

## 2

## A Good Neighbor Who is Always There for You



### Product Safety Committee

was established in 2014 to enforce strict monitoring of food safety

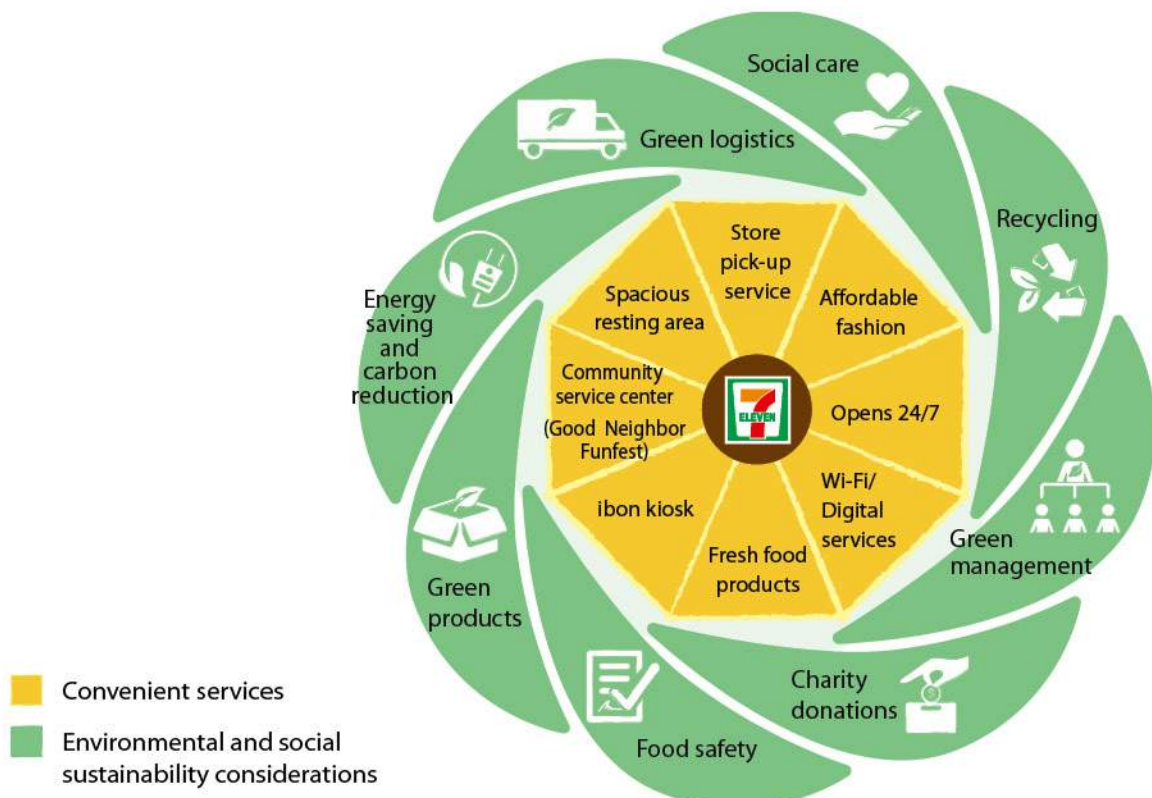


### Material and Quality Assurance System

**(MAS)** was established in 2015 to voluntarily trace raw materials of products.

## 2.1 A Convenient and Sustainable Lifestyle

Since the 1970s, PCSC has played the role of a good neighbor in the community. Similar to grocery stores, we became a place where people can shop, relax, and socialize. As time changes, convenience stores have become one of the most distinctive features in Taiwan. In recent years, to provide consumers with convenient products and services, we have worked actively to expand store sizes and strengthen our food service strategy. Leveraging the competitive advantage of diversified lifestyle proposal and ICT equipment (such as the ibon kiosk), PCSC has created the most convenient shopping space for the general public. At the same time, it is also our responsibility to create a convenient and sustainable lifestyle for consumers.



To continue meeting the needs of consumers, we have upgraded many convenience and sustainable products or services in 2014. Key initiatives are listed below:

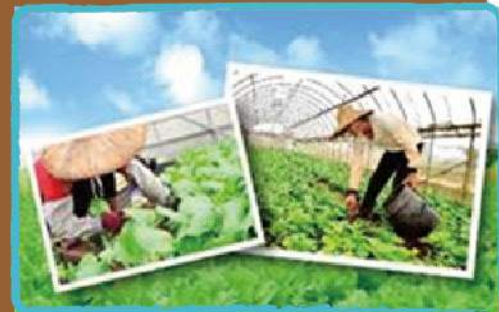
■ **Upgraded the ibon app to build a paperless bill payment platform**

In response to the widespread use of smartphones, a new feature of "mobile bill barcode" was added to the ibon app. Consumers can now simply scan the barcode with the ibon app installed on their mobile phone to make payments at our stores without printing out their bills. Such paperless bill payment platform is not only smart and convenient, but also environmentally friendly.



■ **Organic vegetable boxes to provide balanced and healthy foods to three major consumer groups and to support local economy**

Considering the current social trends of an aging society, declining birth rates, and nuclear families, three distinct major consumer groups were formed: "senior citizens", "LOHAS families", and "young children". Fruit and vegetable portions were then tailored to the nutritional needs of each group. By partnering with organic vendors, we have developed exclusive organic vegetable boxes, which not only provide consumers with safe, high-quality fresh fruits and vegetables, but also support local farmers and help build a sustainable economy.



