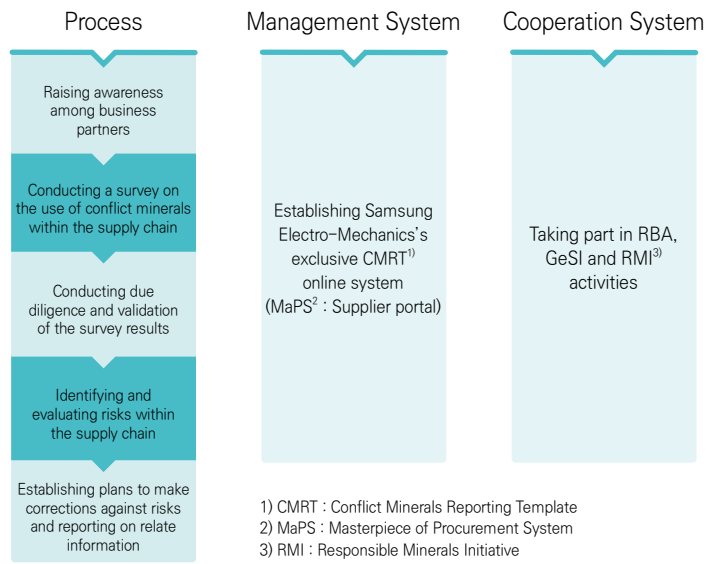
We are also making steady efforts to improve the environment and human rights protections with regard to issues such as human rights violations and environmental destruction that may arise from mineral mining activities by establishing a supply chain management system with a sense of accountability, in accordance with Article 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Management Process for Minerals from Conflict Zones

Samsung Electro-Mechanics thoroughly investigates the entire supply chain to detect if minerals from conflict zones have been included in our products and uses minerals from refineries which have completed the Responsible Minerals Assurance Process (RMAP) certification. We run a business partner management process to provide customers with products that have been derived through a legitimate distribution system.

Investigate the use of conflict minerals / cobalt every year and conduct on-site due diligence

Management System for Conflict Minerals



1) CMRT : Conflict Minerals Reporting Template
2) MaPS : Masterpiece of Procurement System
3) RMI : Responsible Minerals Initiative

Acceptance of the Consent Form for Non-use of Minerals from Conflict Zones

Samsung Electro-Mechanics indicates the prohibition of the use of tantalum(Ta), tin(Sn), tungsten(W) and gold(Au) produced in Congo and nearby conflict zones in the 'CSR Compliance Consent Form for Business Partners' and also suggests that this policy could be expanded in the future. New business partners are requested to sign the compliance consent form, and the relevant information is collected through the Masterpiece of Procurement System.

Periodic Inspections

Samsung Electro-Mechanics conducts an annual survey on the status of conflict minerals targeting the entire supply chain. We identified information on the current state of conflict minerals used by our business partners and information on refineries within the supply chain, using the Conflict Minerals Reporting Template (CMRT) released by the Responsible Minerals Initiative (RMI) from January to March 2018. Acquiring CFSP certification is recommended for refineries whose place of origin is unclear or who have not yet acquired the CFSP certification. Based on our policy of non-use of minerals from conflict zones, we continue to encourage refineries without the RMAP certification to acquire the certification in accordance with OECD Due Diligence Guidelines for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. We also carry out activities to identify the place of origin for minerals. On-site inspections take place for business partners to help us reach out to those that use the RMAP certified minerals. This assists with the inspection of their conflict mineral procurement policies as well as their conflict mineral information management systems and helps them discover areas for improvement.

To prevent our business partners from using uncertified minerals from conflict zones from the early stages of development, we also monitor conflict mineral sourcing information during the phase of component approval to check if conflict minerals are used in each component and the place of origin of the same.

Training for Suppliers

Samsung Electro-Mechanics conducts training each year for its business partners on conflict mineral policies, the conversion of refineries to obtain the RMAP certificate, and entry of refinery information to enhance the awareness of its partners on the issues surrounding conflict minerals.

In 2018, we conducted training on our conflict mineral policy and guidelines for all business partners through the management system. They will be trained on not just related policies but also how to use the IT management system. We also provide support for them to use the system for training and daily tasks.

RMAP Certification Cooperation System

We take part in the 'Conflict Minerals Free Committee' organized by the RMI co-established by the RBA and GeSI, and the Korea Electronics Association (KEA), managing conflict mineral risks within the supply chain and mulling over pragmatic countermeasures.

Sustainability Assessment of Suppliers

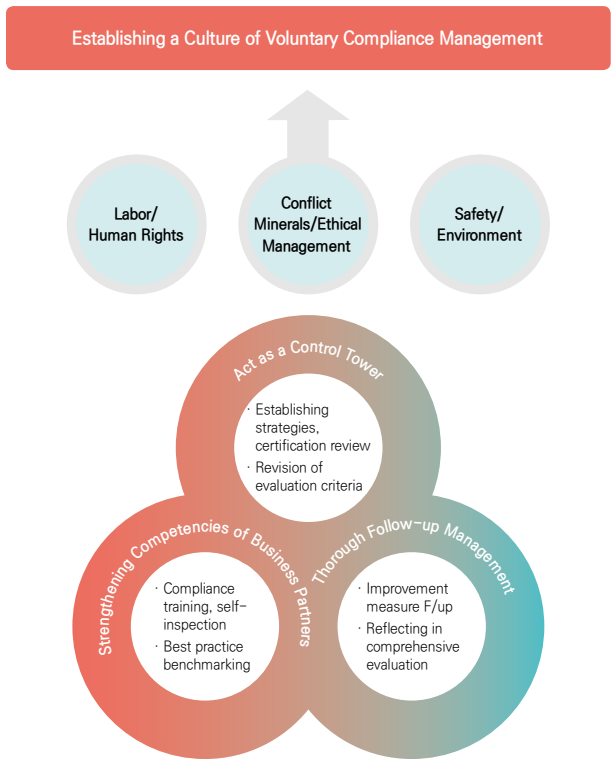
Management Policy for Supplier Working Environments

Samsung Electro-Mechanics created and shared a compliance management checklist based on the Responsible Business Alliance (RBA)'s code of conduct to improve the working environment of business partners. We operate a system for business partners to voluntarily practice compliance management through our training, diagnosis activities and support for improvements.

We recommend that employees manage their working hours on a daily, weekly, and monthly basis for compliance assessment with suppliers, and guide the establishment of a control process to prevent workers from exceeding their overtime hours through statistical analysis of working hours.

Each year, we select the targets for compliance inspections among our primary business partners by considering the transaction scale of the previous year, geological location, and issues in the past.

Management Policy of Suppliers



We provide annual training on CSR to the representatives and persons in charge of compliance management of selected companies, conduct on-site inspections related to compliance management, and support for improvements.

The results of on-site inspection are managed by incorporating them into the comprehensive evaluation at the end of the year. We visit partners with poor records of improvement to support their improvement efforts for better risk management.

Samsung Electro-Mechanics plans to conduct investigations on 60 business partners each year in areas of human rights, ethics, safety, and others by 2020.

Samsung Electro-Mechanics' Partner Collaboration Office establishes relevant policies and evaluation criteria and conducts direct evaluations. In addition, we participate in training related to sustainability management once a year.

Code of Conduct

Samsung Electro-Mechanics established the Code of Conduct for its business partners in 2017 based on the RBA Code of Conduct with the aim of improving their working environment responsibly. The Code of Conduct for business partners is disclosed through the company's website to be openly shared with all stakeholders.

Samsung Electro-Mechanics held a forum to spread the importance of labor human rights and compliance management to purchasing managers, and through this, we shared how social issues in the supply chain affect corporate value.

Self-Evaluation Checklist

Samsung Electro-Mechanics shares a checklist based on the RBA Code of Conduct to help its business partners identify their level of compliance management and to discover areas for improvement. As such, each business partner can identify areas for improvement in compliance management, while autonomously conducting self-evaluations.

Compliance Training Support

Samsung Electro-Mechanics provides training to executive managers of business partners through periodic forums for communication with the company and workshops with heads of business partners. We also provide training to compliance officers of business partners so that they can proactively respond to compliance issues in the areas of labor, environment, health, and ethics.

On-site Diagnosis and Support for Improvements

Samsung Electro-Mechanics visits its business partners to conduct on-site inspections based on the evaluation checklist, provides guidelines for compliance activities related to each item, and supports its partners in developing improvement measures for items that failed to pass the criteria in order to improve compliance management. We are making efforts to provide substantial support by cooperating with external agencies and experts.

Questions of Business Partner Checklist

Labor	Health and Safety	Environment	Ethics	Management System
Voluntary labor, Child labor, Minimum wage, Working hour, Discrimination, etc.	Industrial safety, Contingency plans, industrial disaster and health management, etc.	Harmful substances, Waste, water and air pollution, Relief of product content, etc.	Whistleblower protection, Personal information protection, Conflict materials, etc.	Communication, Corrective action, Management of business partners, etc.

Self-evaluation of Existing Suppliers

Samsung Electro-Mechanics demands its business partners who are selected as evaluation targets to conduct an annual self-inspection with the compliance management checklist developed based on the RBA Code of Conduct. Business partners identify their compliance level and risks through the evaluation process and select tasks for improvement to voluntarily implement improvement activities. The results of the self-evaluation are registered via the supplier portal MaPS after final approval from the partner company CEO.

Samsung Electro-Mechanics conducts the on-site diagnosis to verify actual operating status after verifying the results of self-evaluations. The on-site diagnosis is carried out by the designated team with expertise to identify nonconforming items and to provide effective solutions for improvement.

> "Compliance management activities between Samsung Electro-Mechanics and business partners are serving as an opportunity to evaluate compliance with the RBA Code of Conduct. With the compliance management assessment, business partners are able to review their compliance level in areas of labor, health and safety, ethics, and others objectively and benchmark the best practices. It is also useful to build trust with Samsung Electro-Mechanics and improve mutual competitiveness."
>
> **WON SUNG-YUK**
> CEO, Daewon Sanup

Risk Management Process

On-site Diagnosis for Newly Registered Suppliers

Samsung Electro-Mechanics conducts on-site diagnosis of compliance management at new business partners. Items for diagnosis are the same as self-evaluation criteria. Business partner registration is restricted if they violate mandatory compliance items or their score is below the threshold.

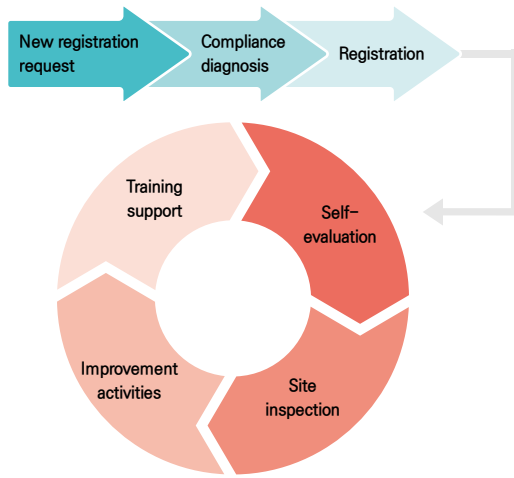
Evaluation of Suppliers and Results of Support

Samsung Electro-Mechanics selects domestic and overseas business partners as evaluation targets each year for the assessment and mitigation of sustainable risks. From 2016 to 2018, we selected 279 major business partners as evaluation targets and completed 100% diagnosis through self-evaluation and site visits.

We developed evaluation criteria based on Responsible Business Alliance (RBA) code of conduct and identified 56 business partners whose scores were below 80 points or who violated mandatory compliance items. Also, we have built a process of reducing supply chain risks by supporting them with training, establishment of corrective action plans, and checking the corrective action implementation result.

Partners with excellent evaluation results are selected and awarded the Compliance Management Certificate and prize money.

Supply Chain Risk Management Process



Thanks to such efforts, scores of the identified companies increased in general.

We plan to expand the scope of evaluation targets to 100 domestic and overseas partners in 2019. Also, we are gradually increasing the number of business partners undergoing the compliance management evaluation to include secondary suppliers and planning to apply more detailed approaches to reduce sustainable management risks in the supply chain.

Labor

Samsung Electro-Mechanics thoroughly reviews employment contracts, guarantees of minimum wage, protection of minor and pregnant employees, and working hours to protect workers' rights. There were several cases where a number of business partners failed to pay minimum wages due to the time gap between the period of salary adjustment and application of a new minimum wage. We took action to demand they immediately calculate the correct amount and make payment to the underpaid employee.

We are encouraging suppliers to comply with the legal minimum wage and pay more than that in evaluating compliance management.

To reinforce management of risks that may arise due to the violation of regulations related to minimum wage and protection of minor employees, Samsung Electro-Mechanics strengthened the criteria of related compliance items in 2017.

In addition, we are operating a unit price re-determination process to reflect the rise in cost due to environmental changes after the minimum wage and raw materials are raised.

In order to prevent deterioration of the working environment, such as prolonging working hours of suppliers' suppliers due to rapid change in order information, the supplier's standard supply lead time is used as reference information for calculating the ordering cycle. We have built and operated an ERP system.

Safety and Health

Samsung Electro-Mechanics focuses on the inspection of emergency exits, implementation of evacuation drills, wearing of protective gear, and compliance with medical checkups to ensure the safety and promote the health of employees. We also provide constant training on the importance of wearing protective gear and provision of health/safety signs for early awareness of danger to prevent accidents.

We conducted on-site investigations to check whether fire prevention systems, evacuation facilities and equipment operated normally and whether obstructions were placed near exits intended for emergency evacuation.

Environment

Samsung Electro-Mechanics concentrates on environmental licensing, compliance with MSDS legal requirements, adequacy of waste management handling companies, water and air pollutant management, and response to product-based environmental regulations in its investigation activities. We provided training to certain business partners on how to affix warning signs and labels and develop a disposal process for proper waste management.

We focused on checking whether MSDS related to the process using chemical substances were in place, and if warning signs and labels were attached to prevent chemical accidents.

Ethics

We do our utmost to ensure compliance with global ethical standards by all business partners within the supply chain. We are conducting investigations on issues including anonymity- based reporting channels, privacy protection, and conflict minerals. We have enhanced our efforts in terms of training and examination of personal information protection to protect the human rights of employees of business partners and prevent the risks of information leakage.

Management System

We upgraded the evaluation system so that our business partners can document the requirements related to labor and human rights and monitor them regularly by themselves to comply with human rights and labor regulations of the countries they are located in. We follow up on actions taken by business partners upon violations of laws and regulations for recurrence prevention.

Also, we evaluate communication capabilities of secondary suppliers as well as their subcontractors to satisfy our requirements and enhance sustainable management competencies throughout the entire supply chain.

SHARED GROWTH

We operate various win-win cooperation programs to establish a culture of mutual growth

Joint Technological Development

Samsung Electro-Mechanics has launched the 'Joint Development Awards' for business partners since 2015. We strive to secure core technological competencies and support business partners as they continue to grow further through technological development and sales growth. The 'Joint Development Awards' is held to share the company's future projects and technological roadmaps on an annual basis. Programs to comprehensively support outstanding development suggestions by business partners are available in the form of development funds, technologies and personnel. In 2018, 4 tasks from 4 companies were selected for the 'Joint Development Awards'.

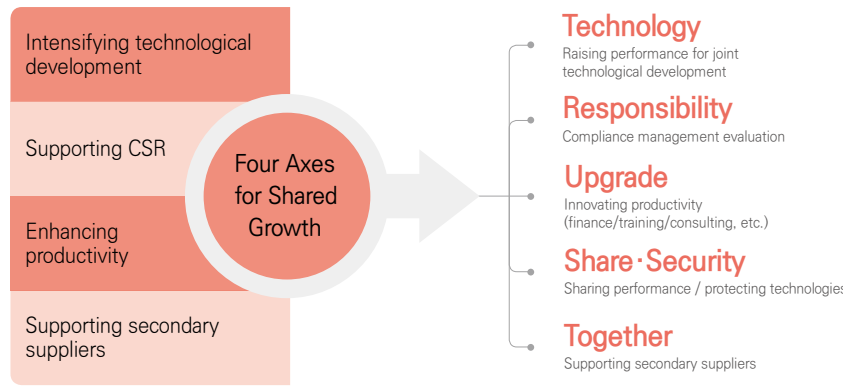
Samsung Electro-Mechanics has been operating the 'Win-Win Plaza' as a special venue dedicated to technological cooperation with business partners since 2005. In 2018, 8 partners were stationed in the Win-Win Plaza and conducted 21 tasks. We also provide them with financial support by creating R&D fund with the government as well as technical supports by utilizing our employees.

Productivity Enhancement for Suppliers

Financial Support through the Win-Win Fund

Samsung Electro-Mechanics has created and provided the Win-Win Fund worth KRW 100 billion in partnership with Woori Bank to enable capital investment and liquidity support for business partners since 2010. The targets for support are qualified primary and secondary suppliers and business partners, and they are offered a low-interest rate loan program of up to KRW 4 billion. In 2018, we extended KRW 33.5 billion in loans to 24 business partners.

Direction of Shared Growth



Training Support for Suppliers

We have also been operating the 'Win-Win Academy' from 2010, to comprehensively and systematically foster core personnel in primary and secondary suppliers. We formed a training consortium with Sungkyunkwan University, a specialized educational institute, in order to enhance training expertise. Every year, Samsung Electro-Mechanics sponsors about 40 courses, contributing to the development of personnel at business partners, and securing competitiveness in products and costs. In 2018, Samsung Electro-Mechanics provided training to 953 individuals (including 112 from 57 secondary suppliers) via a total of 40 courses for different roles and tasks.

Industrial Innovation Movement

Samsung Electro-Mechanics formed a fund worth KRW 3 billion over 5 years by taking part in the 'Industrial Innovation Movement' initiated by the Ministry of Trade, Industry and Energy since 2013. The fund is used to sponsor comprehensive consulting for productivity innovation including production, manufacturing, quality and the environment, and facility procurement expenses for business partners. In 2018, Samsung Electro-Mechanics extended KRW 600 million for management innovation activities by 31 business partners as part of the sixth-year project for the fund.

Support for Compliance with RBA Standards

There have been demands within and outside of Samsung Electro-Mechanics for compliance with RBA standards in the entire supply chain as well as for its support for safe working environments at suppliers/business partners. Therefore, we have provided RBA training and support for self- inspections, and conducted inspections through visits, consulting services, and have also helped partners to make improvements in order to lay the foundation for compliance with international norms in terms of human rights, labor, environment and safety. In 2018, we provided DAEWON SANUPO., LTD. with compliance management certificates for their excellent performance in the same area.

Communication with Suppliers

Samsung Electro-Mechanics organizes the 'Festival with Suppliers for Shared Growth' each year, sharing visions for shared growth and outstanding case studies of innovation. Samsung Electro-Mechanics also holds a 'Communication Seminar with Suppliers' for primary and secondary suppliers on two occasions in the first and second half of each year respectively,

to share policies on Win-Win Cooperation with Samsung Electro-Mechanics and to provide a forum to accept and handle VOC from business partners.

Samsung Electro-Mechanics plans to inject KRW 43 billion for financial support, assist business partners to hire 100 employees, and educate and train 800 employees of business partners by 2019, with the aim to establish a competitive system with our partners based on the horizontal and satisfactory communication.

Listening to the VOC of Suppliers

Samsung Electro-Mechanics runs various communication channels to systematically accept and handle the VOC from business partners to increase satisfaction levels:
-Direct phone line (031-210-3790)
-Email account (semco.voc@samsung.com)
-Procurement portal website (www.semcobuy.com)

Efforts to Diffuse the Culture of Win-Win Cooperation between Primary and Secondary Suppliers

Samsung Electro-Mechanics has made multiple efforts to establish a culture of fair trade and shared growth between primary and secondary suppliers. Since 2014, secondary suppliers have been encouraged to participate in the 'Supplier Exchange Forum', a consultative body of suppliers.

Supply Chain Safety Environment Support

Samsung Electro-Mechanics has established a supply chain CSR project with business partners by extending diverse safe environment programs run by separate teams supporting the management of safe environments at business partners.

Free training on safe environments is conducted for over 300 managers in the areas of product environment as well as executive managers and persons in charge of safe environments at business partners based on their assigned roles. For business partners who are vulnerable in terms of the safe environment, additional consulting is provided.

Safe Environments and Disaster Prevention

The risk assessment is conducted in conjunction with specialized agencies for business partners subject to higher risks of safety accidents, to help them explore and address disaster causes. We provide consulting on environmental and chemical materials using our exclusive specialized workforce. By doing so, we expect that our partners are fully prepared for disaster prevention including the resolution of legal environmental issues and prevention of chemical leakage. The Suwon and Busan Plants acquired 'A', the highest grade, in the Win-Win Cooperation program on safety and health in 2018.

Higher Efficiency in Energy

Samsung Electro-Mechanics provides business partners with consulting on the efficient use of energy and supports them to discover methods of energy use reduction by utilizing in-house specialists. We provide support to about 10 business partners to promote higher energy efficiency. If they request investment costs needed for energy use reduction, Samsung Electro-Mechanics extends low-interest loans financed by the Win-Win Cooperation Fund.

> "Samsung Electro-Mechanics considers suppliers its business partners, jointly carries out development activities, and deals with quality issues."
>
> **Im Il-ji**
> CEO, Daejoo Electronic Materials

Safety Diagnosis of Electric Power Facilities

Samsung Electro-Mechanics provides programs to business partners for the prevention of blackouts and other critical accidents. To this end, we conduct an in-depth diagnosis of electric power facilities including inspection of transformers and measurement of thermal burns for over 20 business partners each year and provide solutions for improvement to proactively support their efforts at preventing accidental power failures.

Cooperation Forum with Specialized Institutions

Safety and Health Programs for Win-Win Cooperation

From 2016 to 2018, 19 business partners were provided with support free of charge to acquire safety and health management system (KOSHA 18001) certification. As a result, Samsung Electro-Mechanics strives to ensure safety management by compleming voluntary safety and health management systems of partner companies.

IBK, Green Consulting

Samsung Electro-Mechanics signed an agreement with IBK in 2013 to provide free green consulting to business partners. Professional consulting has been extended through 8 programs in the areas of the environment and energy including the acquisition of energy management system (ISO 50001) certification.

Fifty business partners were provided with energy use diagnosis and energy management consulting from 2014 to 2018, resulting in 174 tasks for improvement. They were also able to establish energy management systems, create GHG inventories, set up systems to calculate emissions, and hand over environmental management technologies, thereby enjoying a higher level of environmental and energy management.

Samsung Fire & Marine Insurance-Safety Check for Fire and Explosion

Samsung Electro-Mechanics provides free safety diagnosis against fire and explosion by signing an agreement with Samsung Fire & Marine Insurance to prevent against fire or explosive disasters at business partners. From 2016 to 2018, disaster prevention specialists were dispatched to 41 business partners to conduct safety checks, write reports on risks and improvement measures, and induce business partners to voluntarily make improvements themselves.

CREATIVE CORPORATE CULTURE

Employees

Samsung Electro-Mechanics constructs a corporate culture based on its human-centered management principles. We provide transparent employment opportunities by removing discriminatory factors irrelevant to individual capability for all job seekers. We have provided various methods to protect the human rights of our employees in accordance with the Labor Standards Act and operate a Labor-Management Council. We are dedicated to building a bright future that is created jointly by individuals and the company and where all employees' rights are respected.

RECRUITMENT AND WORKFORCE CONFIGURATION

We implement open employment policies providing equal opportunities to outstanding talent from diverse fields

Vision for Talent

Samsung Electro-Mechanics continues to innovate with ceaseless passion and communicates with employees to achieve its goals under the talent management philosophy that individual growth equals corporate growth.

Samsung Electro-Mechanics selects talent with leadership potential who are not afraid of failure based on a creative and innovative mindset, solve problems with new approaches, respect others, and fulfil their roles and responsibilities.

Moving Forward Together with Open Employment Policies

Samsung Electro-Mechanics provides equal opportunities by removing discriminatory factors including academic background and gender unrelated to individual capabilities when selecting job candidates and sticks to the principle of selecting talent based on job competencies. Also, we operate a transparent recruitment process to identify and hire talent in diverse areas. Our internship program provides many university students with equal opportunities to experience life at work and a corporate culture before they advance into society.

Employment of the Disabled

Samsung Electro-Mechanics adheres to an employment policy for disabled people and practices transparent and fair recruitment. Samsung Electro-Mechanics makes efforts to improve working conditions and develops communication between employees, while providing suitable jobs befitting their capabilities after they are employed.

The number of disabled employees totaled 227 in 2018, which is around 2.1% of the total number of domestic employees. We will continue to expand the employment of disabled people.

Recruitment Process

Samsung Electro-Mechanics operates a fair recruitment process to secure competent talent in diverse areas and provide equal opportunities to all job seekers.

We provide job opportunities to diverse social brackets by recruiting not only college graduates but also junior college and high school graduates as new employees. In terms of experienced hires, we operate both periodic recruitment and non-scheduled recruitment conducted by each department based on different needs.

We select talent based on individual job competencies and do not consider individual capabilities irrelevant to job tasks.

Status of Employees

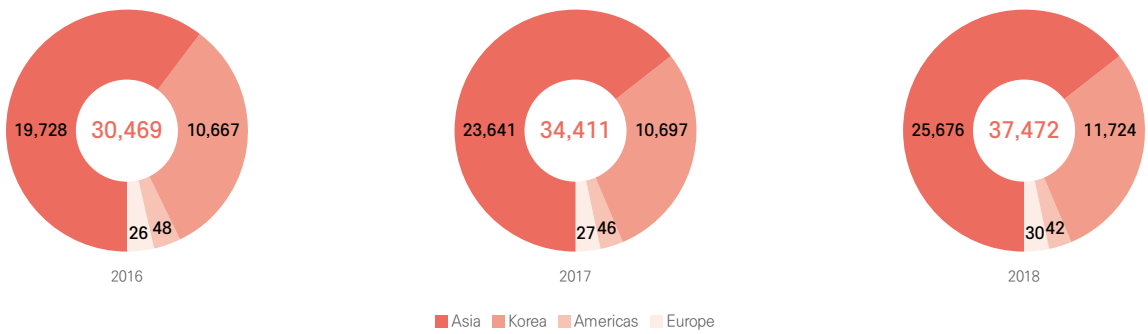
As of 2018, the number of employees at Samsung Electro-Mechanics stands at 37,472, an increase of about 8.9% compared to 34,411 in 2017. The decrease in employment due to the emergence of a low-growth era and accompanying economic downturn is a serious issue. We continue to create jobs in countries where we operate based on effective business management, identification of new projects for the future, and continual investment.

Current Status of Non-regular Employees

Samsung Electro-Mechanics hires permanent employees for regular and continuous tasks in principle and is making efforts to eradicate unnecessary employment of irregular workers. We will do our utmost to provide equal treatment to non-regular employees equivalent to regular workers who do the same work.

Employees by Region

(coverage: consolidated basis, unit: persons)



Diversity in Gender

Female employees at Samsung Electro-Mechanics constitute 23% of the total in Korea and 51% of the total abroad as of 2018. Samsung Electro-Mechanics is making efforts to promote gender equality in the workplace by expanding the period of maternity leave to 2 years to support female employees as they continue their careers.

Diversity in Age

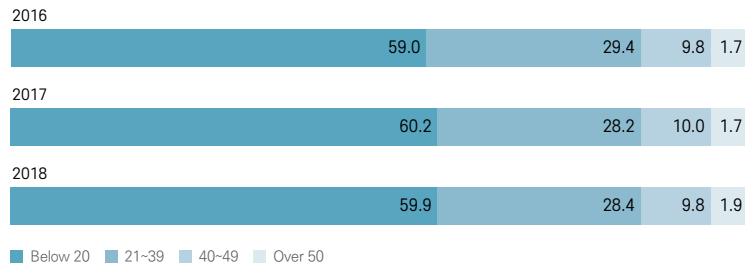
Samsung Electro-Mechanics adopted the peak wage system for continuous employment of workers after the existing retirement age (55 years of age) amidst a rapidly ageing society in Korea to provide employment for senior employees and enhance job security of workers. As a result, the average years of service at domestic sites is 12years in 2018.

42.3%

Percentage of Female Employees

Status of Employment by Age

(coverage: consolidated basis, unit: %)



Status of Employment by Positions

(coverage: consolidated basis, unit: persons)

		2016	2017	2018
Domestic	Executives	52	57	57
	Mid-executives	3,702	3,897	4,158
	Employees	6,766	6,619	7,388
	Non-regular Employees	147	124	121
	Sub total	**10,667**	**10,697**	**11,724**
Overseas	Executives	6	5	6
	Mid-executives	610	690	785
	Employees	17,221	21,216	24,008
	Non-regular Employees	1,965	1,803	949
	Sub total	**19,802**	**23,714**	**25,748**
Total		**30,469**	**34,411**	**37,472**

Status of Female Senior Officers

(coverage: consolidated basis, unit: persons)

		2016	2017	2018
Domestic	Total senior officers	3,702	3,897	4,158
	Female senior officers	209	247	298
	Percentage	**5.7%**	**6.3%**	**7.2%**
Overseas	Total senior officers	610	690	785
	Female senior officers	161	186	221
	Percentage	**26.4%**	**27.0%**	**28.2%**

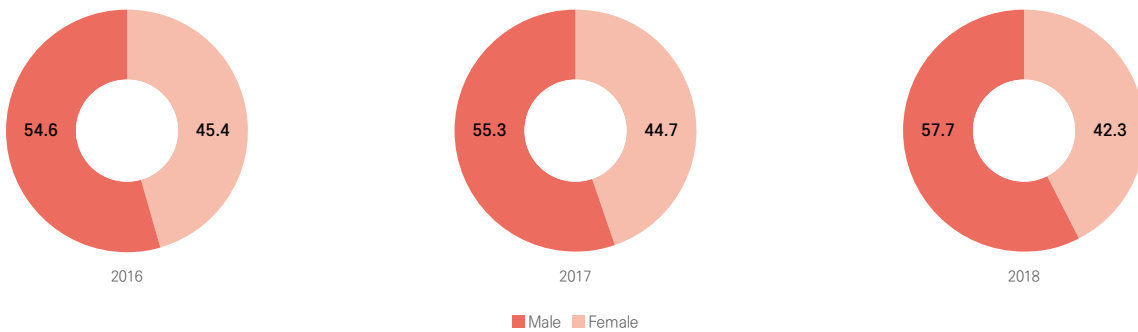
Status of Employee Gender

(coverage: consolidated basis, unit: persons)

		2016	2017	2018
Domestic	Male	8,108	8,174	9,023
	Female	2,559	2,523	2,701
	Sub total	**10,667**	**10,697**	**11,724**
Overseas	Male	8,539	10,844	12,600
	Female	11,263	12,870	13,148
	Sub total	**19,802**	**23,714**	**25,748**
Total		**30,469**	**34,411**	**37,472**

Employees by Gender

(coverage: consolidated basis, unit: %)



COMPETENCY DEVELOPMENT

We provide customized training for the development of individuals and the company

Vision for Talent Nurturing

Samsung Electro-Mechanics provides specialized leadership, job and global training sessions to develop globally competitive talent in order to prepare for the future under the motto of the Change, Innovate, Challenge (CIC). A voluntary learning culture is formed to enhance job expertise by conducting customized training related to jobs in a systematic manner by each department in order to encourage commitment to performing current roles according to employment rank and to prepare for future roles. Training is provided on global communication, values and corporate culture for employees at home and abroad, which enables cross-border communication and improves overall competency level.

Customized Training on Competencies

Samsung Electro-Mechanics runs a leadership program, aiming to develop core competencies needed for each job rank. As a consequence, we pave the way for continued growth and development of employees, reinforce a personnel network among trainees and form a culture of communication and collaboration

Education Performance

(coverage: domestic basis, unit: persons)

	2016	2017	2018
Total education time (hours)	927,978	849,749	1,116,459
Domestic employees (person)	10,667	10,697	11,724
Number of hours for training per person (hours/person)	87	79	95

Educational Expenses

(coverage: domestic basis, unit: KRW million)

	2016	2017	2018
Total education training expense	8,528	7,917	10,108
Amount of money spent for training per person	0.80	0.74	0.86

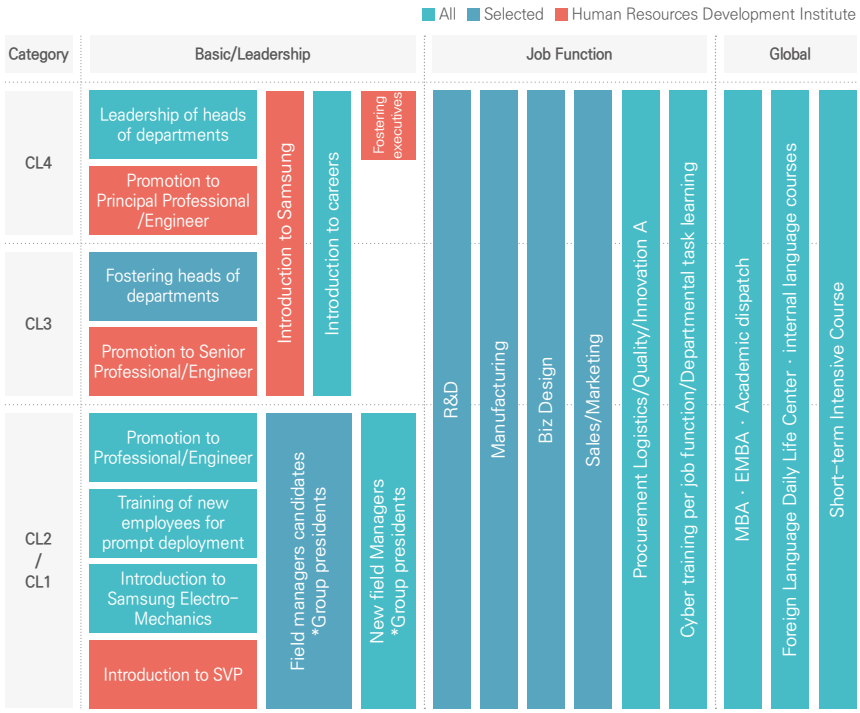
Introductory Training

The introductory training for new employees consists of diverse programs to foster them to become leaders in the future under the unique management principles of Samsung Electro-Mechanics: change, innovation, and challenge. Samsung Electro-Mechanics seeks to develop fundamental character through training on basic mindset and attitudes, compliance management, and dishonesty prevention required of employees. We ensure that they become genuine Samsung Electro-Mechanics employees promptly through training programs that include mentoring to help them adapt to tasks in their departments as well as boost their understanding of work and networking competencies. Also, their capabilities are augmented to help them to understand manufacturing sites better and communicate better with others through on-site work practices and shift-based work.

Promotional Training

Samsung Electro-Mechanics runs promotional training programs to pave the way for further growth along with an enhanced awareness of changing roles and responsibilities.
In addition to training for job competencies, we focus on enhancing employee self-esteem by developing and running programs to deliver congratulatory messages to those promoted. Training programs for mid-level executives focus on clear awareness of the changing environment and key issues of Samsung Electro-Mechanics and managing roles by position. Training programs for employees highlight the company's management principle-based empathy, implementation, collaboration and self-management. Likewise, we provide training programs that are specialized and tailored to each position.

Human resource development system



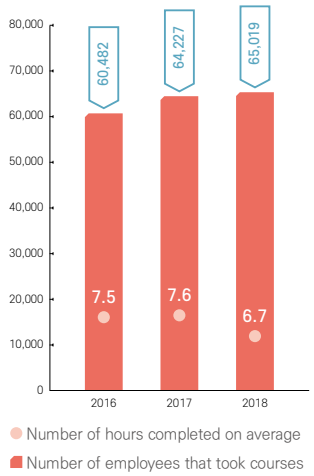
Department Tasks Education

(coverage: consolidated basis, unit: cases, persons)

	2016	2017	2018
No. of times the courses are run (cases)	2,375	3,031	1,362
No. of employees taking the courses (persons)	37,821	41,552	37,264
Department CA (persons)	262	270	292

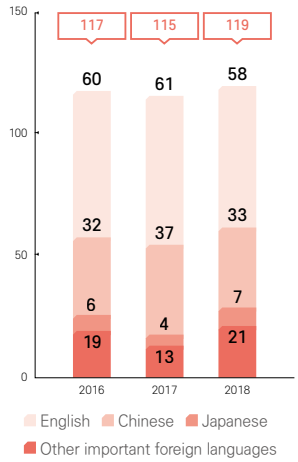
Online Education Programs

(coverage: consolidated basis, unit: hours, persons)



Foreign Language Daily Life Center

(coverage: domestic basis, unit: persons)



Support for Online Education Programs

Samsung Electro-Mechanics allows employees to take an online course once per month, which is easily accessible regardless of time and space, as a means for the development of individual competencies and working knowledge, encouraging them to enhance their competencies in a broad range of fields including leadership, job tasks and languages.

In 2015, we established SEUM Cyber to create a comprehensive talent nurturing system based on the Road Map adapted to the company's unique job levels. The system is used to enhance competencies in manufacturing technology.

Expansion of Global Communication Competencies

In order to strengthen communication competencies of employees within a global company, we run a program titled 'Foreign Language Daily Life Center'. It is a 10-week residential course in which employees are allowed to speak only the language they are practicing. By doing so, they are taught to handle various situations that can be useful in conducting their duties and prepare themselves to become global specialists.

We also run various programs including 'global biz courses', 'internal language courses', 'short term intensive courses (9-day miracle)', 'intensive language classes', and others to help employees acquire essential competencies in order to improve global communication competencies.

Persons in charge of education and training in domestic and overseas subsidiaries hold a conference call each month and continue to communicate with each other to deliver and share their know-how and best practices.

Lifelong Career Consulting for Employees

Support for Redesigning Retirees' Lives

Employees are provided with Life Coaching programs when they enter a life transition period (age 45) so encourage them to naturally build a new career path. However, many employees feel lost and confused about how to prepare for the era of centenarians and advance their career after retirement.

Samsung Electro-Mechanics runs diverse programs to raise the quality of life of employees. For instance, we provide support for the reemployment or startup ventures of would-be retirees. We also help retirees to successfully design a new life even after retirement.

Major Programs

The program for retired executives and employees that has been carried out since 2002 has generated high satisfaction and performance.

We have integrated programs for retirees of 5 electronic companies to create synergy effects based on their amassed capabilities and hired experts to run the enhanced quality programs since July 2015.

Retirees can take part in a Life Design program (5 times/year) to establish a platform for lifelong development, a Career Design program (4 times/year) and a Career Change course (5 times/year) to redesign their careers at a critical turning point.

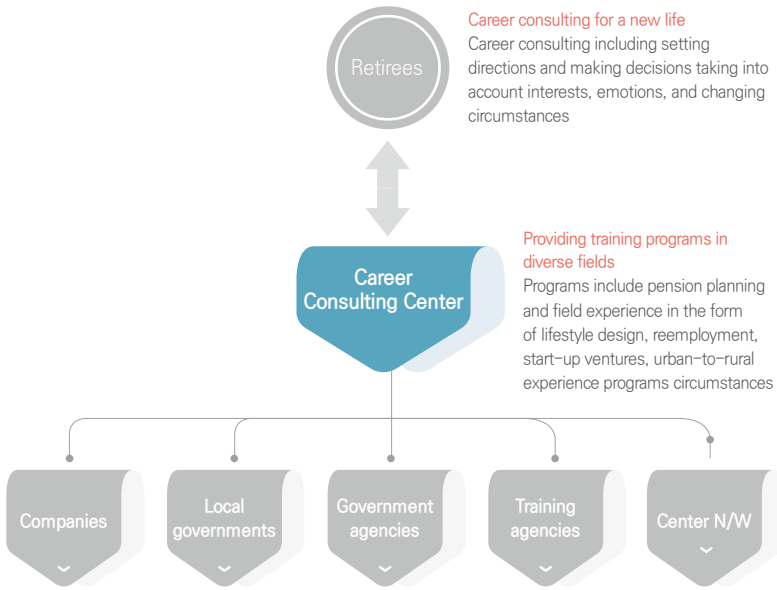
Start-up seekers can attend the start-up venture course (2 times/year) providing general guidelines such as selection of business items, development of business plans, and business registration. Also, the urban-to-rural experience program (2 times/year) offering an overview of returning to farming through a rural field trip, and specialized programs for executives (3 times/year) are provided as well. Likewise, retired executives and employees can select a course among various programs provided based on their needs.

The integrated consulting center is an exclusive space for retirees near the company encompassing a multi-media training room accommodating 50 people at once, a 21-seat internet cafe where retirees can develop their business plans and engage in job-seeking activities, 4 consulting rooms, and a lounge where users can enjoy a wonderful view of the changing seasons. In the center, we provide individual assessment and change management.

Vision for the Future

The Career Consulting Center provides customized programs with depth and insight which analyze the retirement environment in depth and offer tailored support according to individual strengths and weaknesses and reflect the interests of retirees beyond extending support for reemployment and job transfer. Concerted efforts are made to ensure the center serves as a beacon of light and a reliable companion for retirees to discover a new life and beyond in an age when the average lifespan is nearing 100 years.

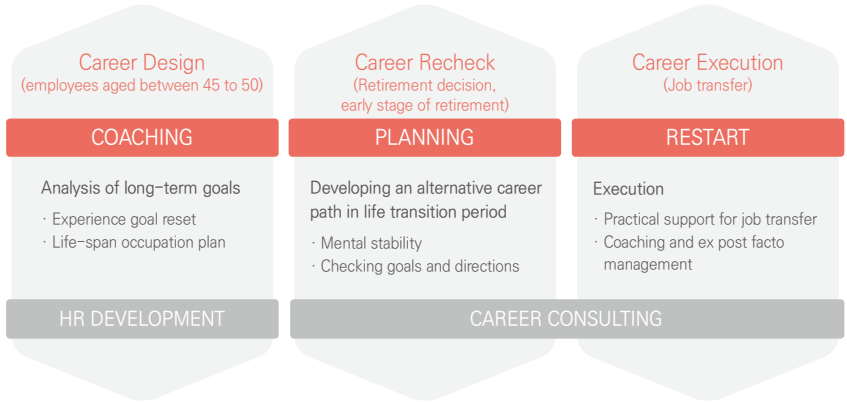
Job Transferring Support for Retirees



Providing detailed support for reemployment

- Help retirees write their CVs for individual career advancement
- Discovering positions and job interview support for retirees who seek reemployment

Career Consulting Program



HUMAN RIGHTS AND LABOR

We practice a culture of mutual respect and provide protection for human rights by creating a cooperative labor-management culture

Protection of Human Rights

Samsung Electro-Mechanics has devised various measures to protect the human rights of employees in accordance with the Labor Standards Act. Employment rules at Samsung Electro-Mechanics contain provisions on the protection of human rights by prohibiting all types of discrimination (nationality, gender, religion, academic background, social status, etc.) and forced labor. We also thoroughly identify human rights protection provisions prescribed in the Constitution of Korea and the Labor Act, and preemptively comply with them. We comply with regulations of the Responsible Business Alliance (RBA) for overseas subsidiaries, prohibiting forced labor and child labor in accordance with the Labor Act in local countries.

Our procedures are in place to reasonably accommodate for religious practices and adjustments to the work environment to allow a worker to comply with their religious beliefs while at work. We also respect the legal right of all workers to peacefully assemble as well as respect the right of workers to refrain from doingso. The workers have right to individual or collectively raise their concerns or ideas.

We continuously engage in activities to evaluate, monitor, collaborate, and support efforts to protect the human rights of both our employees and stakeholders including business partners and local communities.

Preventive Activities

Samsung Electro-Mechanics makes efforts to build a sound corporate culture by respecting individuals and building mutual trust.

We operate sexual harassment prevention programs every year, according to Article 13 of the Equal Employment Opportunity and Work-Family Balance Assistance Act and also conduct activities related to the prevention of sexual harassment through 'Change Agents (CA),' which involves in-house counselors who are dispatched to each department. We also operate a 'sexual harassment, verbal violence, harmful drinking culture report center' via the company intranet and resolve problems regarding human rights violations at the 'Mental Health Center,' and through a smartphone application, 'Mobile 7979'.

> "In the age of infinite competition, we must maintain the highest level of productivity as all employees make concerted efforts to fulfill their duties and this requires mutual cooperation from both labor and management. Hence, the Hanwullim Council encourages a process of mutual understanding and cooperation fairly to realize mutual interests shared by labor and management by holding regular consultative meetings each year. As a body representing employees of Samsung Electro-Mechanics, we will strive to collect their opinions, provide an outstanding work environment so that we can contribute to boost corporate value."
>
> **Lim Young-tak**
> Chairperson of Hanwullim Council, Samsung Electro-Mechanics

In an effort to establish a culture of mutual respect, we provide training in 5 areas to encourages respect for others (hierarchy/colleague/opposite gender/life/task) among all employees.

For foreign employees, we have employment rules written in languages (Japanese and English) that they can understand and each overseas subsidiary discloses and provides notification of the employment rules translated into the language of country concerned.

For business partners in charge of the security of our business sites, we emphasize the prevention of human rights violations, while security companies provide training on human rights protection on a quarterly basis. We also conduct human rights training for security staff at home and abroad.

Samsung Electro-Mechanics prohibits the recruitment of minors by submitting a copy of resident registration and related supporting documents during the recruitment process.

Human Rights Supervision and Appraisal

We make continued efforts to protect human rights throughout the company and promote human rights protection activities through cooperation with the legal department, compliance department, HR, inspection department and counseling center. Labor management gives an ear to employees and allows them to select cooperation council representatives through elections and operates a discussion system. The HR Team adopted on-site organizational management assessments in 2013, giving feedback to each department after evaluating the level of mutual respect and protection of human rights within each business unit. If issues are found during the assessment, we provide measures for improvement based on causal analysis and follow up on improvement status through regular monitoring activities.

The Management Labor Council runs the Ombudsman board on its website, enabling two-way communication regarding grievances related to employees' human rights. Employee representatives of the Hanwullim Council gather opinions on each sector for suggested grievances, and provide answers or solve problems. Consultations on its activities are transparently disclosed via its website, contributing to the management system of shared growth of labor and management.

100%

Completion rate of sexual harassment preventive education

Cooperative Labor-Management Culture

Samsung Electro-Mechanics runs the Labor-Management Council pursuant to the Act for Workers' Participation and Cooperation Enhancement.

Believing that stronger employee competitiveness through labor-management harmony equals corporate competitiveness, we constantly communicate with the Labor-Management Council, proactively gathering employees' ideas. The Hanwullim Council is the employee (accounting for 63.0% of all Samsung Electro-Mechanics employees) representative organization, gathering feedback through various communication channels.

It is celebrating the 19th cohort now, since the first Labor-Management Council was established in 1981 and has served as a consultation body through the selection of 51 representatives directly elected by employees.

Plant Council and Board Discussions

Discussions in which labor-management representatives participate every month through board discussion councils and plant councils contribute to improving the cooperative labor-management culture. Matters significantly impacting employees are discussed regularly by organizing monthly labor-management council meetings and notifications of decisions taken are provided within 30 days.

Samsung Electro-Mechanics plans to speed up the process of employee grievance handling and sets a target of handling 950 cases by 2020.

Multidirectional Communication Channel

Samsung Electro-Mechanics has made available multidirectional communication channels to enhance its corporate culture and promote a GWP (Great Work Place) for employees while contributing to employee satisfaction by carrying out various communication activities. We also carry out communication activities through online and offline channels.

We promote online communication through 'SEM Ground,' an internal communication portal, which share the company's corporate culture and related news and discussion, the bulletin board to help provide an outlet for employees' VOC and improve satisfaction.

Change Agents (CA) are selected in each department to handle offline communication to organize activities for improvement targeting GWP, training, consultation and security. Leaders of volunteering and club groups fulfill their roles, contributing to a stronger communication culture.

All employees can participate in these multi-directional communication activities, evaluated to offer a high level of satisfaction.

Status of each Deliberation Organization of the Hanwullim Council

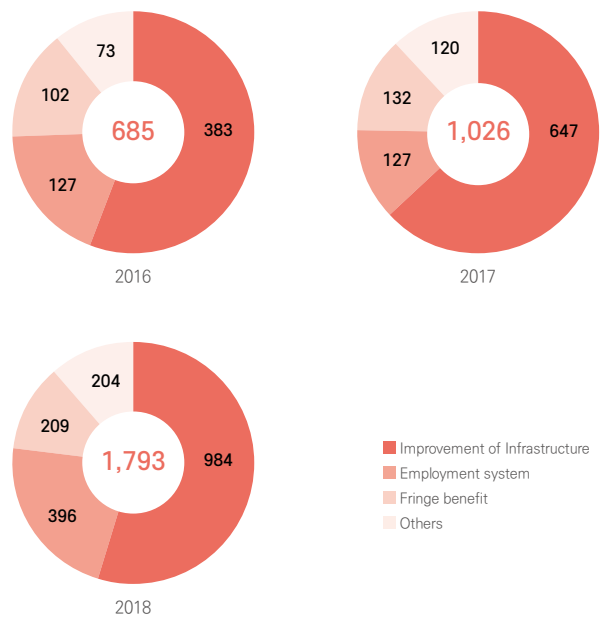
(coverage: domestic basis, unit: cases)

	2016	2017	2018
FUN	15	15	37
PRIDE	17	14	10
TRUST	11	13	11
WOMEN	4	3	5
Total	**47**	**45**	**63**

* FUN : Employee contributions, assistance for unexpected misfortunes, activities to revitalize organizations, etc.
PRIDE : Improvement of company-wide welfare facilities, efforts to enhance working environment, productivity, competitiveness, etc.
TRUST : Institutional systems regarding HR, labor-management relations and employee training, and criteria of wage and benefit systems
WOMEN : Improvement of company-wide welfare facilities and personnel management system related to women employees

Receipt and Processing Status of Online Suggestions

(coverage: domestic basis, unit: cases)



Online Communication among Employees

Samsung Electro-Mechanics is creating a basis for proactive communication and empathy with stakeholders through diverse online communication channels. We strive to create a culture of openness where internal and external stakeholders empathize with one another and share ideas in a transparent manner through the company's website and social media channels.

Samsung Electro-Mechanics contributes to employee satisfaction by making available multi-directional communication channels to establish an appropriate corporate culture and realize a GWP (Great Work Place) for employees.

In-house Counselors as 'Change Agents'

Samsung Electro-Mechanics fosters 'Change Agents' as in-house quasi-counselors in each department to provide training on the promotion of mental health for employees twice per year. The monthly Mental Health Letter is sent to employees to share information on high-quality counseling services to promote mental health.

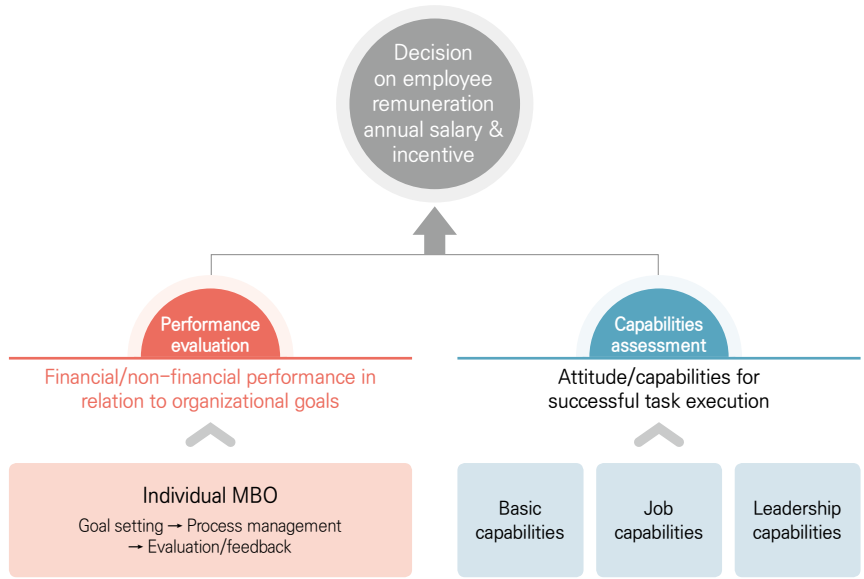
Evaluation and Remuneration System

Evaluation and Management of Targets

Samsung Electro-Mechanics has established the "Management By Objectives" (MBO) system to provide well-defined guidelines for employees to play a leading role in conducting business activities and has fine-tuned the process based on interim checks and feedback to ensure the fair evaluation of employees.

In order to enhance the fairness in evaluation and employees' acceptability of the results, we cross-check the result of MBO and performance reviews. Employees are allowed to undergo another round of reviews through the application process to raise objections if there is any objection to the results. We are also making efforts to enhance the competencies of reviewers by providing them with bi-annual training sessions and evaluation manuals.

Employee Evaluation and Remuneration Principle



Minimum Wage

Samsung Electro-Mechanics promotes the enhancement of labor productivity by stabilizing the livelihood of employees and enhancing quality in its workforce with the guarantee of a minimum wage. Samsung Electro-Mechanics, which has established a global network operating in Korea, China, Thailand, the Philippines, Vietnam, and other countries pays a minimum wage that is higher than the amount prescribed in the laws of countries concerned.

If the amount provided to employees as welfare benefits is included in the monthly salary, the total payment is higher than the amount listed above, ensuring that employees can enjoy a good quality of life.

Equality in Wage

Samsung Electro-Mechanics guarantees equal wages for men and women, which means that payment for female employees is the same as that of male workers. If the value of women's labor is underestimated, it may serve as an obstacle in terms of their social participation and economic opportunity, creating a negative impact on economic growth.

Employee Satisfaction

Advanced Welfare Benefits

Samsung Electro-Mechanics operates a comprehensive company policy that ensures an improvement in the quality of life among our employees. We provide differentiated corporate benefits by providing pensions, education expenses for employees' children, reimbursement for medical services (spouse, children), benefits for special events such as births and matriculation, and of course, assistance in the case of unexpected misfortune.

We also encourage our employees to enjoy leisure activities at vacation venues, water parks and other wellness programs and clubs, to provide access to benefits that are suitable for each individual's lifestyle as part of our selective benefit system.

Employee Satisfaction Survey

Samsung Electro-Mechanics annually administers the SCI (Samsung Culture Index) domestically and internationally to enhance the working environment and chart employee satisfaction. We carry out appropriate system and infrastructure improvements by analyzing the results and aim to enhance satisfaction among employees.

Work and Life Balance

Flexible Working Hours

Samsung Electro-Mechanics adjusts working hours required for individual jobs and lifestyles and maximizes workplace efficiency by implementing an individual attendance policy and a flexible working hour policy. The purpose of adopting these policies was to lay the strategic foundation for Win-Win Benefits for individuals and the company, while realizing the goal of 'working smart.'

Samsung Electro-Mechanics introduced a working time management system to help employees manage their own working hours, and strives to eradicate excessive working hours. In the case of personnel who are expected to work excessively, the head of the department is given an alarm to request the management of the working hours of the department members.

This has killed two birds with one stone- adding flexibility to employees' lives and bringing about synergies in work-contributing to higher employee satisfaction through a work-life balance. Furthermore, it is used as a system that creates additional family time and a more comfortable working environment for employees with children. A 'Homerun Day' is designated twice a month to encourage employees to spend more time with their families.

Family-friendly Management

Also, Samsung Electro-Mechanics received a high score from the Ministry of Gender Equality and Family as the Best Family Friendly Company. Samsung Electro-Mechanics has also participated in the government's policy consulting for a balanced work and home life as a member of the family policy forum committee.
Samsung Electro-Mechanics holds 'inviting the family' activities as part of its family-friendly policies and these activities are popular among employees.

The activities include children's day activities, employees' family camps and diverse theme trips every month. We also conduct family counseling programs through the counseling centers to help employees balance their work-life and family responsibilities. We provide support the education of employees' children and for medical expenses incurred by spouses/children to help relieve the burden imposed by school and hospital bills. We also provide support for unexpected financial bills in case of emergencies. We also aid employees in the event of family medical issues such as organ transplants or nursing care, by developing policies such as transplant leave and nursing care leave policies.

Improvement of the Rights of Female Employees

Samsung Electro-Mechanics provides opportunities to work and receive education regardless of gender by improving the rights of female employees and related welfare benefits. The company also operates various maternity protection policies.

Maternity Protection Programs

In addition to than maternity leave before and after birth and parental leave, we support employees as they become moms by providing health checkups and time to spend with children as part of the newly created 'mommy leave' as well as parental leave that has been expanded to two-years. Infertility treatment leave is also provided as part of preparation for those who are seeking to have children in the future. We also provide gifts and grants to employees whose spouses have given birth to celebrate them at the company level.

Childcare Support

We operate in-house childcare facilities for female employees with children, to help them focus on work and help relieve the associated financial burden by providing support for kindergarten tuition and children's medical bills.

Improvement of Infrastructure

We provide different-colored employee cards to pregnant women and new moms at work, so that employees can recognize them easily. We also operate lounges that cater to pregnant women and provide additional snacks in cafeterias as well as a mom-to-be parking lot for the enhancement of their working environment.

W Committee

Since 2013, Samsung Electro-Mechanics has operated a committee concerned with the enhancement of female employees, the -'W (Women) Committee'-and holds conference meetings for the betterment of female employees. Samsung Electro- Mechanics has also implemented a policy where the relevant committees can carry out discussions regarding VOC of female employees and thus help improve their working environment.

SAFETY AND HEALTH

We realize a management culture promoting safety and health by reinforcing prevention activities

The Value of Safety and Health

Based on the management principles of valuing safety, environment and health, Samsung Electro-Mechanics puts significant emphasis on safety and health management in operating its business. We continue to carry out activities to create a safe workplace by ensuring safety for all and promoting health to expand a culture of safety.

Creating a Safe and Healthy Workplace

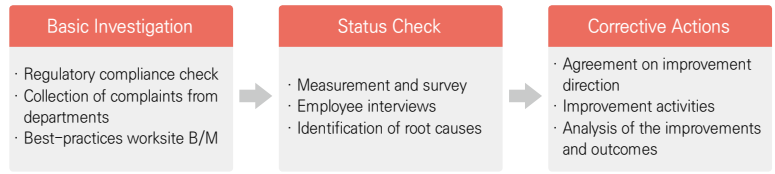
Industrial Safety and Health Committe

The Industrial Safety and Health Committee is convened every quarter with an equal number of labor-management representatives. The committee conducts activities that are directly related to the management of the safety and health of employees such as the development of disaster prevention plans, documentation and revision of safety and health management regulations, medical examinations, and working environment assessments. The committee has successfully resolved items, which were selected based on the deliberation and decision-making of the labor and management representatives on the safety and health of employees through quarterly meetings. As such, we ensure employees conduct their work in a pleasant and safe working environment and improve overall employee health.

Executive Commitment to Safety and Health

Samsung Electro-Mechanics conducts a monthly safety environment meeting presided by the CEO that includes participation by key executives and heads of business divisions under the banner that 'Creating a healthy and safe workplace is the top priority of management.' During the meeting, issues related to health and safety and the results of safety activities being carried out by each business division are presented and discussed.

Work Environment Improvement Process



We assign specific goals related to safety management activities to executives and heads of each business division to ensure that they take responsibility in managing related issues.

Early Detection and Management of Risk Factors

Samsung Electro-Mechanics conducts qualitative and quantitative risk assessments to identify hazards and risk factors in advance when changes occur such as the deployment of new processes and facilities. We are also strengthening preemptive prevention activities by dealing with identified risk factors to reduce risk and by conducting reassessment of all areas each year.

Intensive Management Efforts to Prevent Major Industrial Accidents

Samsung Electro Mechanics develops a process safety report based on process safety management data sheets, risk assessments, operational safety, emergency preparedness and responses to enhance prevention of major industrial accidents such as fire and explosion in processes involving large-scale hazardous materials. We strive to maintain Process Safety Management (PSM) at the highest level and to prevent all major industrial accidents. We have developed and operate e-learning programs for employees and established a safety experience training center to enhance safety awareness among both our employees and business partners at all work sites for disaster prevention.

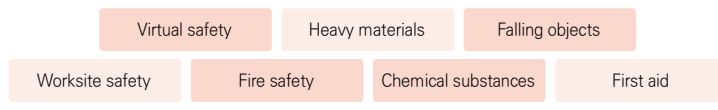
Prior Review and Approval of Hazardous and High-Risk Operations

In principle, 9 types of high-risk operations related to flammables, heights, sealing, asbestos, heavy equipment, electricity, and others should be reported and receive approval one day before carrying out such activities. Samsung Electro-Mechanics develops and shares safety work plans for the activities listed above to ensure safety from potential risks and carries out pre-, ongoing, and post-safety management activities accordingly.

Assessment of the Working Environment

Samsung Electro-Mechanics manages occupational exposure limits for chemical substances at 30% below the statutory level to create a pleasant working environment. We ensure efficient management of worksites through various assessment measures such as local exhaust ventilation system design, construction validation, and self-inspection and also conduct pre- and post-evaluations of the ergonomics process.

Thematic Safety Experience Training Center



Emergency Drills

	Target	Cycle	Description
Comprehensive drill	All employees	Twice a year	Evacuation drill in preparation for disasters
Response drill	The building	Once a month	Drill based on the 13 risk response scenarios
Basic drill	Manufacture process	Once a month	Basic drill led by volunteer fire department
Etc	Female dormitory	Twice a year	Fire emergency evacuation drill at night
	Daycare center	Once a month	Fire emergency evacuation drill

As for simple repetitive tasks and activities creating an excessive burden on the body, we study the hazardous factors and focus on ergonomic task improvement for any irregularities found. As for personal protective equipment, we provide training on how to wear appropriate gear and information on hazards and risks. For dust masks and other protective respiratory equipment, periodic training and evaluations are provided to ensure that workers are not exposed to hazardous environments.

Health Promotion

Samsung Electro-Mechanics provides various health check-up programs including comprehensive physical examinations-general, special, and detailed check-ups, and thorough examinations during life transition periods-mental health tests and various kinds of cancer screening, to promote employee health. Samsung Electro-Mechanics operates an in-house medical clinic to efficiently and professionally manage the health of employees. Family physicians and dermatologists provide medical checkups and follow-up management after the examination as well as orthopedic care services in a physical therapy room to relieve symptoms and to provide precautionary remedies.

To promote the health of all employees at worksites, we provide vaccinations, care programs for employees who return to work after sick leave, hazards and risk assessment for maternity care givers. We also run a Body Mass Index (BMI) program helps employees return to health by improving eating habits and metabolic activities, non-smoker certification to actively support smoking-cessation activities and regular smoking cessation programs.

In order to prevent infectious diseases being spread by business travelers at home and abroad, we develop infectious disease emergency response manuals and provide measures according to danger level-attention, caution, alert, and severe, and carry out related activities by monitoring the spread of food poisoning, influenza, MERS, HIV/AIDS, Tuberculosis, Malaria and other infectious diseases in real-time based on information received by the Korea Center for Disease Control & Prevention and Korea Meteorological Administration.

> "Samsung Electro-Mechanics adheres to the principle that 'Creating a healthy and safe workplace is the top priority of management.' Unsafe working conditions and workplaces can serve as factors decreasing productivity, posing a negative impact on sustainable growth. Hence, Samsung Electro-Mechanics strives to establish and spread the right culture for safety."
>
> **Lee Sang-wook**
> Head of SHE Innovation Group, Samsung Electro-Mechanics

Emergency Response Capability

Samsung Electro-Mechanics operates an emergency situation room 24/7 to monitor dangerous facilities and weather conditions in real time and has established a complete contingency response system by securing fire trucks and other emergency response equipment.

Samsung Electro-Mechanics has devised 13 scenarios related to the leakage of chemicals, fire, and earthquakes and conducts emergency drills that involve the prompt identification of situations, counter disaster operations, evacuation, and other matters to improve the response capabilities of all employees.

Voluntary Health and Safety System

Samsung Electro-Mechanics requires all workers accessing worksites to complete training on safety compliance before entry to the sites to ensure the safety of all employees. A monthly health and safety council is held with the attendance of business partners stationed at sites to continuously discuss issues and gather opinions. Joint safety checks are conducted each quarter to mitigate risk factors. We also operate the Win-Win Cooperation Program for in-house and external business partners to support voluntary health and safety activities by assisting the relevant parties acquire certificates in risk assessment as well as safety and health management systems (KOSHA). We have received Grade A in the category for best practices in safety and health support from a parent company each year by the Ministry of Employment and Labor.

Safety and Accident Prevention Activity

Identification of Potential Risks at Sites

All employees are engaged in activities to discover potential risks so that they can identify risk factors in the workplace and make improvements as necessary. We make continuous efforts to support employees working in manufacturing plants, offices, and R&D centers to make a habit of looking for unsafe behaviors and insecure sites as well as take prompt corrective actions whenever necessary. We have established and operate a dedicated system that helps employees manage the entire process from identification of potential risks to improvements as well as helping them to access to and share the relevant content. We look for and share examples of major issues found at certain sites that may also apply at other sites every week and month. We also establish and distribute a casebook of major issues found during the year, titled 'Recommendations on Cross Sectional Deployment' at the end of year.

Operation of Daily Exclusive Patrol Teams

Continuous checks refer to detailed inspection activities at sites to eradicate risks jeopardizing work safety that go beyond existing review activities such as various safety assurance activities, utility checks and preventive activities, to the identification of potential risks.

Safety management staff inspect key facilities such as manufacturing facilities, utility facilities, gas equipment, and environmental protection facilities daily by using measuring devices including thermal imaging devices, endoscope cameras, insulation resistance testers, hot wire anemometers, and others. Identified risks are immediately mitigated or registered in the safety environment portal system and managed until the improvement activities are completed.

Safety Culture

Samsung Electro-Mechanics engages in various activities to expand a culture of safety in the workplace with the aim of establishing a global top-level culture of safety by 2019. The activities include holding a worksite safety UCC contest, voluntary activities by employees to find and mitigate potential risks, reflecting the outcomes of successful safety objectives in the performance evaluation of executives, and experience-based safety training for employees.

We evaluate the culture of safety at all sites at the same time each year to verify the current status of safety management and to further improve employee awareness on safety based on diverse activities to establish a culture of safety.

Safety Culture in Each Stage

Current

Indifference	Passive	Systematization	Selection	Creative
Safety management is non-existent	Safety and environmental regulatory compliance requirements are carried out	Safety management system is internalized	All employees actively participate in the safety and environment related activities	**All members encourage one another and develop a sophisticated culture of safety**

In 2017, through improvement activities, we achieved a 'creative stage', which is two steps higher compared to the first test conducted in 2015. It has been maintained until 2018.

Mental Health

Since 2003, Samsung Electro-Mechanics has been operating an in-house counseling center to boost the mental health of employees.

Major Services

The Mental Health Center provides personal counseling and mental health check-up services not only for employees but also for their immediate family, and results are kept confidential, so the services can be used without any hesitation. In addition, we develop and offer diverse programs including childcare for parents, leadership coaching for employees in upper management, thematic counseling, manufacturing site visits, and training on face-to-face communication skills to improve the quality of life for employees and their family members.

We installed a mediation room within the company offices in 2013 and have provided mediation courses on an ongoing basis. As for highly-stressed executives, we help them to improve stress management techniques in conjunction with specialized organizations.

Establishment of Counseling Infrastructure for Better Access

Samsung Electro-Mechanics offers support through 'Mobile 7979', a mobile counseling app, to help employees easily access counseling services and share their concerns whenever and wherever they happen to be. 'Mobile 7979' provides a wide range of services including online psychological testing for the diagnosis of one's mental health, psychological counseling, and appointments for counseling sessions for employees as well as their family members. Also, telephone counseling hotlines are in operation 24/7 in preparation for those in need of emergency help.

Dormitory and Cafeteria

Samsung Electro-Mechanics is making efforts to promote welfare benefits and stable life of employees housing in the company-owned dormitories and guarantee their human rights. All facilities in the dormitories are clean and safe and employee are provided with sufficient living spaces. Also, they are managed in accordance with related regulations to maintain the safety. Fire evacuation drills are conducted twice a year and further efforts are made for the safety of employees living in the dormitories by maintaining emergency response systems such as smoke ventilators and automatic fire sprinklers.

We operate on-site cafeterias to offer healthy food services to employees. We detect and eliminate safety and health related risk factors in advance through safety checks and consulting services conducted by Korea Industrial Safety Association and support for health management by providing cafeteria staff with health-related training. We are paying full attention to keep cafeteria facilities clean and safe by carrying out safety checks and fire inspections as well as water quality testing on a regular basis.

GREEN BUSINESS OPERATION

Environment

We engage in eco-friendly management activities for sustainable growth to reduce greenhouse gas emissions and environmental pollution. During the course of providing cutting-edge electronic parts to our customers, we have established a global environmental management system by removing harmful substances from all products and complying with global standards. We will continue to contribute to the worldwide efforts towards sustainability by making working sites cleaner and safer and enhance planning of measures against climate change through eco-friendly technologies and global environmental management to realize corporate growth and protect the earth for future generations.

ENVIRONMENTAL MANAGEMENT SYSTEM

We operate an efficient energy management system in accordance with global standards

ISO 14001

Policies

Samsung Electro-Mechanics complies with global standards by operating enterprise-wide management systems such as ISO 14001 (environment), ISO 50001 (energy) and contributes to protecting the earth and environment by carrying out continuous improvement activities in areas of environmental protection, accident prevention, and efficient energy use.

The CEO has announced principles for the management of environmental protection, and energy usage, set detailed goals for each activity, and shared the company's values with all employees for efficient operation of the environment, energy management system. Such efforts have led to voluntary participation by employee and created material outcomes. We disclose our activities to stakeholders transparently to increase corporate credibility.

Assessment System

Samsung Electro-Mechanics conducts an assessment for renewal and ex-post facto review from external certification agencies every 3 years and annually, respectively, to verify the continuity, effectiveness, and compliance with the environment, energy management system. Also, we have established and implemented internal regulations to monitor and evaluate the process of Plan(planning)-Do(execution)-Check(confirmation)-Action(improvements).

Each department regularly conducts environmental impact assessments and risk assessments each year to identify critical hazards and risk factors in the areas of environment, and energy, develop detailed action plans for improvement, and generate outcomes after execution with the aim to abide by the energy, environment, and energy polices of the company and achieve related objectives. The progress and status, as well as implementation of such programs are periodically monitored and evaluated through internal reviews (2 times/year) and a comprehensive report including achievement of management system goals, internal and external issues, and compliance evaluation is delivered to executives.

We transparently disclose all related activities to stakeholders and are dedicated to ultimately creating a safe working environment.

Implementation Direction

Samsung Electro-Mechanics is working to improve the level of environment, energy management by implementing more sophisticated operation and management systems in areas of climate change response (GHG reduction activities), manufacturing of eco-friendly products and product environmental regulatory responses (green purchasing system), strengthening of chemical substances management (hazards materials management system). This is to respond to the compliance challenges posed by safety, environment, and energy regulations and obligations at home and abroad, and the increasing demands of stakeholders.

We have improved operational efficiency by adopting a system for environment, energy management, enhance operational standards by strengthening related training and support activities from company HQ, respond to the changing business environment by incorporating revised ds such as ISO 14001 (environment) into our management system, and strive to increase efficiency by integrating separate management systems.

Environment Investment

We have made an investment in environmental protection to eliminate industrial disasters and respond to safety and environment regulations at home and abroad since 2013.

Investment is focused on the replacement of obsolete facilities to improve waste treatment facilities, manage air pollutant emitting facilities, strengthen the management of waste disposal, reduce energy consumption and induce efficiency in energy usage. We invest in the enhancement of safe environmental facilities and promote the installation of new facilities to reinforce the management of energy and environmental protection at sites.

We convene a Deliberation Committee that thoroughly verifies the purposes, methods and improvements in devising investment plans to verify the adequacy of investment choices, and systematically manage the schedule and investment amount needed via an investment management system.

Samsung Electro-Mechanics continues to monitor and carry out related activities encompassing the entire process from investment plan to execution of environmental facility innovation with the aim to achieve the process innovation rate of 90% by 2020.

Investment and Expenses

(coverage: consolidated basis, unit: KRW million)

	2016	2017	2018
Environment and energy investment	30,331	4,703	30,092
Environment and energy expenditure	210,321	238,359	268,379

ECO-FRIENDLY OPERATION

We implement eco-friendly best practices in their operations

Air Quality

Samsung Electro-Mechanics has installed optimal air pollution prevention facilities to reduce air pollutants and improve the atmospheric environment as it pushes for the improvement of pollution prevention facility efficiency. Every month, we analyze air pollutants through external authorized agencies and continuously monitor pollution levels. In adopting new manufacturing processes, we conduct a safe environment assessment to review expected pollutants to minimize pollutant generation and manage emission limit values (ELVs) at 30% below statutory standards.

In addition, we periodically check environmental facilities and conduct maintenance activities to sustain their optimal operation at all times, verify generation of new pollutants by carrying out pollution concentration analyses on all items in advance, and constantly engage in eco-friendly investment activities such as the immediate repair and replacement of outdated facilities.

Water Resources

Samsung Electro-Mechanics is well aware of the importance of water resources and highlights the resolution of environmental issues while fulfilling its corporate social responsibilities to protect and sustain water resources.

Failure to secure a sufficient amount of water as well as the quality of water resources needed for manufacturing can pose a severe obstacle to business continuity in specific regions by inducing lower production capabilities and higher operational costs for water treatment.

Against this backdrop, Samsung Electro-Mechanics conducts a risk analysis of water resources and makes investments in water treatment facilities to maintain internal standards for water quality management. We also establish emergency response plans in preparation for unexpected interruptions to water supply by securing water storage tanks and dual water suppliers.

For sustainable management of water resources, we implement systematic monitoring at the corporate level, periodically check the current status of water resources at global sites, analyze the quantity used and monitor key trends and report them to top management.

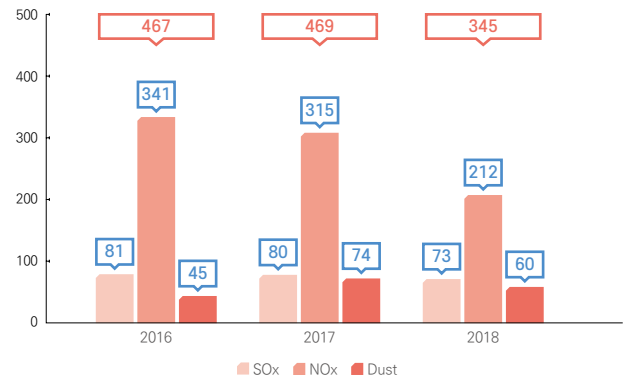
Programs to Reduce Water Resources Consumption

Samsung Electro-Mechanics conducts inspections at domestic and global sites to check their current status and engage in activities related to industrial water usage, with the aim to reduce water resources consumption. Also, we have implemented a company-wide facility procurement review system to reflect reductions in water resources consumption in the design of new facilities when purchasing manufacturing facilities. We constantly monitor and manage the Water Balance from the inflow industrial water to disposal of waste water to prevent the waste of water resources due to leakage in underground water pipes and other causes.

We continue to engage in activities to reduce water consumption by setting new goals at each site and putting in place performance management goals to control water usage.

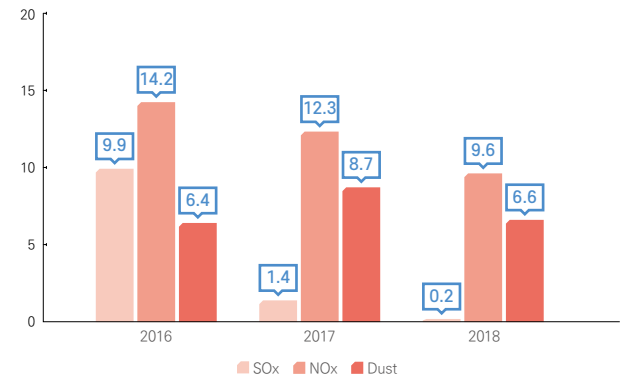
Air Pollution Emissions

(coverage: consolidated basis, unit: ton)



Average Emission Intensity Compared to Statutory Standards

(coverage: consolidated basis, unit: %)



Water Quality

Samsung Electro-Mechanics has set its permitted emissions level for water pollutants at 30% below statutory standards and comprehensively manages the limit by maintaining its actual emissions level at below 10%. Moreover, we establish an environmental review system when opening new facilities and remove up to 99% of pollutants in high-density copper wastewater by using the ion exchange technique.

We strive to improve the quality of discharged water and manage pollutants via various activities to enhance the environment within manufacturing processes such as high-density copper wastewater treatment, sludge reuse, improving responses to chemicals emitted and sludge dehydrators, etc.

We have continually conducted environmental impact assessments at places nearby sites and worked to reduce the Biochemical Oxygen Demand (BOD) concentration level after converging the water discharged from our sites in Woncheon Richeon by more than 38%.

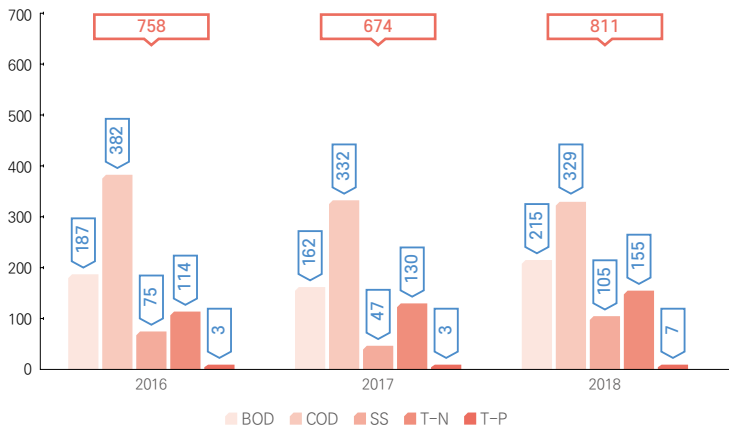
Water Usage

(coverage: consolidated basis, unit: m^3)

	2016	2017	2018
Industrial water	10,723,070	11,463,579	12,737,867
Municipal water	4,500,503	4,265,393	3,273,917
Surface water	2,175,296	2,675,100	2,997,373
Ground water	1,809,864	2,934,056	3,479,574
Total	**19,208,733**	**21,338,128**	**22,488,730**
Re-use water volume	2,688,221	2,658,461	3,787,453
Recycling rate (%)	14.0	12.5	16.8

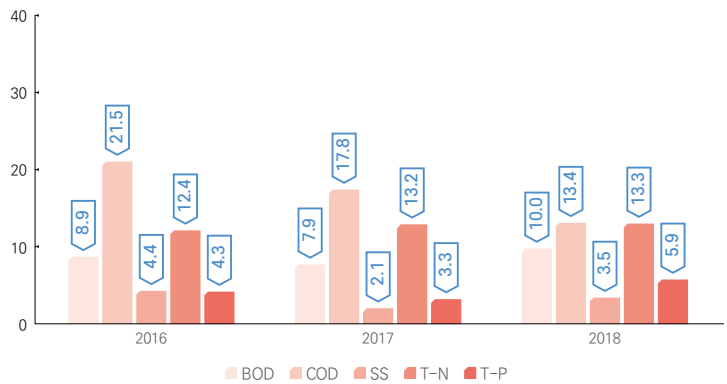
Water Pollutant Emissions

(coverage: consolidated basis, unit: ton)



Average Emission Intensity Compared to Statutory Standards

(coverage: consolidated basis, unit: %)



Waste

Management System

Samsung Electro-Mechanics develops a list of waste products for intensive management based on the amount generated and status of recycling and establishes improvement plans each year and visits sites for inspections every quarter to ensure better waste management.

We study the Waste Control Act and other related regulations on a regular basis to reflect revisions and amendments and develop and implement response measures as preemptive approaches before the enactment of regulatory changes. In addition, we provide a timely response to regulatory compliance issues such as the submission of performance reports and reporting on changes.

Waste Reduction

Samsung Electro-Mechanics conducts multifaceted activities such as efforts to reduce waste and improve resource efficiency during the entire process from procurement of raw materials to production. We have also developed an internal safety environment index and manage related data.

Samsung Electro-Mechanics will continue to invest in the upgrade of pollutant treatment and management of new technology development.

78.6%

Recycling rate

Recycling

We monitor and manage the amount of waste generated and associated recycling rate each month to maintain the waste-recycling rate at 80% above the target level. We thoroughly inspect manufacturing, production, and R&D facilities with intensive site management based on 5-track detailed management methods: Proper Items in the Proper Quantity at the Proper Place (3P), and through the Sorting, Straightening, Shining, Standardizing and Sustaining (5S) movement to check annual reduction of waste and the status of separate garbage collection. We make efforts to ensure sites strictly comply with the relevant processes, communicate with employees to achieve our goals by planning and establishing core tasks each year.

Samsung Electro-Mechanics reinforces activities to collect and separate waste items and considers various options for recycling instead of incineration and landfill. We provide employee trainings and campaigns to raise awareness on separation in disposing of waste and plan to achieve the efficiency in resources.

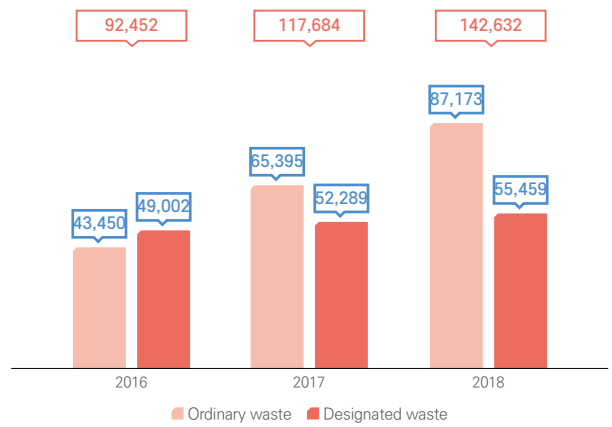
Treatment

We provide tenders through a fair bidding process to select waste transport and treatment companies via the Global Infra Management System (GIMS) and sign contracts with companies that have obtained permits to carry out the activities concerned from the authorities in charge. The entire process of waste generation, transportation, and treatment is transparently managed through the official treatment system (Allbaro System) authorized by the government.

As for waste treatment companies, an annual inspection is carried out through a company assessment report before and after signing the contract to check on the legitimacy of discharged waste treatment. As for new tenders, we visit them before the bidding process to check on the treatment site and associated licensing as well as other compliance items. Existing outsourcing companies are inspected after the completion of contracts.

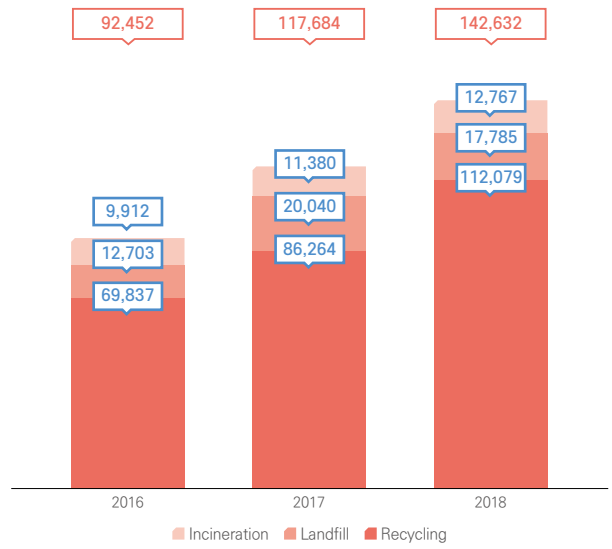
Amount of Waste Generated

(coverage: consolidated basis, unit: ton)



Treatment and Recycling of Waste

(coverage: consolidated basis, unit: ton)



We visually and systematically manage waste types and items, information on outsourcing companies, and other information via the Recycling Management System (RMS) and calibrate weighing instruments each year to eliminate errors in waste weight data and ensure accurate transactions in terms of the payment to waste treatment companies.

Improvements on management of designated waste are made by renewing section lines per item and epoxy floor coating each year to prevent leakage in advance. Designated waste refers to hazardous substances that could harm human health and pollute the environment through the soil or air.

We comply with the storage duration limit of designated waste (45 days) and install locking devices and trenches on all doors of storage units and within the storage containers, respectively, for leakage prevention. In addition, we have built a response system by installing Leak Sensors and CCTVs to ensure notification when leakage occurs.

Persons in charge of designated waste treatment must wear chemical protective equipment to carry out treatment activities and access to those facilities is limited only to trained and designated persons to ensure designated waste is treated safely.

Eco-Friendly Procurement

Samsung Electro-Mechanics engages in activities that prioritize procurement of products with eco-friendly certification including subsidiary materials, electronic items, and furniture after it signed a voluntary agreement with the government on green procurement. We will continue to procure green products to continually reduce carbon emissions.

Eco-Friendly Packaging

The packaging design division of Samsung Electro-Mechanics actively promotes activities to reduce both packaging costs and the use of packaging materials by expanding reuse and recycle of packaging with packaging design that curbs the use of disposable materials for both product packaging for customers and packaging for transportation within the company and among overseas subsidiaries.

"The Ministry of Environment has designated corporations which contribute to environmental improvement through green management activities as green companies. Their activities include the implementation of a corporate environmental management system, reduction of pollutants and the conservation of resources and energy. As of 2018, 139 companies were selected as green companies. As president of the Green Company Council (GCC), Samsung Electro-Mechanics has played a bridging role between the government and companies and demonstrated an exemplary level of environmental management."

Lee Il-Gyu
Head of Environmental Management office, Korea Environmental Industry & Technology Institute

Recycling of Packaging Material

Samsung Electro-Mechanics works to provide quality packaging materials that meet customer demands based on status analysis and observation in collaboration with users. We strive to save resources by curbing the use of disposable packaging materials and promoting their reuse and recycling. Such efforts have been expanded not only to client companies purchasing our products, but also to raw material suppliers and packaging materials used for transportation among overseas subsidiaries.

Biodiversity

Samsung Electro-Mechanics signed the 'Joint Declaration on the Conservation of Bio-Diversity and Sustainable Use' with a government agency in 2013. We have initiated activities including the construction of an ecological park near company sites in collaboration with a government agency, removal of external flora and fauna that disturb the native ecosystem and more. We also manage water quality indicators such as COD, BOD, and SS in water discharged from our sites that may negatively affect the aquatic ecosystem.

Eco-Friendly Procurement Records

(coverage: consolidated basis, unit: ton, KRW million)

	2016	2017	2018
GHG reduction effects (ton)	1,004	1,598	3,894
Economic benefits (KRW million)	246	391	941
Amount of procurement (KRW million)	2,245	1,609	5,156

Packaging Materials

(coverage: consolidated basis, unit: KRW 100 million)

Recycling of packaging materials	Improvement in packaging techniques	Changes in packaging materials (for shipment/process)	Packaging standardization (for business partners/shipment)
8.73	2.75	2.84	5.84

Total Cost Savings 20.1

CLIMATE CHANGE STRATEGY

We preemptively respond to global climate change issues to pursue climate competitiveness

Carbon Management and Emissions Management

Samsung Electro-Mechanics has identified GHG emission sources and established and operated a GHG emissions inventory to play a leading role in reducing carbon emissions to minimize the impact of climate change and to manage business risks and uncertainties. We calculate GHG emissions from domestic each month and disclose emissions data annually. We identify and manage the amount of emissions (Scope 3) in the corporate value chain an addition to direct and indirect emissions to promote GHG reduction activities.

Voluntary Reduction Targets

We have established a mid-term strategy for GHG emissions reduction which aims to reduce GHG emissions (Scope 1 and Scope 2) compared to sales from 16.2 tCO_2e/KRW 100 million in 2014 to 15.1 tCO_2e/KRW 100 million in 2025 (a reduction of 7%). We will make efforts to achieve the GHG emissions reduction target through energy savings, efficient operation of production facilities and utilities, and replacement of key facilities with more efficient ones.

GHG Emissions

(coverage: consolidated basis, unit: tCO_2e)

	2016	2017	2018
Scope 1	64,571	59,513	66,138
Scope 2	957,265	1,076,208	1,210,284
Total	1,021,836	1,135,721	1,276,422
Carbon intensity (tCO_2e/sales(KRW 100 million))	16.9	16.6	15.6

GHG Calculation

The scope of GHG calculation and verification covers production bases, warehouses, research centers and sales offices in each region. Among them, the scope included in Samsung Electro-Mechanics's emissions covers production subsidiaries whose buildings are owned by Samsung Electro-Mechanics in accordance with the notice from the Ministry of Environment. We report GHG emissions from buildings we use on lease contracts in Korea, which are included in the company-wide emissions (Scope 1 and Scope 2).

The verification standards include the Operational Guidelines on the GHG and Energy Target Management System under the Ministry of Environment, the IPCC Guidelines: 2006, ISO14064-1·3 and the WRI/WBCSD Scope 3 Guidelines. The data is a compilation of activity data regarding the amount of energy used, entered by each site along with supporting materials (procurement-based documents including receipts and invoices) submitted through Samsung Electro-Mechanics's IT system for climate change (GHG inventory).

Carbon Risk Management Process

Identification of Risks and Opportunities

Risks
- Identifying physical and regulatory risks
- Identifying risk level and financial impact

Opportunities
- Identifying ETS markets and opportunities to enhance product eco-friendliness
- Preemptive responses to risks and strengthening management

Establishment of GHG Management System
- Establishment of a GHG climate change system
- Establishment of a GHG inventory
- Emission source management and internal verification, external verification

Responding to Climate Change
- Estimation of emissions intensity based on additional lines and productivity increases
- Planning and implementing 3-year GHG emissions reduction activities
- Periodic monitoring of the state of reduction activities

Internal Reporting
- Operation of a company-wide Climate Strategy Committee
- Reporting on company-wide GHG emissions status to executives

GHG Reduction Performance

(coverage: consolidated basis, unit: MWh, kNm^3, tCO_2e)

		2016	2017	2018
Energy	Electricity(MWh)	188,528	175,414	76,750
	LNG(kNm^3)	2,587	1,287	1,924
GHG	Electricity(tCO_2e)	87,901	81,786	35,785
	LNG(tCO_2e)	5,723	2,847	4,256
	Video conferencing(tCO_2e)	2,855	2,271	1,887
	Eco-friendly products(tCO_2e)	1,004	1,598	3,894
	Sub total(tCO_2e)	**94,628**	**88,502**	**45,822**

Scope 3 GHG Emissions

(coverage: consolidated basis, unit: tCO_2e)

	2018
Purchased Goods & Services	37,253
Capital Goods	2,345
Fuel and Energy Related Activities Not Included in Scope 1 or 2	11,170
Transportation & Distribution (Upstream)	165,843
Waste Disposal	7,839
Business Travel	5,811
Employee Commuting	11,702
Leased Assets (Upstream)	629
Processing of Product	154
Use of Product	4,102
Disposal of Product	64
Investment	23,098
Total	**270,012**

Calculations of Emissions and Social Activities for Carbon Reduction

The scope of GHG emissions has been extended to include direct (Scope 1) and indirect (Scope 2) emissions as well as other indirect (Scope 3) emissions throughout the entire value chain inclusive of suppliers, logistics, business trips and waste. The amount of other indirect GHG emissions was calculated based on WRI/WBCSD Guidelines and has acquired third-party verification.

The amount of Scope 3 released in 2017 amounts to 270,012 tCO_2e. The emissions were calculated based on 12 items including transport and logistics (165,843 tCO_2e), waste (7,839 tCO_2e), business trips (5,811 tCO_2e), and commuting (11,702 tCO_2e). The number of business trips taken by employees was reduced by installing a global video conferencing system, which reduced the GHG emissions by 1,887 tCO_2e as of 2017.

> "Samsung Electro-Mechanics, which had gained admission to the Platinum Club of the CDP Hall of Fame, has established a solid carbon management system, strived to reduce GHG emissions, and fully disclosed related outcomes to stakeholders. Samsung Electro-Mechanics is a leading company in responding to GHG and demonstrates outstanding competitiveness in terms of climate change management."
>
> **Lee Jong-Oh**
> Director General, Korea Sustainability Investing Forum

Climate Change Risks and Opportunities

Risks			Opportunities		
Cause	Response	Result	Cause	Response	Result
GHG and Energy target management scheme, emissions trading, and disclosure of emissions,	Putting in place monitoring of laws, GHG inventory and an energy management system,	Stable implementation of the emissions trading scheme and achievement of goal	Ushering in the GHG emissions trading market	Setting mid- and long-term reduction goals and operating a Company-wide Climate Strategy Committee	Establishing the basis to lower the cost of implementing laws and realizing profits via ETS
Damage to facilities due to climate abnormalities (typhoons, strong storms and floods, heavy snow, etc.) Challenges in securing water resources due to droughts	Establishing a business continuity system, strengthening the climate abnormality monitoring system, reinforcing training on response scenarios by disaster type	Attaining certification on business continuity management (ISO 22301), preventing production losses and damage by preparing for power cuts/outages	Requests from stakeholders to disclose GHG emissions	Implementing reductions by linking GHG and energy	Enhancing production efficiency by reducing GHG and saving energy
Requests from stakeholders such as evaluation agencies and customers to reveal carbon information via CDP and DJSI	Responding to the information needs of external institutions/ customers	CDP Platinum Club and continuous inclusion in the DJSI World Index	Reducing product-based carbon emissions and enhancing the corporate image in relation to carbon efficiency	Carbon reduction labor certification of products and development of power saving products	Sales increase by responding to demands by client companies for the development of low-carbon products

Emissions by GHG Substance

(coverage: consolidated basis, unit: tCO_2e)

	2016	2017	2018
CO_2	1,015,621	1,134,356	1,269,975
CH_4	119	118	127
N_2O	717	709	783
HFCs	0	0	0
PFCs	5,164	516	5,321
SF_6	215	22	215
Total	1,021,836	1,135,721	1,276,422

Response Measures to GHG

Korea's Emissions Trading Scheme

In 2005, Samsung Electro-Mechanics established a GHG inventory of all sites and has managed GHG emissions systematically since then. We have attained GHG emissions reduction targets to comply with the Target Management Scheme as one of the companies selected for inclusion in the scheme and also participated in the Emissions Trading Scheme (ETS) of the Korean government which has been up and running since 2015.

We are engaged in GHG reduction activities at each business site and manage factors affecting changes in emissions. In order to ensure a dynamic response to the ETS, we have taken part in pilot projects on emissions trading run by the Ministry of Environment and the Ministry of Trade, Industry and Energy. We also share GHG trends and ETS market information with related departments within the company on a regular basis and convene the Climate Strategy Committee to determine whether to purchase carbon credits in the future.

The burden imposed on companies related to GHG reductions further increases as the implementation of phase 2 of the ETS (2018~2020) approaches. To prepare for this, we have established annual reduction targets and 3-year GHG reduction tasks and implemented measures to save energy from all sources used by all sites in the product manufacturing process. In addition, we are developing mid- to long-term GHG reduction goals, reflecting them in our annual business plans, and monitoring performance results.

Expansion of Overseas Emissions Management System

Samsung Electro-Mechanics operates overseas subsidiaries in China, Vietnam, Thailand, the Philippines, and others. Overseas GHG emissions make up about 66% of the company's total emissions. The Chinese government announced that it will implement a nation-wide emissions trading scheme starting with power companies by the end of 2017. As such, Samsung Electro-Mechanics shares related trends on a regular basis and plans to establish response organizations and systems for each subsidiary as the ETS in China is applied to all industries. Also, the potential emissions increase along with construction of additional overseas factories are provided to related departments in advance to systematically identify GHG emissions from the start of building lines.

Response to CDP

The Carbon Disclosure Project (CDP) is a not-for-profit charity that requests the largest public companies of each country submit their responses to global environmental issues and related management information on behalf of global financial and investment institutions.

Samsung Electro-Mechanics has established the GHG inventory and continuously disclosed GHG-related information. After entering the Gold Club of Carbon Management Hall of Fame in 2014, Samsung Electro-Mechanics has maintained its second year in the Platinum Club of Hall of Fame.

Energy

Samsung Electro-Mechanics continues to carry out company-wide energy reduction activities through productivity increases and the enhancement of cost competitiveness with the participation of all employees by aligning annual targets based on the energy management system.

Samsung Electro-Mechanics has been making energy saving efforts in production processes by shifting its focus from the supply side to the demand side.

The company aims to adopt highly efficient facilities and construction methods for saving energy when constructing new buildings and continues to engage in activities to eliminate energy wastage by adopting energy saving facilities when building facilities through verifications of energy specifications.

Energy Target Management and Reduction Activities

Samsung Electro-Mechanics has been carrying out systematic energy reduction activities led by the Bureau of Energy, an energy management-exclusive unit, for over 10 years.

In April 2016, we formed dedicated energy organizations within each business division and have continued to discover sites that waste energy in conjunction with external specialists. We have also implemented energy saving activities through in-depth analyses of energy reduction efforts such as the use of utilities with standard specifications within the same facilities.

In addition, expert groups at each site conduct cross-checks to verify the effects of energy saving activities with the aim to increase credibility as we are making continuous efforts to expand energy reduction technologies with cross-sectional deployment via technology exchanges. The energy use target achievement rate has reflected in executive performance evaluations since 2016.

High-Efficiency Energy Equipment and New and Renewable Energies

Samsung Electro-Mechanics has replaced all lights with LEDs within the Suwon, Sejong, and Busan plants and continues to replace lights with LEDs, highly efficient energy devices, at all sites.

We are also looking to adopt highly-efficient energy devices during construction of new buildings and expansions of facilities at existing sites. Each year, we consider the adoption of new and renewable energies such as outdoor solar lights, solar water heaters, and daylighting systems.

Activities to Improve and Reduce Energy

(coverage: consolidated basis, unit: cases, KRW 100 million)

	2016	2017	2018
Cases with improvement made(cases)	667	575	460
Amount saved(KRW 100 million)	174	181	125

Amount of Energy Consumption

(coverage: consolidated basis, unit: MWh)

	2016	2017	2018
Electric power consumption	1,629,884	1,820,516	2,033,290
LNG	275,568	259,821	259,462
Diesel	13,321	20,636	18,623
Gasoline	4,920	4,550	3,948
Kerosene	0	0	0
LPG	19,471	24,258	26,463
Purchased steam	123,866	176,424	205,464
Total	**2,067,030**	**2,306,205**	**2,547,250**

PRODUCT STEWARDSHIP

We are complying with policies for the management of hazardous materials within products required by our customers and the specified standards of each country

Reviewing Hazardous Substances in Products as an R&D Task

Samsung Electro-Mechanics conducts preliminary reviews from the research and development stage and preemptively prevents the use of hazardous substances in products.

We check to see if hazardous substances in materials are used to manufacture products in each R&D task during the verification stage to check the completeness of product design and implementation in the middle of the development and deliberation stage. By doing so, we strictly restrict the use of materials containing hazardous substances.

Product Environmental Policy

In order to respond to strengthened international environmental regulations such as the EU Restriction of Hazardous Substances (RoHS) Directive for electrical and electronic equipment and the Registration, Evaluation, Authorization & Restriction of Chemicals (REACH) and corporate social responsibilities, Samsung Electro-Mechanics voluntarily restricts the use of hazardous substances in products and raw materials and replaces them with alternate materials to provide eco-friendly products to customers.

To meet the demands of various clients for eco-friendly products, we investigate policies and regulations on the management of hazardous materials used by major global customers more than once a year, which are reflected in the policies of Samsung Electro-Mechanics.

We monitored the policies on hazardous substances of our 25 major global customers and reinforced our standards on certain items such as lead, cadmium, and beryllium in 2017. As regulations on 4 types of phthalate (DEHP, BBP, DBP and DIBP) instituted by the EU RoHS will take effect from July 2019, we had a preemptive response by making a detailed analysis about 4 types of phthalate mandatory.

Management of Hazardous Materials in the Environment

Samsung Electro-Mechanics voluntarily manages key chemicals that could harm human health and the environment such as halogen, antimony, and beryllium in addition to substances restricted by international environmental regulations such as the 10 substances restricted by the EU RoHS and the REACH substances of very high concern (SVHC).

In order to respond to continued increases in the REACH SVHC restricted substances, we monitor the use of newly added SVHC restricted substances in our raw materials more than once per 6 months and are making efforts to replace existing raw materials with new ones that have a lower level of environmental risk.

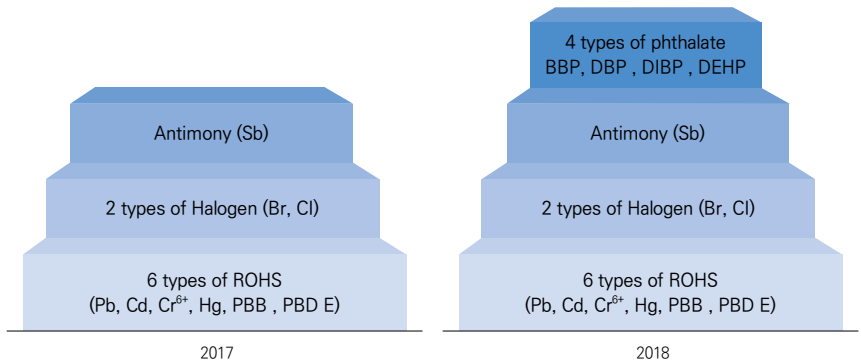
System Operation

Green Purchasing System

Samsung Electro-Mechanics operates a green purchasing system to systematically manage hazardous substances in products. All of the company's raw material suppliers are required to prove that they comply with our standards by submitting information on raw materials, a Material Safety Data Sheet, and a score statement based on the precise analysis of hazardous substances issued by a certified agency.

We investigate the status of restricted substances, efficiently respond to product information requests from customers, and provide eco-friendly products to customers, which contain no prohibited materials, by using the database on substances contained in raw materials amassed via the green purchasing system.

Strengthening of Hazardous Substance Management



Material Analysis System

We run a 'material analysis system' to analyze and manage hazardous materials, while managing hazardous material information for raw materials provided by suppliers.

Simple analysis is conducted for seven items using our analytical instruments periodically for all raw materials coming in: Pb (lead), Cd (cadmium), Cr^{6+} (hexavalent chromium), Hg (mercury), Br (bromine), Cl (chlorine), Sb (antimony). We also verify if they contain hazardous substances through outside certified analysis bodies, if necessary, and manage the results through the system.

Reinforcement of Product Environmental Response Systems and Expertise

Samsung Electro-Mechanics convenes Information Exchange Meetings at least once every 2 months led by the Safe Environment Team, collecting opinions from employees in related departments on procurement, quality, development and other matters. In 2018, the Information Exchange Meetings on product environmental impact was held 4 times. The meeting serves as a communication channel to develop internal policies by identifying regulatory trends in the EU, US, China, and other key regions and countries and by catering to the product environmental needs of global customers.

Regular training takes place for hazardous substance management by sector every year to strengthen the competencies of employees in product environmental impact related departments.

As of 2017, employees in charge of approval of materials by division attended the training on the establishment of an eco-friendly supply chain based on our product environmental impact policies and management of hazardous substances in raw materials while 55 employees in charge of development, quality, sales were trained on the product environmental impact policies of major global customers and measures to systematically manage hazardous substances via eco-friendly product design. In addition, we provide intensive training programs on product environmental impact by inviting lecturers from outside the company or by visiting external agencies once per year. For employees responsible for the analysis of hazardous substances, we train them on the operation of equipment and instruments at least once every 6 months to enhance the reliability of data measured.

Environmental Labelling and Declarations

Samsung Electro-Mechanics continues to ensure carbon footprint certification for its products. The carbon footprint certification is provided based on the calculation of GHG emissions generated in the entire product lifecycle beginning with the extraction of raw materials, production, distribution, and disposal through Life Cycle Assessment (LCA). Also, we are operating self-declared environmental claims (Type II environmental labeling) in order to respond to customer demands to disclose environment related information and improve eco-friendliness of our products.

In 2010, Samsung Electro-Mechanics acquired Environmental Product Declaration certification (for carbon emissions) for the first time as an MLCC company and the certification has expanded to include 3 product lines including HDI and BGA. As a result, Samsung Electro-Mechanics obtained 6 certificates in total including one for low carbon certification.

In 2016, we newly acquired certifications for MLCCs and were able to confirm carbon emissions reduction per unit weight and volume compared to existing products that had already obtained the certificates. We will continue to expand the acquisition of Environmental Product Declaration certifications to satisfy the demands of various stakeholders and to enhance product eco-friendliness.

Hazardous Substance Management Process

	Design (Design eco-friendly products)	Approval (Prior eco-friendliness review)	Production (inspection of hazardous substances in raw materials)	Shipment (inspection of hazardous substances in products)
Development	Review on materials without hazardous substances	(Part approval) Approval of hazardous material review		
Purchase	Distribution of the product environment management standard to business partners	Submission of the information of raw material substances and score statement on precise analysis of hazardous substances by business partners	Encouragement of business partners to submit the information of raw material substances and score statement	
Quality		(Part approval) Agreement on the result of hazardous material reviews	Hazardous substance sampling of warehousing materials	Hazardous substance sampling of release products
Safety Environment	Information provision to related departments of the hazardous material managements		Operation of green purchase system	

Product Environmental Impact Assurance for Suppliers

Samsung Electro-Mechanics provides regular training on product environmental impact for business partners to enhance their regulatory competencies in relation to environmental hazards and product eco-friendliness.

In 2018, we requried submission of detailed analysis report about 4 types of phthalate to all suppliers. Through this, we responded to global regulations in advance. We also held a presentation on international environmental regulations, product environment policy trends of major global companies, and effective countermeasures with attendance of 101 raw material suppliers in Korea.

We will continue to identify internal and external issues related to product environmental impact regulations and customer needs, develop internal policies, and distribute them to business partners to enhance employee competencies at our partners and establish an eco-friendly supply chain.

Preemptive Safety Assessment

Samsung Electro-Mechanics conducts preemptive safety assessment on all chemicals used in the company by establishing a system for managing them.

We actively respond to domestic regulations including the Chemicals Control Act, the Act on the Registration and Evaluation of Chemicals and the Safety Control of Dangerous Substances Act.

Since 2013, Samsung Electro-Mechanics has established and operated a comprehensive management system (CMS) within the company based on the lifecycle of chemical substances for regulatory compliance and safe management of chemical substances to meet the increase in internal and external risks such as changing attitudes toward chemicals and reinforced regulations. All incoming chemical substances need to be approved via the CMS (safety assessment) before being used in the manufacturing process.

The purpose of the CMS is to comply with policies used by global companies and global and domestic regulations that are expected to demand more detailed management of chemical substances, and to secure employee safety when handling those substances.

Chemicals Management Process

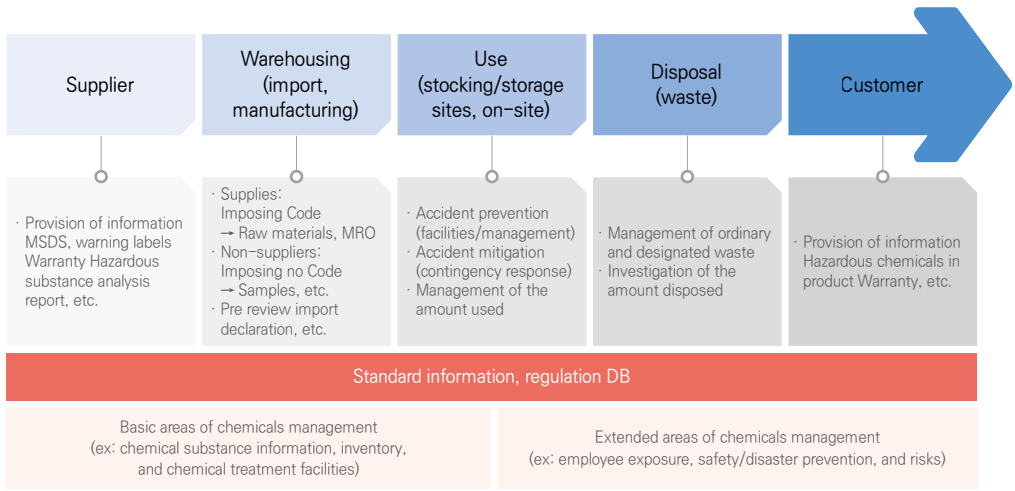
Management of Regulated Material Grades

Samsung Electro-Mechanics devised a plan for prior management of materials that are harmful to the human body and made a list of restricted materials for handling, by managing chemicals handled inside the company by grade. A process has been established in the introduction stage to prevent the reckless use of such chemicals. Newly adopted Carcinogenic, Mutagenic and Reprotoxic (CMR) materials are managed by carrying out an approval process. As such, we block exposure by establishing and implementing countermeasures depending on risk levels, while conducting chemical substance risk assessments. In addition, we are making efforts to replace and reduce the use of materials with higher risk grades by establishing replacement and reduction plans based on the results of risk assessments.

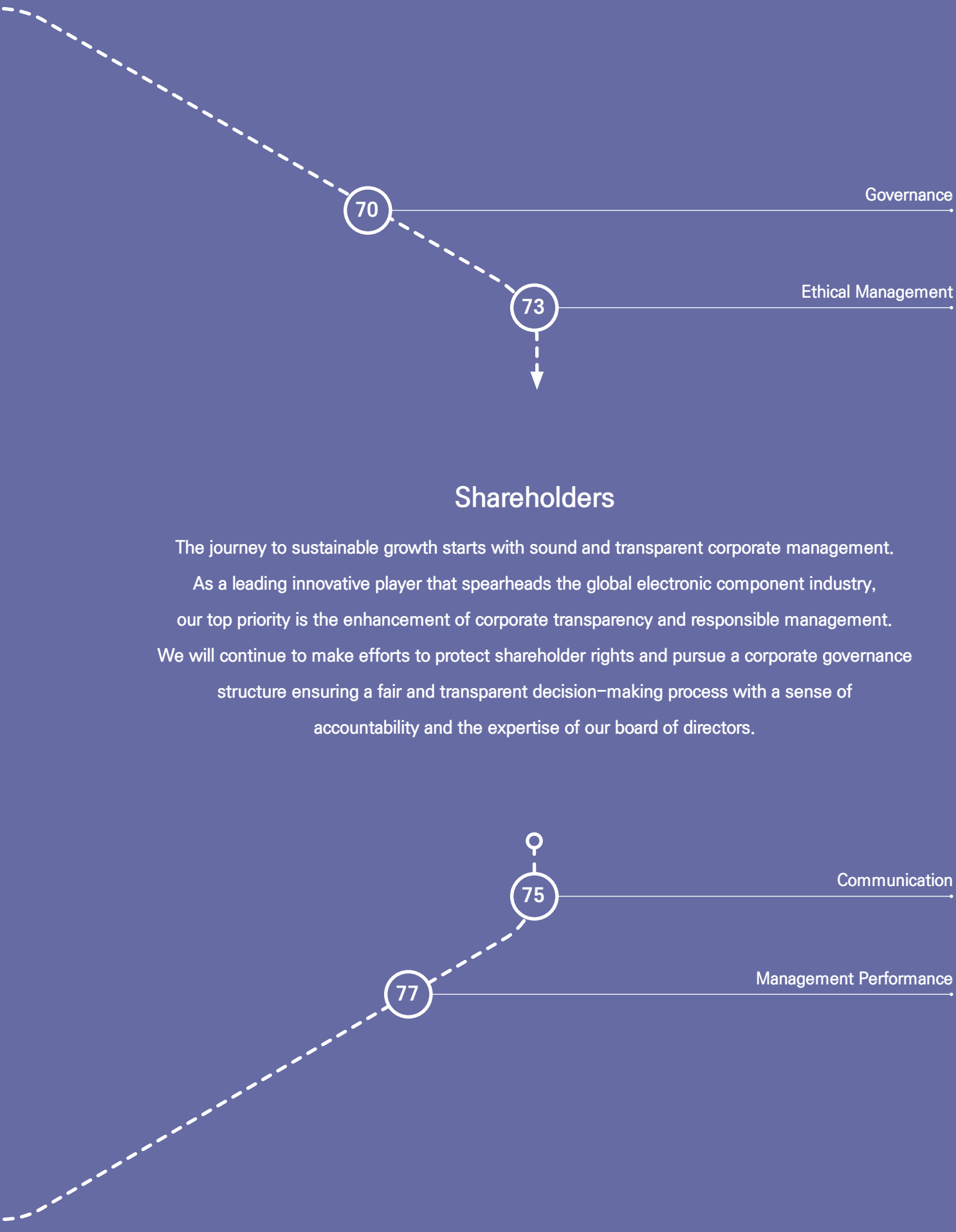
Safety Management for Facilities Handling Chemicals

We conduct self-investigations on the current status of facility protection (automation, sealing, and local exhaust ventilation) as well as inspections on the chemical substance treatment facilities for the Manufacturing and R&D Divisions and observe protective measures through periodic performance checks.

Preemptive Safety Assessment Process



INCREASE SHAREHOLDER VALUE



Shareholders

The journey to sustainable growth starts with sound and transparent corporate management.
As a leading innovative player that spearheads the global electronic component industry,
our top priority is the enhancement of corporate transparency and responsible management.
We will continue to make efforts to protect shareholder rights and pursue a corporate governance
structure ensuring a fair and transparent decision-making process with a sense of
accountability and the expertise of our board of directors.

GOVERNANCE

We are actively engaging in on-site management based on the principle of checks and balances

The Total Number of Shares

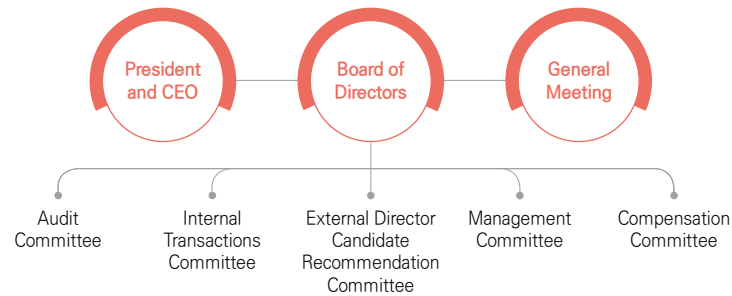
The total number of shares issued by Samsung Electro-Mechanics is 74,693,696 common stocks (securities that do carry voting rights) and 2,906,984 preferred stocks (securities that have no voting rights) as of today. Among them, there are 72,693,696 common stocks with voting rights excluding preferred stocks and the ones of which voting rights are limited in accordance with related regulations. As of the end of 2018, the majority shareholder of Samsung Electro-Mechanics is Samsung Electronics with 17,693,084 shares or 23.7% of the total.

Board of Directors-Centered Management

Samsung Electro-Mechanics manages its business led by a board of directors. We have established a process for appointing the chairman of the Board of Directors as an outside director for balanced promotion of shareholders' interests and promoted a governance structure that can guarantee appropriate and transparent decision-making.

The board of directors and CEO cooperate with each other, share information and responsibilities, and are committed to the development and innovation of Samsung Electro-Mechanics.

Operating System



Operations of the Board of Directors

Board members receive copies of meeting agenda and related information at least 5 days prior to committee meetings under the board in order to review the agenda sufficiently. Key agenda items of material important to the company such as major strategic investments are reported to the board in advance and directors provide feedback after discussions. The items discussed are decided at a separate board of directors' meeting.

Board of directors' meetings of Samsung Electro-Mechanics were held 8 times in 2018 and 19 agenda items including the appointment of the chairman of the board of directors, quarterly results and forecasts, and compliance activities were approved. The attendance rate of external directors is 98% at all meetings including the Audit Committee, the Internal Transactions Committee, and the Compensation Committee. In the meantime, the attendance rate of external directors was 100% at all meetings including those of the Audit Committee, Internal Transactions Committee, Compensation Committee, and others.

Establishment of a Management Plan

The board of directors periodically review the company's short, medium and long-term strategies each quarter. The board of directors establishes directions for sustainable growth through active and in-depth discussions based on internal and external environmental conditions surrounding each business unit including modules, components, and substrates. Management issues, results, and future plans for subsidiaries are reported to the directors along with the quarterly release of the performance management report so that directors can comprehensively review the management status of the company.

Promoting a Culture of Strategy Meetings

Samsung Electro-Mechanics holds strategic meetings with attendance by CEO, key executive managers, and external directors to help management understand and discuss major management issues. Not only primary issues related to each business unit, but also electronic component industry trends and other subjects are additionally selected for open discussions during the meetings. In 2018, we had an in-depth discussion on our mid- and long-term business strategy and the global economic outlook, including trade war and raising interest rates.

Status of Shareholders

(coverage: consolidated basis, unit: no. of stocks ,%)

	Common Stocks		Preferred Stocks		Total	
	Number of stocks	Percentage	Number of stocks	Percentage	Number of stocks	Percentage
Individuals	23,691,117	31.7	1,670,505	57.5	25,361,622	32.7
Institutions	17,780,198	23.8	805,805	27.7	18,586,003	24.0
Foreigners	13,529,297	18.1	430,674	14.8	13,959,971	18.0
Samsung Electronics	17,693,084	23.7	0.0	0.0	17,693,084	22.8
Treasury stock	2,000,000	2.7	0.0	0.0	2,000,000	2.6
Total	**74,693,696**	**100.0**	**2,906,984**	**100.0**	**77,600,680**	**100.0**

On-site Management

Directors of Samsung Electro-Mechanics are making efforts to practice on-site management by holding board of directors' meetings on-site by visiting key sites at home and abroad each year. In 2018, the 7th board of directors' meeting was held in Busan plant, and directors actively practiced field-oriented management by identifying the management status of the plant and inspecting production processes of major products.

Performance Evaluation and Compensation of Board Members

Samsung Electro-Mechanics discloses the status of board of directors' meetings and participation rates over the course of the year in its business reports and conducts internal assessments on the composition, functions, and responsibilities of the board to reflect the results in the operational plan of the board for further development. The Compensation Committee thoroughly reviews the limits on director pay in advance in order to provide them with fair levels of compensation and final decisions are made after the board of directors' meetings and the general meeting of shareholders. Corporate rules are in place to provide performance-based incentives based on performance for a specific period of time, to all executives in key roles in corporate management.

Payment of incentives based on long-term performance is part of a compensation system for performance aligned with corporate management performance. More specifically, the system consists of an incentive-paying scheme for 3 years based on the results of corporate performance during the period including Return On Equity (ROE), earning per share and pre-tax earnings. The result is calculated within the payment cap determined by the general meeting of shareholders and paid in installments over 3 years. This paves the way for compensation based on the performance of executives and management activities over the long term. The provision of long-term incentives may be cancelled or the total amount provided to executives may be reduced if their actions result in a major loss for corporate management during the period of performance evaluation and payment.

"A sound and transparent governance structure positively contributes to expanding the sustainability of corporate social responsibility activities and enhances the company's value.
Over the last few years, Samsung Electro-Mechanics has worked to protect shareholders' rights and efficiently manage its board of directors as well as improve its governance structure through regular communication with investors, and the company's tireless efforts have been recognized by the market. The company will continue to strengthen the independence and internal controls within Samsung Electro-Mechanics to establish a leading governance structure, serving as an example for other companies."

Yun Jin-soo
Chief of Analysis Division, Korea Corporate Governance Service

Composition of Board of Directors

The board consists of 7 directors including 4 independent external directors and 3 internal directors to keep executives in check with resolutions endorsed by external directors. We also appoint one female director to pursue diversity within the board of directors.

Within the board, 5 committees are in operation and all members of the Audit Committee and Internal Transactions Committee are appointment from among external directors to promote transparent financial management and fair transactions.

Samsung Electro-Mechanics emphasizes both independence among shareholders, board of directors, and top executives and organic cooperation among these groups. Shareholders appoint external directors, and the appointed directors keep top executives in check to maximize the interests of shareholders and ensure transparency. To that end, we appointed Audit Committee Chairman Kwon Tae-Kyun as the chairman of the board. We strive to strengthen the principle of checks and balances for corporate governance by paving the way for the appointment of an upright and competent director as the chairman of the board since 2016.

Status of Subsidiaries

Samsung Electro-Mechanics has one subsidiary in Korea and 14 subsidiaries and one affiliate overseas.

Domestic TOP 5

(coverage: consolidated basis, unit: no. of stocks ,%)

	Number of stocks	Percentage
Samsung Electronics	17,693,084	23.7
National Pension Service	8,103,615	10.8
Korea Investment Trust	872,594	1.2
Mirae Asset Global Investments	542,032	0.7
Samsung Asset Management	426,441	0.6

Overseas TOP 5

(coverage: consolidated basis, unit: no. of stocks ,%)

	Number of stocks	Percentage
CREDIT SUISSE	771,450	1.0
BLACKROCK	711,272	1.0
GOLDMAN SACHS	692,952	0.9
MORGAN STANLEY	646,681	0.9
PEOPLES BANK OF CHINA	616,855	0.8

Internal Directors

Lee Yun-Tae

First appointment date: Mar 13, 2015
Most recent period of service: Mar 23, 2018 ~ Mar 22, 2021
Years of service: 4 years
Position: Internal Director, CEO
Work experience: PhD from KAIST in Electrical Engineering, General Manager of Samsung Display LCD R&D Office (Vice President)
Current: Management Committee, External Director Candidate Recommendation

Hur Kang-Heon

First appointment date: Mar 23, 2018
Most recent period of service: Mar 23, 2018 ~ Mar 22, 2021
Years of service: 1 year
Position: Internal Director, Executive Vice President
Work experience: PhD in Metallurgical Engineering from Seoul National University
Current: Management Committee

Lee Byoung-Jun

First appointment date: Mar 23, 2018
Most recent period of service: Mar 23, 2018 ~ Mar 22, 2021
Years of service: 1 year
Position: Internal Director, CFO
Work experience: Head of Samsung Display Business Operation Group (Managing Director)
Current: External Director Candidate Recommendation Committee, Management Committee, Compensation Committee

External Directors

Kwon Tae-Kyun

First appointment date: Mar 14, 2014
Most recent period of service: Mar 24, 2017 ~ Mar 23, 2020
Years of service: 5 years
Position: External Director, Chairman of the Board of Directors
Work experience: Public Procurement Service Administrator, PhD in Int'l Relations from Chung-Ang University
Current: External Director Candidate Recommendation Committee, Audit Committee, Internal Transaction Committee, Compensation Committee

Choe Hyun-Cha

First appointment date: Mar 14, 2014
Most recent period of service: Mar 24, 2017 ~ Mar 23, 2020
Years of service: 5 years
Position: External Director
Work experience: Professor at Seoul National University, PhD in Consumer Science from Purdue University
Current: Audit Committee, Internal Transaction Committ

Yoo Ji-Beom

First appointment date: Mar 24, 2017
Most recent period of service: Mar 24, 2017 ~ Mar 23, 2020
Years of service: 2 years
Position: External Director
Work experience: Professor at Sungkyunkwan University, PhD in Electronic Materials from Stanford University
Current: External Director Candidate Recommendation Committee

Kim Yong-Kyun

First appointment date: Mar 23, 2018
Most recent period of service: Mar 23, 2018 ~ Mar 22, 2021
Years of service: 1 year
Position: External Director
Work experience: Lawyer at Barun Law LLC
Current: External Director Candidate Recommendation Committee, Audit Committee, Internal Transaction Committee, Compensation Committee

Audit Committee
- ▶ Goals and Objectives: The committee was established to evaluate and improve the business achievements of the comprehensive corporate internal control system. It draws up, implements, and concludes internal auditing plans, as well as takes follow-up measures and proposes measures for improvement.
- ▶ Members: Choe Hyun-Cha, Kwon Tae-Kyun, Kim Yong-Kyun

Internal Transactions Committee
- ▶ Goals and Objectives: The committee was established to enhance the transparency of internal transactions among subsidiary companies. It examines internal transaction reports, deliberates, makes decisions, issues orders, reports on issues, and proposes rectification measures.
- ▶ Members: Choe Hyun-Cha, Kwon Tae-Kyun, Kim Yong-Kyun

External Director Candidate Recommendation Committee
- ▶ Goals and Objectives: The committee was established to consolidate fairness and independence in appointing external director candidates pursuant to relevant laws. It recommends external director candidates.
- ▶ Members: Kwon Tae-Kyun, Yoo Ji-Beom, Kim Yong-Kyun, Lee Yun-Tae, Lee Byoung-Jun

Management Committee
- ▶ Goals and Objectives: The committee was established to enhance the efficient management of the Board of Directors and is entrusted by the board to decide on matters related to the company's overall business management, financial management, and major issues, except for items decided on by the board pursuant to the relevant laws and articles of association.
- ▶ Members: Lee Yun-Tae, Hur Kang-Heon, Lee Byoung-Jun

Compensation Committee
- ▶ Goals and Objectives: The committee was established to design, operate, as well as decide pay and other matters related to the performance compensation system for managers.
- ▶ Members: Kwon Tae-Kyun , Kim Yong-Kyun, Lee Byoung-Jun

ETHICAL MANAGEMENT

We are reinforcing a sense of ethics by establishing a transparent corporate culture and engaging in activities to prevent corruption and irregularities

The Policy

We strongly believe and recognize that the trust which has been formed among every Samsung Electro-Mechanics employee and stakeholder is one of the most essential elements to our sustainable growth and competitiveness. Thus, we are committed to establishing a transparent organizational culture that prevents corruption both inside and outside of Samsung Electro-Mechanics. In order to actualize such commitment, we carry out corruption prevention education programs for all our domestic and international employees, discovering and improving flawed processes, while continuing ethical management practices and awareness campaigns for all business partners.

Employee Activities to Prevent Corruption and Irregularities

Seeking to establish a transparent corporate culture, Samsung Electro-Mechanics has established and operates specific 'Guideline for Employees' in separate categories- on dealing with clients, corporate fund/ assets, ethical values at work, and leakage of information and personnel.

There is an annual training session on the prevention of irregularities among employees at home and abroad.

A separate training session is conducted for employees in upper management including executives, department heads and general managers. Online training courses are held to supplement offline training. In particular, customized training is available on topics related to the prevention of incidents to prevent them from recurring.

The 'Pledge of Action for Ethical Management' is signed by all employees including top executives to reinforce a sense of ethics and raise awareness on the topic.

Incidents are posted on the company's intranet on a quarterly basis. An 'Ethical Champion' is recognized at each business site and in each business department to suggest clear decision criteria on matters of ethical conflicts for employees.

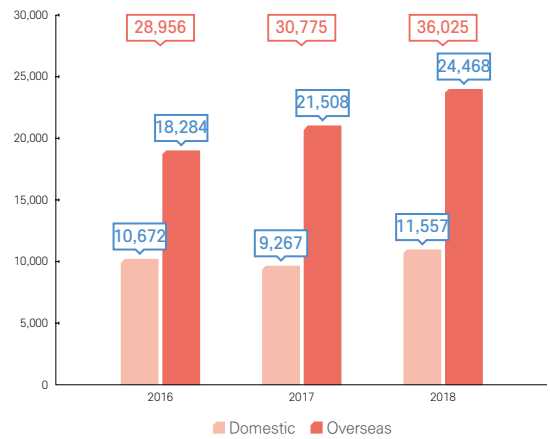
Inspection plans are established and implemented periodically at production firms and sales offices at home and abroad. Flawed processes identified through the inspections are subject to immediate measures for improvement, which are in turn horizontally applied. In this way, the company implements prevention programs against corruption and irregularities.

Reporting Process

Report Registration	Registration Status Correspondence	Investigation	Investigation Result Correspondence
• Ethical management website • E-Mail • Postal letter • Phone calls	Provide feedback on registered reports within 24 hours	Evidence/ fact investigation (feedback to whistleblower, if necessary)	Report the investigation report and actions

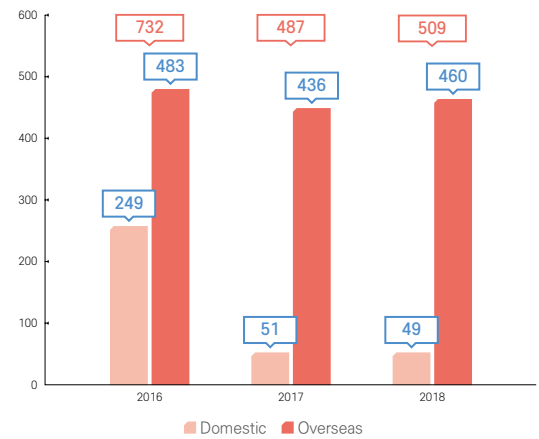
Number of employees participated in corruption prevention trainings

(coverage: consolidated basis, unit: persons)



Employee corruption prevention trainings

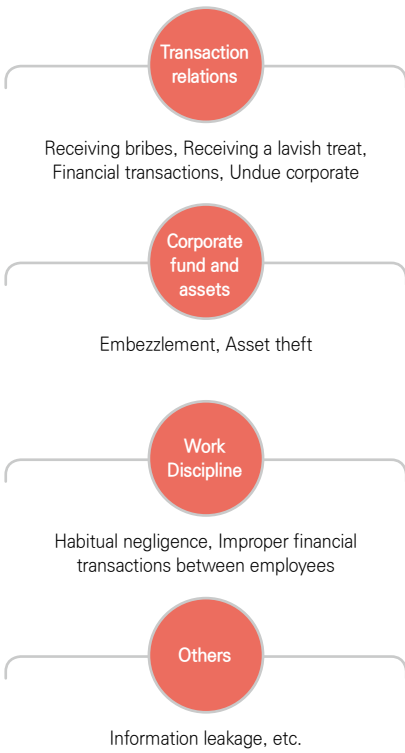
(coverage: consolidated basis, unit: times)



Dissemination of Ethical Management to Suppliers

In order to expand our commitment to ethical management, we are also extending such programs to our business partners. In April 2010, Samsung Electro-Mechanics enacted "the Charter for Ethical Partners," and made new agreements with all our business partners based on renewed ethical management standards. All new partners must now abide by this agreement.

Ethical Management Items



In January 2013, Samsung Electro-Mechanics enacted 'business guidelines' that apply to transactions with our business partners, while publishing and sharing its culture of clean and healthy trade settlement policies via the company's business portal. All business partners and customers connect and participate in our ethical management initiatives through this portal. We send an official letter of request for cooperation to participate in ethical management activities to business partners before national holidays every year to encourage their engagement in our efforts. We have also contributed to the expansion of the culture of transparency by prohibiting the giving of monetary gifts from business partners as a form of congratulations or condolence at family events held by employees as of November 2011.

Ethical Management Online Surveillance

In order to prevent business corruption, Samsung Electro-Mechanics conducts "Ethical Management Online Surveillance". This website is available in 4 different languages i.e. Korean, English, Chinese and Thai, to help stakeholders around the globe and inside whistleblowers report business corruption and irregularities of any possible Samsung Electro-Mechanics or its employees anonymously. Corruption reports submissions may also be made via e-mails, postal letters, and over phone calls.

Samsung Electro-Mechanics makes it a rule to guarantee the anonymity of whistleblowers. After fact-finding is clearly conducted on registered cases, Samsung Electro-Mechanics imposes corrective measures on related departments, and stringently punishes employees involved in irregularities and provides the results of cases handled to the whistleblowers when necessary. Also, any act of revealing the identity of the whistleblowers and/or retaliatory measures taken towards the whistleblower is strictly prohibited and severly punished.

Corruption Prevention Measures Instituted

Employees

- Ethical Management Practice Pledge
- Ethical management education program (on/off-line)
- Ethical Champion (at each domestic/overseas business site)
- Discovery and improvement of flawed processes

Suppliers

- Agreement on Ethical Management Practices
- Sharing business promotion guidelines
  - · Regular meetings among business partners
  - · Samsung Electro-Mechanics business partner meetings conducted online
- Ethical management cooperation newsletter (published regularly)

Measures against Corruption

Samsung Electro-Mechanics not only focuses its attention on prevention, but also on post- incident measures. Employees who have engaged in irregularities are severely punished. Business partners and stakeholders who have engaged in bribery can also be punished with light to heavy penalties, such as contract suspension and request for institution of recurrence prevention measures.

Registered Reports

(coverage: consolidated basis, unit: cases)

		2016	2017	2018
Domestic	Corruption	16	9	3
	Complaints/Petitions	11	15	17
	Others	-	7	2
Overseas	Corruption	10	12	17
	Complaints/Petitions	6	5	2
	Others	2	1	1
Total		45	49	42

COMMUNICATION

We are making efforts to ensure transparency and access to information in order to satisfy stakeholders' right to know

Enhancement of Shareholder and Investor Value

Samsung Electro-Mechanics is committed to enhancing shareholder value by improving its business competitiveness and profitability and actively returning the results to shareholders, resulting in the increase of corporate value from a long-term perspective.
We are communicating with global stakeholders so that our corporate values are assessed fairly and transparently in the capital market. Also, we are making efforts to boost shareholder returns with a dividend policy designed to maximize shareholder profits

> "For institutional investors, making an investment in a company promises mutual growth and is an act that requires a thorough review of the company's management activities on the part of shareholders. It also means an investment in the right place. In carrying out such activities, the Environment, Social, and Governance (ESG) criteria serve as critical indicators. How a company considers the impact of its business on the environment, what kind of considerations are reflected in its business plan in terms of social impact, and the degree of effort put on governance reform to embrace both majority and minority shareholders are factors of material importance for institutional investors."
>
> **Koh Tae-hoon**
> Head of Business Model Research Center, Assetplus Investment Management Co., Ltd.

Efforts to Expand Communication

Samsung Electro-Mechanics strives to establish stable relationships with shareholders and investors based on trust by actively carrying out internal and external communication activities.

We conduct conference calls on quarterly results, attempt to voluntarily provide information on our business performance, growth, and profitability, and actively expand communication through various IR activities in addition to quarterly results announcements.

We visit major institutions at home and abroad and major shareholders, after presentations of quarterly results to introduce strategies for our key businesses, listen to investors' opinions and report back on them to top executives. Top executives of Samsung Electro-Mechanics listen to matters of interest related to the capital market, gather requests made to the company through meetings with institutional investors and analysts at home and abroad, and reflect them in its management strategies.

While conducting one-on-one meetings with shareholders and analysts as well as small-scale seminars, we will strive to actively reflect shareholder opinions in our management activities through various market communication activities.

Transparency of Information

Providing appropriate information in a timely manner to shareholders and investors as part of sustainable management efforts not only satisfies stakeholders' and investors' right to know, but also serves as a critical means to establish trust with shareholders and investors.

We disclose information on our management status by updating quarterly, biannual and annual performance reports via our homepage, as well as the Data Analysis, Retrieval and Transfer System (DART) operated by Korea's Financial Supervisory Service and provide shareholders with financial information and materials on performance through the company website so that stakeholders can access the information in real time.

We conduct conference calls in Korean and English on quarterly results and give presentations on management performance and outlook to overseas investors and analysts. Webcasting is available via the website for anybody to gain the same information in real time. The content covered in conference calls can be listened to and checked out on the website at any time.

Building Investor Trust

Samsung Electro-Mechanics considers com
Samsung Electro-Mechanics plans to reinforce Investor Relations activities that continue to deliver the potential of sustainable growth in the future.

We will secure transparency and fairness by explaining our new growth engines and management strategies to stakeholders in the capital market and engaging in internal and external communication activities. By doing so, we will further increase investor understanding and confidence as well as boost shareholder value.

Enhancing Responses to Socially Responsible Investment

Samsung Electro-Mechanics reinforces communication related to the Socially Responsible Investment (SRI) that emphasizes the disclosure of environmental and social impact. As the criteria used by major investors including pension funds around the globe for evaluating companies has widened at home and abroad, the Environment, Social, Governance (ESG) criteria inclusive of ethics, human rights, environmental impact and corporate structure tends to be shared more frequently with shareholders and investors.

Provision of ESG Information

Samsung Electro-Mechanics provided key information on transparent management and ESG activities in a timely manner and achieved substantial results. We acquired a grade of A in terms of integrated ESG performance from the Korea Corporate Governance Service, were included in the Dow Jones Sustainability World Index (DJSI) for 10 consecutive years, were selected as a Best Practices Company and inducted in the Carbon Disclosure Project (CDP) Hall of Fame for 9 consecutive years and were listed on the FTSE4Good Index for 8 consecutive years.

Tax Payment Policy

Samsung Electro-Mechanics fulfills all obligations in relation to the filing and payment of taxes by complying with tax laws of local countries as prescribed in the company's tax payment management guidelines.

To this end, we maintain transparent relationships with tax authorities in local countries where local subsidiaries of Samsung Electro-Mechanics are located, assist with the career management of tax personnel in local subsidiaries, and proactively utilize external specialists including accountants for risk management.

Tax Risk Assessment

Samsung Electro-Mechanics is making efforts to prevent all tax risks that may arise with regard to all transactions of goods and services, international trade, initiating new business, and transaction system changes. To this end, we discover and respond with measures to minimize tax payment risks in advance, while evaluating tax-related risks at HQ and each overseas subsidiary.

HQ and each overseas subsidiary utilize external specialists (accounting firms) to strictly evaluate tax payment risks and preemptively respond to them. They conduct fact checking and review tax regulations in related countries as well as potential risks.

Tax Risk Management

We provide taxation consulting to preemptively respond to regulatory issues and risks related to tax payment in foreign countries in the course of establishing a new subsidiary or undergoing an M&A for business expansion. We follow a procedure of prior verification on compliance with local tax rules through the review of an external accounting firm and on possible tax omissions before submitting a filing statement for a corporate tax return by HQ and overseas subsidiaries.

All tax reports are made within the payment due dates, documented and stored as evidence to establish the eligibility of transactions. As for domestic trade, fair prices are maintained in transactions with third parties and persons with special relationships according to related laws.

In terms of the risk of securing an adequate earnings rate for transactions between the HQ and overseas subsidiaries, external specialists are utilized to measure risks by reviewing the transfer price, and related reports are reviewed to respond to potential tax risks. Moreover, the transfer price is also reviewed by overseas subsidiaries as we strive to prevent related risks.

Tax Management Guidelines

Principle: Compliance with HQ and the tax laws of local countries

1. All laws and regulations shall prioritize accounting standards and tax laws imposed by HQ and local countries
2. Parties involved shall recognize differences between tax laws in each country, comply with tax laws in all transactions, and implement tax filing and tax payment obligations
3. Employees in charge of tax payment at local subsidiaries shall maintain transparent relationships with the tax authorities in each country and strive to prevent tax risks.
4. Management of internal personnel and utilization of external specialists must be maximized to comply with tax laws in local countries where overseas subsidiaries are located to prevent tax risks.

MANAGEMENT PERFORMANCE

We are continuing to show performance improvements and reinforce development competencies to ensure early entry into emerging markets

Management Performance

In 2018, despite the stable growth in first half year, the global economy was weak in the second half year due to commercial conflicts between the US and China. However, the increase in demands for components was led by industrial and automotive sectors and MLCC supply and demand have an positive effect on it. Boosted by such increasing demand, the 2018 management performance of Samsung Electro-Mechanics, on a consolidated basis, was KRW 8.0002 trillion in sales volume and KRW 1.015 trillion in operating income, recording improved results compared to the previous year.

In order to respond to new markets, we plan to reinforce development competencies required to preemptively occupy the high-end market, strengthen marketing competencies in the Chinese market, and enhance product lineups in the industrial sector and automobiles, which remain promising areas for growth.

R&D Activities

IT is disseminated into diverse business fields including not only communications and household electronics but also automobiles, medicine, broadcasting, and finance-a trend that is expected to increase in the future. Accordingly, seeking to reaffirm our presence as a global leader in the electronic components industry, our technologies have become more sophisticated in their usage of materials, multilayer thin film molding and high-frequency circuit designs. We have also developed businesses including chip components, boards, camera modules and communication modules that feature technological convergence.

R&D Investment

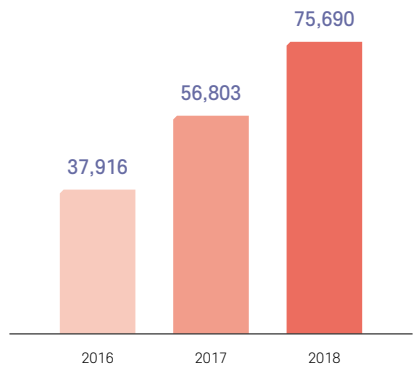
(coverage: consolidated basis, unit: KRW million, %)

	2016	2017	2018
R&D expenses	408,405	460,206	532,436
R&D expenses /Sales	6.7	6.7	6.5

※ R&D expenses mean the amount before deducting government subsidies

Dividend

(coverage: consolidated basis, unit: KRW million)



Sales Volume by Business Solution

(coverage: consolidated basis, unit: KRW million)

	Major Products	Usage	2016	2017	2018
Component	Passive electronic components (MLCC, Inductor, Chip Resistor, etc.)	For PCs, smart phones, general purpose, etc.	1,912,644	2,357,091	3,550,146
Module	Camera module, communication module	For smart phones, etc.	2,791,233	3,011,959	3,113,766
Substrate	High-density multi-layer boards	For PCs, smart phones, etc.	1,329,163	1,324,996	1,338,096
Total			**6,033,040**	**6,694,046**	**8,002,008**

Value Distribution by Stakeholders

(coverage: consolidated basis, unit: KRW million)

Intellectual Property Rights

At a time when the scope of business has become globalized beyond industry and region, we reinforce our competitiveness in intellectual property rights (IPR) by securing source technologies and R&D competitiveness. The rapidly changing technological developments and trends clearly manifest the correlation between corporate survival and IPRs. Hence, the importance of securing IPR competitiveness has increased.

As such, we utilize patents as management assets, thoroughly review and prevent IPR risks, establish a stable IPR operation system and cooperative system with related departments, and focus on patent filing, patent conflict response and licensing.

We focus our competencies to protect R&D outcomes to prepare not only for current business but also for future business opportunities.

The portion of patents filed in China is on the rise every year, exceeding the number filed in the U.S. where most lawsuits take place among electronic set makers.

We also seek to enhance patent quality in associated with global law firms. We secure technologies that we need through portfolio management by product and key task in terms of patents filed, and strengthen our rights to critical patents, thus maximizing synergies.

We hold 6,647 domestic patents (Including pending) and 7,284 overseas patents (Including pending) as of the fourth quarter of 2017, among which, 2,790 domestic patents and 3,903 overseas ones are registered as intellectual intangible assets.

Patent status

(coverage: consolidated basis, unit: cases)

		2016	2017	2018
Domestic	Registered	3,994	3,180	2,790
	Pending	4,731	4,191	3,857
Overseas	Registered	3,704	3,741	3,903
	Pending	3,501	3,050	3,381
Total		15,930	14,162	13,931

GOOD CORPORATE CITIZENSHIP

Communities

Samsung Electro-Mechanics is making efforts to herald a bright and
hopeful future where everyone shares and prospers together.
We selected three core areas for social contribution including the disabled, multi-cultural families,
and local communities to reach out to the socially vulnerable and
those who do not benefit from welfare policies.
We will continue to fulfill our social responsibilities and spread a spirit of sharing as
a genuine corporate citizen to create synergies based on our efforts.

VISION AND STRATEGY

We consider our role as a social partner from the mid/long term perspective

Vision	Establishing an image of a caring company		
Directions	Introduce representative contribution activities reflecting the nature of our business (Branding)	Support multi-cultural families to adapt to life and thrive in Korea (Education, emotional support, self-reliance)	Respond to social issues and community demands (Urban-rural co-existence, environment, etc.)
Three core areas	The disabled	Multi-cultural families	Community
UN SDGs	3,4	8,9	3,7,11,12,14,17

Samsung Electro-Mechanics actively follows the directions of the UN Sustainable Development Goals (SDGs) with a sense of responsibility for the impact on society and environment as a member of global civil society.

Samsung Electro-Mechanics deals with social issues from the mid-to long-term perspective to establish an image of a caring company. We make efforts to continuously create concrete and systematic social contributions by engaging in activities that promote SDGs.

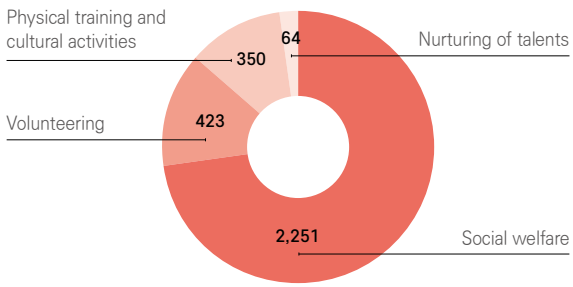
We reestablished the social contribution implementation process to enhance transparency in terms of support payments and social contribution funds. Agenda items are approved through prior review monthly with supporting documents such as targets to be provided with contributions (social welfare facilities, schools, scholarships, etc.) and operating criteria are implemented transparently according to the arbitrary decision standards for implementation of contributions.

Samsung Electro-Mechanics has provided projects to help the disabled (major social contribution activities), utilizing its business of 'producing electronic components that form the backbone of electronic products.'

Social Contribution Costs

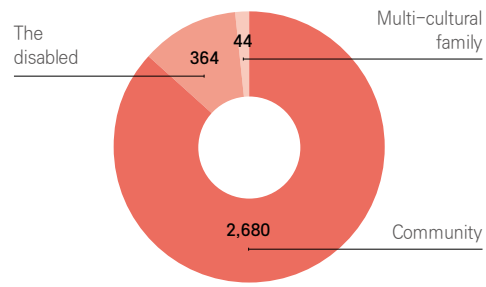
(coverage: consolidated basis, unit: KRW million)

By expenses



3,088

By Key Areas of Focus



3,088

Examples include 'hello! SEM Orchestra', the Joint Replacement Surgery Program, the National Music Competition for Disabled Students and the National Badminton Competition for the Disabled. These imbue stronger hope and confidence in the disabled, helping them to become self-sufficient and enabling them to lead financially and emotionally stable lives in society.

All employees take part in talent donation drives and volunteering teams. By donating their talent based on their unique individual skills and aptitude, they cement their roles as social partners who grow along with their neighbors in need.

> " We would like to thank Samsung Electro-Mechanics for its interest and support of the socially vulnerable who are unable to take advantage of existing welfare services. We believe that the activities of Samsung Electro-Mechanics have a greater meaning than mere corporate social responsibility. The company's support plays a role as a bridge connecting businesses to the local community. We want to continue to grow together with Samsung Electro-Mechanics in pursuit of expanded welfare benefits for local communities."
>
> **Bang Sang-hee**
> Team leader, Metan 4-dong Community Service Center

Samsung Electro-Mechanics fulfills its social responsibilities by reflecting the needs of local residents as a corporate citizen by selecting three core areas for social contribution including the disabled, multi-cultural families, and local communities to enhance the community welfare, while reaching out to the socially vulnerable and those unable to take advantage of existing welfare benefits.

We regularly take part in sectorial meetings to listen to the genuine feedback from communities, improving satisfaction rates among clients and communities, and reinforcing genuineness and continuity in our social contribution activities. Likewise, we strive to build a brighter society and establish an image of a caring company.

45,661

2018
Total number of hours volunteered(hours)

9,260

2018
Average donation amount per person(KRW)

100

2018
Donation participation rate(%)

MAJOR SOCIAL CONTRIBUTION

We engage in sharing activities for the underprivileged to help them lead financially and emotionally stable lives within society

The Diabled

Joint Replacement Surgery Program

Samsung Electro-Mechanics has provided support for the Joint Replacement Surgery Program free of charge for people with joint disabilities in the low-income category since 2005, taking advantage of its core business of 'producing electronic components that form the backbone of electronic products.'

To this end, we signed a third-party agreement on the Joint Replacement Surgery Program with Lee Chun Teak Orthopedic Specialty Hospital in Suwon, Gyeonggi Province. We cover 70% of the surgery cost and the hospital covers the remaining 30%. Gyeonggi Province served as an essential link to forge an agreement that includes finding eligible patients and promoting the program.

Currently, about 572 people have received benefits from the program, experiencing the joy of rehabilitation, as we help them maintain an active and healthy lifestyle.

Special Excellent Musician

"We are special and talented musicians."

The SEM logo depicts an image of harmony, taking care of one another and standing shoulder-to-shoulder with arms wide open. Also, the rainbow band recalls a vision of a rainbow of beautiful dreams connecting smalls hearts.

Operation Status of Joint Replacement Surgery Program

Agreements Signed
2005 Lee Chun-Tek Orthopedic Specialty Hospital, Suwon 2008 Gyeonggi Province 2012 South Chungcheong Province 2013 Gangneung Medical Center, Gangwon Province
No. of patients who received a surgery
572 Persons
No. of patients who received a medical service related to joint replacement
909 Persons
Amount of money spent
KRW 1.78 billion (Samsung Electro-Mechanics: KRW 1.25 billion, Lee Chun-Teck Orthopedic Specialty Hospital: KRW 530 million)

hello! SEM Orchestra

As Korea's first orchestra consisting of children and youth with disabilities, the orchestra gives them confidence and a strong desire for rehabilitation so that they can live out their dreams through culture and art. This contributes to the easing of social prejudice against the disabled.

We forged a partner relationship with Ableart (an NGO promoting the artwork of the disabled) and the Korea Children's Foundation. We appointed Kim Mi-suk, a foundation partner, as the promotional ambassador to enhance the authenticity of the project. Every year, over 20 regular concerts and invitation concerts are planned and staged to support the disabled as they realize their hopes and dreams through music. We also organize events inviting employees, touching their hearts, refreshing their minds and enhancing mutual communication.

We provide support for a group of instructors composed of conductors and professional musicians to improve the musical talent of members and the quality of the orchestra in general. They provide regular one-on-one private lessons to enhance musical skills and boost their self-esteem, creating a beautiful harmony in the orchestra.

National Badminton Competition for the Disabled

The Busan site of Samsung Electro-Mechanics organizes the Samsung Electro-Mechanics Sponsored National Badminton Competition for the Disabled along with the Busan Metropolitan Government. The purpose is to change the social paradigm toward the disabled, revitalize sports activities for them and imbue them with a greater sense of confidence. The Samsung Electro-Mechanics sponsored National Badminton Competition for the Disabled has been held annually since 2006. It invites participation by 1,500 athletes a year as a sports event and festival for the disabled. It was upgraded to an event organized by Korea Badminton Association for the Disabled in 2015, establishing itself as Korea's largest badminton competition for the disabled.

Professional athletes from Samsung Electro-Mechanics including members of the national team also participate in the event, which includes exhibition games and signing events. This event has become a local festival and has brought hope and contributed to the dreams of the disabled.

National Music Competition for Disabled Students

The Sejong site of Samsung Electro-Mechanics has held the National Music Competition for Disabled Students along with Taejon Broadcasting (TJB) every year starting from 2008, with the aim to develop the potential of youth with disabilities and boost their social confidence.

Each year, more than 300 students across the country compete in various genres, including musical instruments, orchestra, vocal music, etc. By helping them to exhibit their talent, we assist the disabled in regaining their confidence and sense of identity. Grand prize winners are given a prize from the Minister of Education, enhancing the pride of participants each year.

Multiculturalism

Scholarship Project

Samsung Electro-Mechanics provides support for scholarship projects in order to boost the self-sufficiency of children and youth from low-income families and single parent families to ensure they enjoy a bright and healthy future.

We have provided support to about 200 children from low-income families through the Youth Mentoring Scholarship (Kkumnamu Mentor Scholarship) for over 10 years since 2008.

Study room support business

Samsung Electro-Mechanics has opened and operated after-school study groups for children from multi-cultural families. We expect that the study groups will contribute to improving the quality of education provided, promote economic, emotional, and social development, and help them to make new friends.

In 2013, we opened the 'Woori Dream Center No.1' for middle school students from low-income families and have built 4 more study rooms since then. Our employees engage in diverse volunteer activities by utilizing their talents in teaching, mentoring, and organizing birthday parties.

We also promote cultural exchanges with multi-cultural families by participating in celebration events including Together Day and Multicultural Unity Festival. For instance, we planned to establish an integrated center as a hub to nurture global talent in order to support the education and employment of children from multi-cultural families who face difficulties in adapting to Korean society with the aim of responding to social issues preemptively as the multi-cultural population increases.

In 2015, Samsung Electro-Mechanics, Suwon City, and the Catholic Church (a business-government-civil society project) signed an agreement and Suwon Global Youth Dream Center was built in 2016, firmly establishing a support network within the community by providing education, emotional support, and self-reliance training to youth from immigrant families, helping family members develop their own unique competencies and communicating with local residents to improve their level of awareness of the multi-cultural population.

Operation of Shelters for Multi-cultural Women and Children

Samsung Electro-Mechanics has set up and provided shelters known as 'Nooribodeumteo' for women from multicultural families and their children since 2013. The shelter offers spaces for education and helps women from multicultural families advance in society through basic Korean language courses, barista training and other courses. The place serves as a venue for cultural exchanges as well.

Support for 'Refreshing Spa Getaway' for Multicultural Families

In 2016, we provided support for 100 people from multicultural families living in Busan to take a 'Refreshing Spa Getaway' along with the fair travel agency PinkRoader in order to promote communication and harmony among multicultural families in rural areas.

Multicultural families, in need of a break and relaxation from a busy daily lifestyle, can visit Haeundae Beach, one of the most popular tourist destinations in Korea, as well as the historic sites in their hometowns. During the getaways, they break out of their routine, learn how to communicate with each other and create precious memories along with their families to improve family relationships through diverse experiences. We will make concerted efforts to establish an image of a trusted company through communication and participation based on various activities related to cultural, art, and experiential programs utilizing local resources to promote the stability of multicultural families.

Community

One Company–Several Villages, Urban–Rural Co–existence Campaign

Samsung Electro–Mechanics signed an agreement with Togomi Village in Hwacheon–gun, Gangwon Province in 2002. Since then, the number of partner villages has expanded to 17 in total, with company employees and their families visiting the villages to take part in farm stay programs. As such, we unfold diverse rural experiences and volunteering activities during the farming period. As a result of such exchanges, Togomi Village and Byeotgari Village have secured a stable source of income and its rural tourism programs have come to be better recognized, transforming itself into Korea's representative rural tourist villages visited by about 10,000 people a year.

> "I believe that collective partnerships with social institutions such as local communities and NGOs are the most important factor of a company's social contribution activities. To this end, Samsung Electro–Mechanics is contributing to the balanced development of local communities by cooperating with local institutions, promoting social contributions, and connecting related organizations together."
>
> **Min Eun–joo**
> Director, Busan Volunteer Welfare Center

Samsung Electro–Mechanics is directly involved in rural issues related to the opening of the global agricultural market, extending support and empathy, thereby contributing to the easing of social issues.

Summer Rural Community Service

Samsung Electro–Mechanics started to provide volunteers for summer rural community service in rural towns across the country in 1995 and has continued such activities for 24 years as of 2017.

Every summer vacation, employees and their families visit rural areas and towns and engage in volunteer activities based on individual talent such as replacement of wiring for houses where a fire may occur due to outdated wiring, repapering walls and floors, as well as photo shoots for the elderly.

Eco–Friendly Projects for Communities

Starting with our first installation of eco–friendly LED lighting to the sister village of Togomi (Hwacheon in Gangwon Province), we installed PVs in the sister village of Byeotgari Village (in IT rooms and dorms, etc.) in 2011.

We provided solar energy facilities in Donggwangwon (a Suwon childcare facility) and Hyeseongwon (a facility for the disabled). As a result, we have imbued a sense of awareness about the environment in villagers and facility users, as well as awareness about environmental protection and operational cost savings.

Volunteering
Volunteering and donations are organized to support self–reliance and the stability of the underprivileged who desperately need a helping hand, including people from low–income families, people with disabilities, seniors living alone, foreign employees, and multicultural families

We support facilities for water conservation by taking a leading role as an eco-friendly company while aiming for budget reductions and enhanced awareness at 28 social welfare centers across the country. The existing water supply equipment at the centers was replaced with specially designed water-saving equipment, thus saving water and raising awareness on the environment.

Reflecting the needs of local residents, 200 employees along with the CEO, the Mayor of Suwon, the District Head of Yeongtong-gu, heads of dong's (neighborhoods), local residents and the President of Suwon Women's College (which made a donation of talent through art) created a wall painting of over 100m, forming a flower bed along the Woncheon stream.

Sponsorship for the Underprivileged

Samsung Electro-Mechanics supports 700 children from low-income families, youth, people with disabilities, seniors living alone, and multicultural families each year through the Korea Children's Foundation and Community Chest of Korea to assist those unable to take advantage of welfare benefits.

Employee Volunteering

Samsung Electro-Mechanics has run and managed social contribution projects by creating a dedicated team under the leadership of the head of the HR team to encourage development in local communities and employee volunteer activities. The CEO and executive managers participate in various types of volunteer activities to build a company-wide culture of volunteering through the donation of individual talent beyond the donation of time and simple labor, hands-on volunteering (support via school supplies, play kits, and sporting goods to Nepalese children), and environmental volunteering by busy employees.

Volunteering activities to benefit low-income people takes place through 60 volunteering teams company-wide where employees voluntarily participate in various weekly activities such as environmental cleanups, free meal serving, teaching in study rooms, birthday party organization, outdoor experiences, visits to sister villages, talent donation in badminton mentoring, environmental campaigns in communities and by drawing wall paintings.

Charitable Donations

Samsung Electro-Mechanics sponsors events to celebrate World Social Work Day and the International Day of Persons with Disabilities organized by local communities to practice social responsibility as a corporate citizen and improve its image among communities, NGOs, public institutions and society at large.

Each year, we procure agriculture products worth over KRW 500 million to increase household incomes in 20 sisterhood relationship villages.
Also, we establish one-on-one sisterhood relationship with villages to resolve social inequality issues for those unable to access welfare benefits, engage in various volunteer activities such as supporting self-reliance programs and providing school meals.

> "Samsung Electro-Mechanics is a representative company that enhances social inclusiveness in Busan by engaging in social contribution activities in all areas. Specifically, the Korea Badminton Association for the Disabled, which was started 14 years ago, is well recognized by the community as an example of the company's social contributions. We are also grateful to Samsung Electro-Mechanics for reaching out to the underprivileged wholeheartedly through its employee volunteer activities and related support."
>
> **Kim Su-mi**
> Team leader, Community Chest of Busan

Share
The company is engaged in diverse sharing activities such as providing support for overseas children, university students from low-income households, and provision of educational expenses for children from multicultural families to deliver hope for a better tomorrow

GLOBAL SOCIAL CONTRIBUTION

We carry out global social contribution activities tailored to the characteristics of each country

China

Subsidiaries in China(Tianjin, Gaoxin, Kunshan) are engaged in local volunteering activities based on feedback from local residents. Urban-rural activities unfold through the One Company-One Village programs including activities to clean up rivers and streams, consolation visits during national holidays, provision of daily supplies, and increasing income in rural village through harvesting and procurement of agricultural products. Children, elderly people and people with disabilities are provided with facilities and goods along with on-site charity work such as consolation concerts and care services for elderly patients with dementia, tutoring for students from low-income families living in mountainous areas, and the provision psychotherapy, sanitary products, and daily supplies. Employees' talents are utilized to assist children and youth in their learning.

The Philippines

The Philippines is prone to many natural disasters including typhoons every year, resulting in many people losing their homes. The company's subsidiary in the Philippines considered local needs and worked to raise typhoon relief funds. This, added to the KRW 100 million contributed by the HQ, was donated and delivered to affected areas through the Child Fund Alliance. An employee volunteer team was set up and engaged in volunteer activities in damaged areas to provide medical support, relief goods, and take part in restoration work.

The company's subsidiary in the Philippines also initiated a house-building event as its representative project, building new houses for displaced people and helping them to live in a healthy and pleasant environment after many people were faced with difficult circumstances, which in turn became a social problem. Twenty new houses have been built so far, helping displaced people rebuild their lives.

Key activities include providing scholarships to students in communities to encourage talent development, provision of school meals as well as medical support. In addition, employees are directly involved in blood donation drives and carry out various volunteer activities for local residents.

Thailand

The company's subsidiary in Thailand carries out activities such as the beautification of the environment near business sites, and facility painting and other activities during environmental cleanup periods in spring. We are also engaged in volunteer activities such as planting mangrove trees that grow in the tropical seashores and releasing crabs to provide environmental assistance to the region, in light of the frequent flooding in Thailand. Employees of the Thai subsidiary are making efforts to harmonize with local communities and improve worker welfare. Each year, they visit underprivileged villages to teach children and provide medical examinations and dental treatments for free.

Blood donations, replacement of outdated facilities and painting of obsolete walls in elementary schools nearby the business site are carried out to help the local community. Also, we invite families of our employees in Thailand and stage events (a traditional sport game and writing "thank you" cards to celebrate Mother's Day) to create a positive workplace.

Vietnam

Each year, the company's subsidiary in Vietnam is involved in sharing activities that include the provision of electric fans and daily supplies (instant noodles, cooking oil, etc.) for poor seniors living alone in social welfare facilities and children with disabilities in the local community. We visit the homes of poor employees to provide various forms of support as our employees take part in the blood donation drive to resolve blood supply shortages, contributing to create a warmer society by sharing resources and providing hope.

Global Social Contribution
Strive to discover social contribution projects reflecting the needs of the regions, reduce global inequalities between countries, and fulfil the corporate social responsibility

APPENDIX

CONTENTS

FINANCIAL STATEMENT

Consolidated Statements of Financial Position

(Unit: KRW)

		2017		2018
Assets				
Ⅰ. Current assets		2,478,798,088,379		3,525,293,145,703
Cash and cash equivalents	444,609,329,777		1,002,374,471,773	
Current financial assets	123,482,249,407		243,542,157,639	
Trade and other receivables	912,897,439,592		1,060,910,372,005	
Short-term loans	234,828,973		546,593,519	
Advanced payments	6,270,546,824		35,844,500,364	
Prepaid expenses	35,754,069,726		36,396,555,152	
Prepaid income tax	36,656,270,634		19,206,307,573	
Inventories, net	918,893,353,446		1,115,565,877,099	
Right of return assets	-		10,906,310,579	
Ⅱ. Non-current assets:		5,288,605,454,669		5,119,621,060,126
Investment in associates	53,284,973,129		60,213,757,585	
Available-for-sale financial assets	725,530,836,477		-	
Equity instruments designated at fair value	-		150,889,138,429	
Long-term loans	2,227,119,045		2,197,986,394	
Property, plant and equipment	4,154,682,907,789		4,558,010,182,821	
Intangible assets, net	149,487,113,350		162,460,608,115	
Non-current financial assets	42,144,771,902		36,789,814,260	
Long-term trade and other receivables	39,388,966,877		29,375,843,577	
Long-term prepaid expenses	38,908,099,610		38,799,612,190	
Deferred tax assets	82,950,666,490		80,884,116,755	
Total assets		7,767,403,543,048		8,644,914,205,829
Liabilities				
Ⅰ.Current liabilities		2,454,109,697,101		2,509,584,012,607
Trade and other payables	728,590,026,558		891,417,868,679	
Short-term borrowings	1,203,792,484,010		961,955,861,424	
Advances received	13,678,164,173		7,247,601,229	
Current financial liabilities	23,533,985,774		35,569,932,235	
Income tax payables	3,479,589,499		156,011,756,482	
Current portion of long-term borrowings	467,529,000,000		432,049,753,433	
Unearned income	7,812,409,821		5,027,369,701	
Provisions for product warranties	5,694,037,266		3,408,156,425	
Refund liabilities	-		16,895,712,999	
Ⅱ. Non-current liabilities		981,802,459,617		1,188,832,636,963
Long-term borrowings	897,616,232,181		1,060,133,398,202	
Long-term other payables	58,283,364,943		86,081,670,197	
Long-term unearned income	11,153,131,310		15,306,671,215	
Net employee defined benefit liabilities	13,511,148,911		26,141,991,061	
Deferred tax liabilities	1,238,582,272		1,168,906,288	
Total liabilities		3,435,912,156,718		3,698,416,649,570
Equity				
Ⅰ. Equity attributable to owners of the parent		4,231,643,216,155		4,821,047,660,325
Issued capital	388,003,400,000		388,003,400,000	
Share premium	1,045,201,199,091		1,045,201,199,091	
Other components of equity	(146,701,455,500)		(146,701,455,500)	
Accumulated other comprehensive income	335,297,333,286		355,200,814,069	
Other capital reserves	2,225,865,257,472		1,952,365,257,472	
Retained earnings	383,977,481,806		1,226,978,445,193	
Ⅱ. Non-controlling interests		99,848,170,175		125,449,895,934
Total equity		4,331,491,386,330		4,946,497,556,259
Total liabilities and equity		7,767,403,543,048		8,644,914,205,829

Consolidated Statements of Comprehensive Income

(Unit: KRW)

		2017		2018
Ⅰ. Sales		6,694,046,165,102		8,002,008,033,000
Ⅱ. Cost of sales		5,430,059,519,148		5,805,531,038,267
Ⅲ. Gross profit		1,408,414,614,251		2,387,492,214,727
Ⅳ. Selling and administrative expenses		1,102,211,185,689		1,369,439,415,141
Ⅴ. Operating profit		333,861,134,251		1,149,936,234,929
Ⅵ. Non-operating income		(52,655,322,758)		(77,659,829,937)
Finance income	11,007,953,030		12,776,639,298	
Finance costs	66,063,752,236		90,121,880,044	
Share of profit of associates	7,964,641,871		7,208,249,820	
Other income	223,995,277,042		295,361,022,808	
Other expenses	229,559,442,465		302,883,861,819	
Ⅶ. Profit before tax		253,548,105,804		940,392,969,649
Income tax expense		76,292,111,429		255,374,455,447
Ⅷ. Profit for the year		177,255,994,375		685,018,514,202
Ⅸ. Other comprehensive income:		(137,012,302,374)		(25,400,347,096)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):				
Net gains (losses) on valuation of equity instruments designated at fair value OCI	-		(467,843,285,755)	
Net gains (losses) on disposal of equity instruments designated at fair value OCI"	-		451,339,730,000	
Capital changes in equity method	-		1,633,971,054	
Re-measurement gains (losses) on defined benefit plans	(47,733,648,622)		(26,951,294,019)	
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):				
Capital changes in equity method	304,913,361		-	
Net gains (losses) on valuation of available-for-sale financial assets	(14,470,223,127)		-	
Exchange differences on translation of foreign operations	(75,113,343,986)		16,420,531,624	
Ⅹ. Comprehensive income:		40,243,692,001		659,618,167,106
Profit for the year attributable to		177,255,994,375		685,018,514,202
Equity holders of the parent	161,739,107,180		656,241,635,879	
Non-controlling interests	15,516,887,195		28,776,878,323	
Total comprehensive income (loss) for the year attributable to:		40,243,692,001		659,618,167,106
Equity holders of the parent	29,441,579,057		629,826,970,853	
Non-controlling interests	10,802,112,944		29,791,196,253	
Ⅺ. Earnings per share:				
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent		2,139		8,685
Basic and diluted, profit for the year attributable to preferred shareholders of the parent		2,189		8,735

Consolidated Statements of Changes in Equity

(Unit: KRW mil.)

	Attributable to equity holders of the parent							Non-controlling Interests	Total equity
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Other capital reserves	Retained earnings	Sub-total		
As at January 1, 2017	388,003	1,045,201	(146,701)	419,861	2,215,365	318,388	424,012	97,467	4,337,585
Profit for the year	-	-	-	-	-	161,739	161,739	15,517	177,256
Other comprehensive income									
Re-measurement gains on defined benefit plans	-	-	-	-	-	(47,734)	(47,734)	-	(47,734)
Capital changes in equity method	-	-	-	305	-	-	305	-	305
Net losses on valuation of available-for-sale financial assets	-	-	-	(14,470)	-	-	(14,470)	-	(14,470)
Exchange differences on translation of foreign operations	-	-	-	(70,399)	-	-	(70,399)	(4,715)	(75,113)
Total comprehensive income (loss)	-	-	-	(84,564)	-	114,005	29,442	10,802	40,244
Dividends	-	-	-	-	-	(37,916)	(37,916)	(8,319)	(46,236)
Appropriation of retained earnings	-	-	-	-	10,500	(10,500)	-	-	-
Issue of share capital of subsidiary	-	-	-	-	-	-	-	30	30
Stock redemption of subsidiary	-	-	-	-	-	-	-	(131)	(131)
as of December 31, 2017	388,003	1,045,201	(146,701)	335,297	2,225,865	383,977	4,231,643	99,848	4,331,491
as of January 1, 2018	388,003	1,045,201	(146,701)	335,297	2,225,865	383,977	4,231,643	99,848	4,331,491
Effect of adoption of new accounting standards	-	-	-	19,367	-	(2,986)	16,381	(110)	16,271
Profit for the year	-	-	-	-	-	656,242	656,242	28,777	685,019
Other comprehensive income:									
Re-measurement gains on defined benefit plans	-	-	-	-	-	(26,951)	(26,951)	-	(26,951)
Capital changes in equity method	-	-	-	1,634	-	-	1,634	-	1,634
Net gains (losses) on valuation of equity instruments designated at fair value OCI	-	-	-	(467,856)	-	-	(467,856)	12	(467,843)
Net gains (losses) on disposal of equity instruments designated at fair value OCI	-	-	-	451,340	-	-	451,340	`	451,340
Foreign currency translation adjustments	-	-	-	15,419	-	-	15,419	10,012	16,421
Total comprehensive income (loss)	-	-	-	537	-	629,290	629,827	29,791	659,618
Dividends	-	-	-	-	-	(56,803)	(56,803)	(4,079)	(60,882)
Appropriation of retained earnings	-	-	-	-	(273,500)	273,500	-	-	-
Others	-	-	-	-	-	-	-	(1)	(1)
as of December 31, 2018	388,003	1,045,201	(146,701)	355,201	1,952,365	1,226,978	4,821,048	125,450	4,946,498

Consolidated Statements of Cash Flows

(Unit: KRW)

		2017		2018
Operating activities				
Cash flows from operating activities	775,766,668,252		1,640,496,362,856	
Interest received	10,092,168,186		11,661,145,446	
Income tax paid	(68,175,232,386)		(93,488,267,315)	
Net cash flows from operating activities		717,683,604,052		1,558,669,240,987
Investing activities				
Decrease in other financial assets, net	292,195,506,580		97,469,134,564	
Increase in other financial assets, net	(94,620,093,618)		(212,063,539,976)	
Acquisition of FV-OCI	-		605,759,865,545	
Disposal of FV-OCI	-		(27,634,521,850)	
Proceeds from disposal of available-for-sale financial assets	19,642,610,516		-	
Acquisition of available-for-sale financial assets	(2,757,206,040)		-	
Proceeds from disposal of property, plant and equipment	91,594,265,409		31,547,046,319	
Acquisition of property, plant and equipment	(1,476,318,325,155)		(1,195,189,266,500)	
Proceeds from disposal of intangible assets	663,753,254		1,908,498,380	
Acquisition of intangible assets	(67,818,379,986)		(12,548,914,843)	
Dividends received	5,140,963,400		12,661,738,200	
Net cash flows used in investing activities		(1,232,276,905,640)		(698,089,960,161)
Financing activities				
Proceeds from short-term borrowings	520,596,730,880		355,811,233,383	
Repayment of short-term borrowings	(104,630,832,655)		(534,360,947,257)	
Repayment of current portion of long-term borrowings	(350,758,602,000)		(351,337,600,000)	
Proceeds from long-term borrowings	275,079,559,220		484,187,346,776	
Repayment of long-term borrowings	(30,522,000,632)		(40,429,584,000)	
Others	(101,883,208)		(1,166,792)	
Interest paid	(65,707,638,170)		(89,188,397,902)	
Dividends paid	(47,877,329,236)		(60,513,599,007)	
Net cash flows from financing activities		196,078,004,199		(235,832,714,799)
Net increase (decrease) in cash and cash equivalents		(318,515,297,389)		624,746,566,027
Net foreign exchange difference		(32,686,059,475)		(66,981,424,031)
Cash and cash equivalents at January 1		795,810,686,641		444,609,329,777
Cash and cash equivalents at December 31		444,609,329,777		1,002,374,471,773

ESG KEY PERFORMANCE INDICATORS

Customers and Business Partners

* Concerning data that are different from the main contents in this report is due to unit changes

	Scope	Unit	2016	2017	2018
Cost of purchasing raw materials	Consolidated basis	KRW million	2,718,920	3,138,017	3,168,622
Customer Satisfaction	Consolidated basis	Score	96.3	95.0	92.8
Local purchase cost	Consolidated basis	KRW million	551,988	596,024	835,339
Percentage of local purchases	Consolidated basis	%	20.3	19.0	26.4
Training support for business partners (Win-Win Academy)	Domestic basis	Number of courses	36	41	40
Training support for business partners (Win-Win Academy)	Domestic basis	Persons	1,349	1,074	954
Environmental facility operation consulting for business partners	Domestic basis	Number of companies	20	16	17
Greenhouse gas and energy efficiency inspection for business partners	Domestic basis	Number of companies	32	44	35
Risk assessment and fire safety inspection for business partners	Domestic basis	Number of companies	42	30	38
Completion person of product environmental compliance program of business partners	Domestic basis	Persons	56	252	130
Completion person of safety and environmental compliance program of business partners	Domestic basis	Persons	118	110	116
Companies supported under the Industry Innovation Movement	Domestic basis	Number of companies	30	31	31
Amount of fund to support the Industry Innovation Movement	Domestic basis	KRW 100 million	6	6	6
Win-Win Fund	Domestic basis	KRW 100 million	393	383	335

Environment

* Concerning data that are different from the main contents in this report is due to unit changes

	Scope	Unit	2016	2017	2018
Amount of using raw materials	Consolidated basis	ton	116,727	106,457	118,919
Chemicals	Consolidated basis	ton	103,295	88,318	97,374
Powders	Consolidated basis	ton	9,911	13,473	15,654
Non-ferrous Metals	Consolidated basis	ton	2,512	2,849	2,641
Resin	Consolidated basis	ton	512	920	1,083
Paste	Consolidated basis	ton	231	642	12
Precious Metal	Consolidated basis	ton	1	1	1
Others	Consolidated basis	ton	265	254	2,154
Amount of using fuel	Consolidated basis	GJ	1,573,727	1,748,480	1,850,260
Amount of using electricity	Consolidated basis	MWh	1,629,884	1,820,516	2,033,290
LNG	Consolidated basis	MWh	275,568	259,821	259,462
Diesel	Consolidated basis	MWh	13,321	20,636	18,623
Gasoline	Consolidated basis	MWh	4,920	4,550	3,948
Kerosene	Consolidated basis	MWh	0	0	0
LPG	Consolidated basis	MWh	19,471	24,258	26,463
Purchased steam	Consolidated basis	MWh	123,866	176,424	205,464
Amount of using energy	Consolidated basis	MWh	2,067,030	2,306,205	2,547,250
Energy intensity	Consolidated basis	MWh/KRW 100 million	34	34	31
Amount of using electricity	Domestic basis	MWh	744,946	737,016	828,678
Amount of using energy	Domestic basis	MWh	1,035,235	1,041,091	1,158,370
Greenhouse gas emissions	Consolidated basis	tCO_2e	1,021,836	1,135,721	1,276,422
Greenhouse gas intensity	Consolidated basis	tCO_2e/KRW 100 million	16.9	16.6	15.6
Environment and energy investment	Consolidated basis	KRW million	30,331	4,703	30,902
Environment and energy operating expenditure	Consolidated basis	KRW million	210,321	238,359	268,379

Environment

* Concerning data that are different from the main contents in this report is due to unit changes

	Scope	Unit	2016	2017	2018
Number of energy-saving project improvements	Consolidated basis	Cases	667	575	460
Amount of energy-saving project improvements	Consolidated basis	KRW 100 million	174	181	125
Rate of ISO 14001 certification	Consolidated basis	%	100	100	100
Response to product and environment information requests	Consolidated basis	Cases	2,828	2,522	2,558
Eco-friendly purchase cost	Consolidated basis	KRW 100 million	22.5	16.1	51.6
Ordinary waste incineration	Consolidated basis	ton	5,442	3,753	3,725
Ordinary waste landfill	Consolidated basis	ton	4,336	13,496	11,105
Ordinary waste recycling	Consolidated basis	ton	33,672	48,147	72,344
Amount of ordinary waste generated	Consolidated basis	ton	43,450	65,396	87,173
Designated waste incineration	Consolidated basis	ton	4,470	7,628	9,042
Designated waste landfill	Consolidated basis	ton	8,368	6,544	6,681
Designated waste recycling	Consolidated basis	ton	36,165	38,117	39,736
Amount of designated waste generated	Consolidated basis	ton	49,002	52,289	55,459
Amount of waste generated	Consolidated basis	ton	92,452	117,684	142,632
Waste recycling	Consolidated basis	ton	69,837	86,264	112,079
Waste recycling rate	Consolidated basis	%	75.5	73.3	78.6
Profit on disposal of waste	Consolidated basis	%	81.8	72.0	70.2
Outsourcing amount of reclaimed waste	Consolidated basis	KRW 100 million	62	90	119
Amount of profit from reclaimed waste	Consolidated basis	KRW 100 million	342	316	400
Water usage	Consolidated basis	m^3	19,208,733	21,338,128	23,689,268
Municipal Water	Consolidated basis	m^3		15,728,972	17,212,321
Surface Water	Consolidated basis	m^3		2,675,100	2,997,373
Ground Water	Consolidated basis	m^3		2,937,056	3,479,574
Water recycling amount	Consolidated basis	m^3	2,688,221	2,658,461	3,787,453
Water recycling rate	Consolidated basis	%	14	12.5	16.0
Volume of water discharged	Consolidated basis	m^3	2,377,862	3,673,953	3,991,058
SOx emissions	Consolidated basis	ton	81	80	73
NOx emissions	Consolidated basis	ton	341	315	212
Dust emissions	Consolidated basis	ton	45	74	60
SOx emission intensity compared to statutory standards	Consolidated basis	%	9.9	1.4	0.2
NOx emission intensity compared to statutory standards	Consolidated basis	%	14.2	12.3	9.6
Dust emission intensity compared to statutory standards	Consolidated basis	%	6.4	8.7	6.6
BOD emissions	Consolidated basis	ton	187	162	215
COD emissions	Consolidated basis	ton	382	332	329
SS emissions	Consolidated basis	ton	75	47	105
T-N emissions	Consolidated basis	ton	114	130	155
T-P emissions	Consolidated basis	ton	3	3	7
BOD emission intensity compared to statutory standards	Consolidated basis	%	8.9	7.9	10.0
COD emission intensity compared to statutory standards	Consolidated basis	%	21.5	17.8	13.4
SS emission intensity compared to statutory standards	Consolidated basis	%	4.4	2.1	3.5
T-N emission intensity compared to statutory standards	Consolidated basis	%	12.4	13.2	13.3
T-P emission intensity compared to statutory standards	Consolidated basis	%	4.3	3.3	5.9
Packaging cost reduction amount	Domestic basis	KRW 100 million	8.4	13.4	20.1

Employees

* Concerning data that are different from the main contents in this report is due to unit changes

	Scope	Unit	2016	2017	2018
Employee wage	Consolidated basis	KRW million	974,922	1,025,176	1,097,959
Employee benefits	Consolidated basis	KRW million	255,107	312,544	412,705
Employee pension (retirement benefit)	Consolidated basis	KRW million	136,587	62,784	75,954
Number of employees	Consolidated basis	Persons	30,469	34,411	37,472
Number of employees (domestic/overseas)	Consolidated basis	Persons	10,667/19,802	10,697/23,714	11,724/25,748
Rate of female employees (domestic/overseas)	Consolidated basis	%	24.0/56.9	23.6/54.3	23.0/51.1
Rate of female senior officers (domestic/overseas)	Consolidated basis	%	5.6/26.4	6.3/27.0	7.2/28.2
Non-regular employees	Consolidated basis	Persons	2,112	1,927	1,070
Number of the disabled employees	Domestic basis	Persons	244	227	227
Rate of workforce with disabilities	Domestic basis	%	2.54	2.34	2.10
Training and education costs	Domestic basis	KRW million	8,528	7,917	10,108
Amount of money spent for training per person	Domestic basis	KRW million/per person	0.80	0.74	0.86
Training hours	Domestic basis	Hours	927,978	849,749	1,116,459
Training hours per person	Domestic basis	Hours per person	87	79	95
Number of individuals taking cyber courses	Domestic basis	Persons	60,482	64,227	65,019
Number of cyber courses	Domestic basis	Number of courses	2,375	3,031	2,109
Average hours of completing cyber courses	Domestic basis	Hours	7.5	7.6	6.7
Global leader development	Domestic basis	Persons	35	69	171
Operation of foreign language daily life center	Domestic basis	Persons	117	115	101
Training on information protection	Domestic basis	Persons	15,660	18,519	23,573
Rate of retention over 12 months after returning to work	Domestic basis	%	95.8	94.9	93
Rate of those who returned to work after parental leave	Domestic basis	%	100	98.5	82
Employee satisfaction survey	Consolidated basis	Score	70	72	73
Average years of service (domestic/overseas)	Consolidated basis	Years	11.6 / 4.4	12.3 / 4.1	12.0 / 4.0
Disaster occurrence rate	Consolidated basis	%	0.007	0.026	0.011
Ratio of days of work loss	Consolidated basis	%	1.416	6.071	2.317
Lost-time injuries frequency rate	Consolidated basis	10^{-4}%	0.022	0.090	0.037
Occupational Illness Frequency Rate	Consolidated basis	10^{-4}%	0	0	0
Rate of OHSAS 18001 certification	Consolidated basis	%	91	91	91
Sexual harassment preventive education	Domestic basis	Persons	12,178	10,627	11,724
Completion rate of sexual harassment preventive education	Domestic basis	%	100	100	100
Status of Handling by each Deliberation Organization of the Hanwullim Counci	Domestic basis	Cases	47	45	63
Completion rate of employee corruption prevention training	Consolidated basis	%	100	93.3	99.9
Number of employee corruption prevention trainings	Consolidated basis	Cases	732	487	509
Number of employees participated in corruption prevention trainings	Consolidated basis	Persons	28,956	30,775	36,025
Anti-corruption report registration (corruption)	Consolidated basis	Cases	26	21	20
Anti-corruption report registration (complaints/petitions)	Consolidated basis	Cases	17	20	19
Anti-corruption report registration (others)	Consolidated basis	Cases	2	8	3
Compliance training	Consolidated basis	Times	101	28	26
Compliance checks	Consolidated basis	Times	9	7	7
Completion of compliance training	Domestic basis	Persons	18,630	14,314	13,713

Shareholder and Investor

* Concerning data that are different from the main contents in this report is due to unit changes

	Scope	Unit	2016	2017	2018
Sales	Consolidated basis	KRW million	6,033,040	6,694,046	8,002,008
Operating profit	Consolidated basis	KRW million	24,400	333,861	1,149,936
Net profit	Consolidated basis	KRW million	22,914	177,256	685,019
Dividend	Consolidated basis	KRW million	37,916	56,803	75,690
Cash dividend payout ratio	Consolidated basis	%	257.8	35.1	11.5
Debt ratio	Consolidated basis	%	76.7	79.3	74.8
R&D expense	Consolidated basis	KRW million	408,078	460,206	532,436
R&D expense/ Sales	Consolidated basis	%	6.8	6.7	6.5
Patent registered	Consolidated basis	Cases	7,698	6,921	6,693
Patent pending	Consolidated basis	Cases	8,232	7,241	7,238
Interest expense of creditors	Consolidated basis	KRW million	49,000	66,064	90,122
Corporate tax	Consolidated basis	KRW million	9,168	76,292	255,374
Government subsidies	Consolidated basis	KRW million	181	21	0
Female external directors	Consolidated basis	Persons	1	1	1
Composition of board of directors (internal/external directors))	Consolidated basis	Persons	3/4	3/4	3/4
Board attendance rate (internal/external directors)	Consolidated basis	%	72.2/95.8	90.4/100	87.5/96.8
Sales offices and subsidiaries	Consolidated basis	Number	16	14	15
R&D subsidiaries and centers	Consolidated basis	Number	2	2	2
Production subsidiaries	Consolidated basis	Number	12	12	12

Community

* Concerning data that are different from the main contents in this report is due to unit changes

	Scope	Unit	2016	2017	2018
No. of persons participated in joint replacement surgery program	Domestic basis	Persons	42	27	29
Joint replacement surgery program satisfaction	Domestic basis	Score	95	90	94
Volunteer hours of employees	Domestic basis	Hours	149,151	111,628	45,661
Amount of donation per person	Domestic basis	KRW/per person	9,903	9,671	9,260
Rate of employees participating in volunteering	Domestic basis	%	100	100	100
Number of volunteering teams	Domestic basis	Teams	102	76	67
Social contribution expense (cash)	Consolidated basis	KRW million	7,825	4,638	3,088
hello! SEM Orchestra satisfaction	Domestic basis	Score	96	96	95

THIRD PARTY'S ASSURANCE STATEMENT

To the Readers of Samsung Electro-Mechanics Sustainability Report 2018:

Foreword

Korea Management Registrar Inc. (hereinafter "KMR") has been requested by of Samsung Electro-Mechanics to verify the contents of its 2018 Sustainability Report (hereinafter "the Report"). Samsung Electro-Mechanics is responsible for the collection and presentation of information included in the Report. KMR's responsibility is to carry out assurance engagement on specific data and information in the assurance scope stipulated below.

Scope and standard

Samsung Electro-Mechanics describes its efforts and achievements of the corporate social responsibility activities in the Report. KMR performed a Type 2, moderate level of assurance using AA1000AS (2008) and SRV1000 from KMR Global Sustainability Committee as assurance standards. KMR's assurance team(hereinafter "the team") evaluated the adherence to Principles of Inclusivity, Materiality and Responsiveness, and the reliability of the selected GRI Standards indices as below, where professional judgment of the team was exercised as materiality criteria.

The team checked whether the Report has been prepared in accordance with the 'Core Option' of GRI Standards which covers the followings.

- GRI Standards Reporting Principles
- Universal Standards
- Topic Specific Standards

  - Management approach of Topic Specific Standards
  - Economic Performance: 201-1, 201-2, 201-3
  - Market Presence: 202-1, 202-2
  - Indirect Economic Impacts: 203-1
  - Procurement Practices: 204-1
  - Anti-Corruption: 205-1, 205-2, 205-3
  - Anti-Competitive Behavior: 206-1
  - Materials: 301-1, 301-2, 301-3
  - Energy: 302-1, 302-2, 302-3, 302-4, 302-5
  - Water: 303-1, 303-2, 303-3
  - Biodiversity: 304-1, 304-2, 304-3
  - Emissions: 305-1, 305-2, 305-3, 305-4, 305-5, 305-7
  - Effluents and Waste: 306-1, 306-2, 306-3, 306-4, 306-5
  - Environmental Compliance: 307-1
  - Supplier Environmental Assessment: 308-1, 308-2
  - Employment: 401-1, 401-2, 401-3
  - Labor/Management Relations: 402-1
  - Occupational Health and Safety: 403-1, 403-2, 403-3, 403-4
  - Training and Education: 404-1, 404-2, 404-3
  - Diversity and Equal Opportunity: 405-1, 405-2
  - Non-Discrimination: 406-1
  - Freedom of Association and Collective Bargaining: 407-1
  - Child Labor: 408-1
  - Forced or Compulsory Labor: 409-1
  - Security Practices: 410-1
  - Rights of Indigenous Peoples: 411-1
  - Human Rights Assessment: 412-1, 412-2
  - Local Communities: 413-1
  - Supplier Social Assessment: 414-1, 414-2
  - Public Policy: 415-1
  - Marketing and Labeling: 417-2, 417-3
  - Customer Privacy: 418-1
  - Socioeconomic Compliance: 419-1

This Report excludes a data sand information of joint corporate, contractor etc. which is outside of the organization, i.e. Samsung Electro-Mechanics, among report boundaries.

Our approach

In order to verify the contents of the Report within an agreed scope of assurance in accordance with the assurance standard, the team has carried out an assurance engagement as follows:

- Reviewed overall report
- Reviewed materiality test process and methodology
- Reviewed sustainability management strategies and targets
- Reviewed stakeholder engagement activities
- Interviewed people in charge of preparing the Report

Our conclusion

Based on the results we have obtained from material reviews and interviews, we had several discussions with Samsung Electro-Mechanics on the revision of the Report. We reviewed the Report's final version in order to confirm that our recommendations for improvement and our revisions have been reflected. When reviewing the results of the assurance, the assurance team could not find any inappropriate contents in the Report to the compliance with the principles stipulated below. Nothing has come to our attention that causes us to believe that the data included in the verification scope are not presented appropriately.

■ Inclusivity

Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

- Samsung Electro-Mechanics is developing and maintaining stakeholder communication channels in various forms and levels in order to make a commitment to be responsible for the stakeholders. The assurance team could not find any critical stakeholder Samsung Electro-Mechanics left out during this procedure.

■ Materiality

Materiality is determining the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions, and performance of an organization or its stakeholders.

- Samsung Electro-Mechanics is determining the materiality of issues found out through stakeholder communication channels through its own materiality evaluation process, and the assurance team could not find any critical issues left out in this process.

■ Responsiveness

Responsiveness is an organization's response to stakeholder issues that affect its sustainability performance and is realized through decisions, actions, and performance, as well as communication with stakeholders.

- The assurance team could not find any evidence that Samsung Electro-Mechanics's counter measures to critical stakeholder issues were inappropriately recorded in the Report.

We could not find any evidence the Report was not prepared in accordance with the 'Core Option' of GRI standards.

Recommendation for improvement

We hope the Report is actively used as a communication tool with stakeholders and we recommend the following for continuous improvements.

■ Samsung Electro-Mechanics showcases a systematic management of key sustainability indicators based on its superior performance management system. To prepare for the uncertainty that the 4th Industrial revolution will bring, the company is advised to identify economic, social and environmental risks in advance and actively search for new opportunities, thereby achieving better sustainability.

Our independence

With the exception of providing third party assurance services, KMR is not involved in any other Samsung Electro-Mechanics's business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.

June, 18th, 2019

E. J Hwang

KMR 한국경영인증원 Korea Management Registrar

SRV1000 Sustainability Committee Assurance

AA1000 Licensed Assurance Provider 000-129

THIRD-PARTY GHG VERIFICATION STATEMENT

Scope 1 (direct) and Scope 2 (indirect) emissions

Samsung Electro-Mechanics Co., Ltd.

Scope:

- The annual GHG emissions for 2014, 2015, 2016, 2017, 2018 calendar years inclusive.
- The physical scope is within the boundary of the sites mentioned above.
- GHG emissions for SCOPE 1(Direct-emissions from the plant), SCOPE 2(Indirect-energy related) and SCOPE 3(Indirect-emissions from logistic, commuting etc.) as defined in WBCSD/WRI GHG protocol Chapter 4 "Setting Operational Boundaries"

Data Verified:

- GHG Emissions of Scope 1 and Scope 2 for the period from 2014 to 2018 are as follows.

[Unit: tCO_2e]

Country	Plant	2014	2015	2016	2017	2018
Korea	Suwon	77,291	68,801	73,377	74,609	76,592
	Sejong	97,316	93,427	90,273	80,965	85,585
	Busan	230,829	219,166	210,148	194,953	229,553
	Cheonan	-	-	2,871	17,973	29,655
	Ulsan	5,973	13,008	13,175	15,315	13,294
	Others	884	284	494	636	597
China	Gaoxin	54,364	48,151	41,321	46,901	41,624
	Binhai	139,284	139,661	164,097	298,298	-
	Tianjin	111,116	111,203	110,472	1,314	336,083
	Kunshan	104,950	108,107	118,276	135,445	162,366
	Dongguan	37,504	18,742	6,342	6,476	6,195
	Shenzhen Logistic Ctr.	244	264	295	349	413
Philippines	Philippines	82,799	88,040	102,836	152,197	184,830
Thailand	Bangpakong	11,108	11,316	10,731	8,380	7,766
	Nakhonrachasima	33,280	14,195	-	-	-
Vietnam	Vietnam	2,056	40,952	77,128	101,910	101,869
Hungary	Hungary	1,032	989	-	-	-
Japan	Japan R&D Center	1,124	454	-	-	-
	Total	**991,154**	**976,760**	**1,021,836**	**1,135,721**	**1,276,422**

※ Scope 3(Other GHG Emissions) accounted according to 「The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard of WRI/WBCSD」is described in the following Appendix.

GHG Criteria & Protocols used for Verification:

The verification was carried out at the request of the Samsung Electro-Mechanics Co., Ltd. using:

- The Kyoto Protocol to the United Nations Framework Convention on Climate Change – 11 December 1997
- GHG Energy Target Management Operating Guideline (2016-255)
- The GHG Protocol of the WRI/WBCSD – Revised 2015
- IPCC Guideline for National Greenhouse Gas Inventories – Revised 2006
- ISO14064 Part 1 & 3 – Issued 2006
- BSI GHGEV Manual – Revised September, 2018

The standard confidentiality principle of BSI Group Korea is applied to the all verification activities.

Verification Opinion:

result of carrying out verification in accordance with the protocols and the best practice mentioned above and it is the opinion of BSI that:

- The verification was conducted to provide reasonable verification in accordance with GHG Energy Target Management Scheme (2016-255)
- No material misstatement in the calculations was revealed, good record keeping was demonstrated and related records were maintained appropriately.
- Data quality was considered acceptable in meeting the key international principles for greenhouse gas emissions verification.

For and on behalf of BSI:
Issue: 02/05/2019

Managing Director Korea, JongHo Lee

GHG Emission of Scope 3

Data Verified:

GHG Emissions from purchased goods and services, used capital goods, logistics of materials and products, waste disposal, employee business travel, employee commuting, leased assets, processing of products, use of sold products, end of life treatment of sold products accounted according to 「The GHG Protocol Corporate Value Chain(Scope3) Accounting and Reporting Standard of WRI/WBCSD」.

[Unit: tCO_2e]

Category	Description	Reporting Year		Remark
		2017	2018	
Purchased Goods & Services	Extraction, production, and transportation of goods & services purchased or acquired by the reporting company in the reporting year	33,595	37,253	
Capital Goods	Extraction, Production and transportation of capital goods purchased or acquired by the reporting company in the reporting year	2,641	2,345	
Fuel and Energy Related Activities Not Included in Scope 1 or 2	All activities related to fuel and energy consumed by the reporting company, not already accounted for in scope 1 or 2	11,137	11,170	
Transportation & Distribution (Upstream)	Third-party transportation & distribution of products purchased by the reporting company in the reporting year	55,351	165,843	
Waste Disposal	Third-party disposal/treatment of waste generated in the reporting company's operations in the reporting year	6,562	7,839	
Business Travel	Transportation of employees for business-related activities in vehicles owned or operated by third parties	5,840	5,811	
Employee Commuting	Transportation of employees between their homes and their worksites	11,063	11,702	
Leased Assets (Upstream)	Operation of assets leased by the reporting company in the reporting year	309	629	
Transportation & Distribution (Downstream)	Third-party transportation & distribution of products produced by the reporting company in the reporting year	-	-	No use of warehouse for third party transportation and distribution of products
Processing of Product	Processing of intermediate product to final product	184	154	
Use of Product	Use of product by customer	4,907	4,102	
Disposal of Product	Final disposal of product by end-user	77	64	
Leased Assets (Downstream)	Operation of assets owned by the reporting company and leased to other entities in the reporting year	-	-	No operation of assets leased to other entities
Investment	Emission from invested enterprise	27,891	23,098	
	Total	**159,556**	**270,012**	

For and on behalf of BSI:
Issue: 02/05/2019

Managing Director Korea, JongHo Lee

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