■ **Launched the private brand "UNIDESIGN" which focuses on high quality at fair prices**

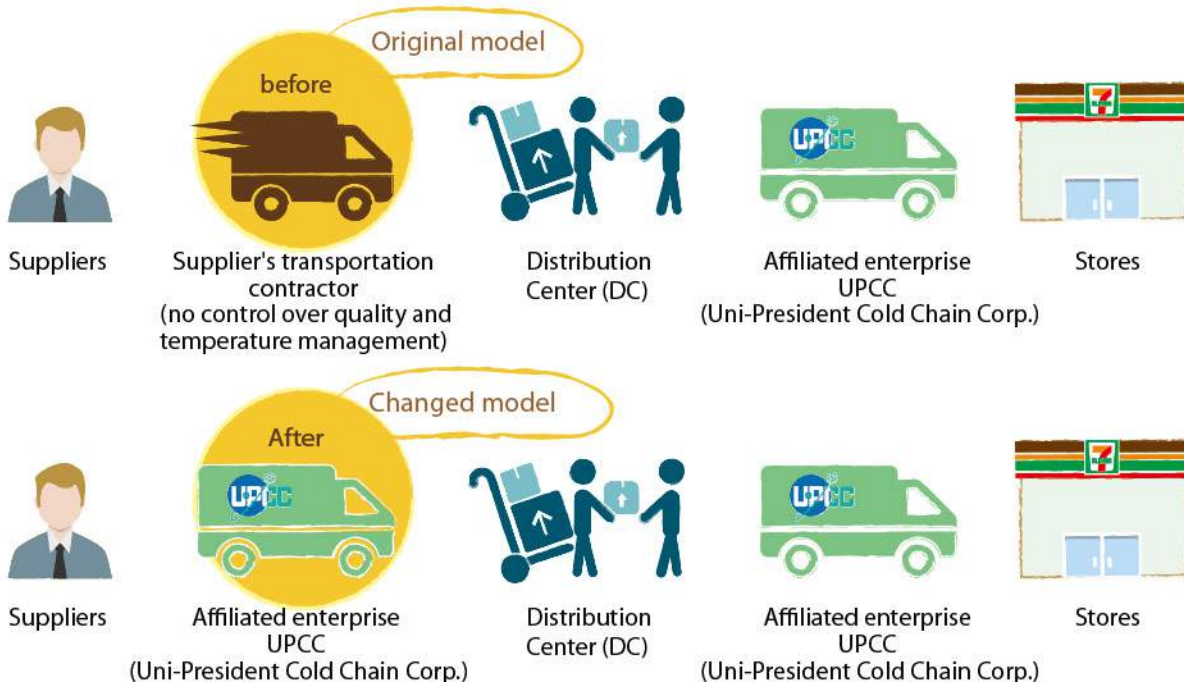
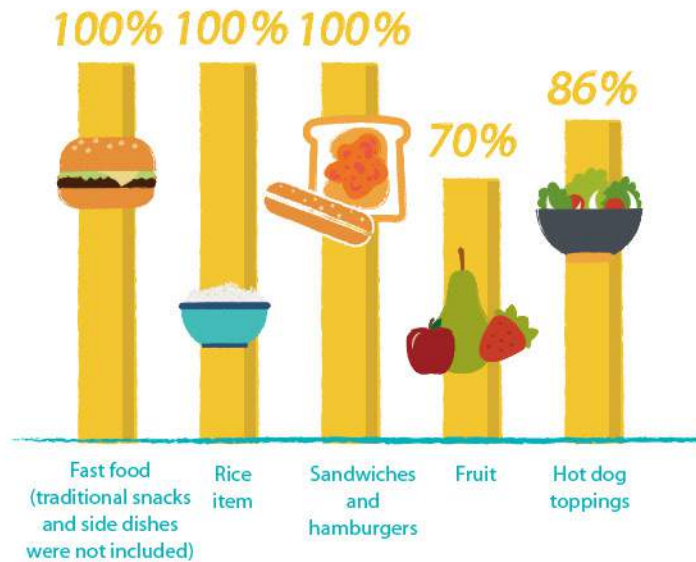
PCSC leveraged our group synergies and formed a cross-channel partnership with COSMED to develop the new private brand "UNIDESIGN". The new brand focuses on "high quality", "high added value" and "differentiation". Green design is also incorporated into the brand wherever possible. For example, the "UNIDESIGN" cotton swabs are made from eco-friendly materials and the swab stems are made from biodegradable paper. The goal is to provide consumers with affordable and high-quality products.



## Introduction of upstream supply chain integration to manage distribution logistics

Having control over temperature, personnel, and cleanliness during the logistics process is another key component of product quality. Due to the increasing emphasis on food safety, we changed our transportation model to achieve effective quality control at the source by introducing upstream supply chain integration to manage distribution logistics. Under the original logistics model, transportation from the supplier to the distribution center (DC) was handled by the supplier. The temperature was verified only upon arrival at the DC. This gap made effective temperature control impossible for the entire trip. Through transportation integration, we extended the strict quality control processes between the DC and the store to the supplier-end as well; this effectively ensured food safety and quality control throughout the entire process. The introduction of transportation integration not only achieved the anticipated quality control benefits, but also facilitated joint distribution to reduce the total number of trips made per day and help reduce carbon emissions and transportation costs. At the same time, unified specification of empty crates enhanced overall efficiency and improved cleanliness of empty crates. According to the contract regarding transportation integration signed by logistics companies and suppliers, by the end of 2014, categories covered 100% by integrated transportation included fast food (traditional snacks and side dishes were not included), rice products, sandwiches and hamburgers. Categories of fruits and hot dog toppings were partially covered. More categories will be added in the future as appropriate.

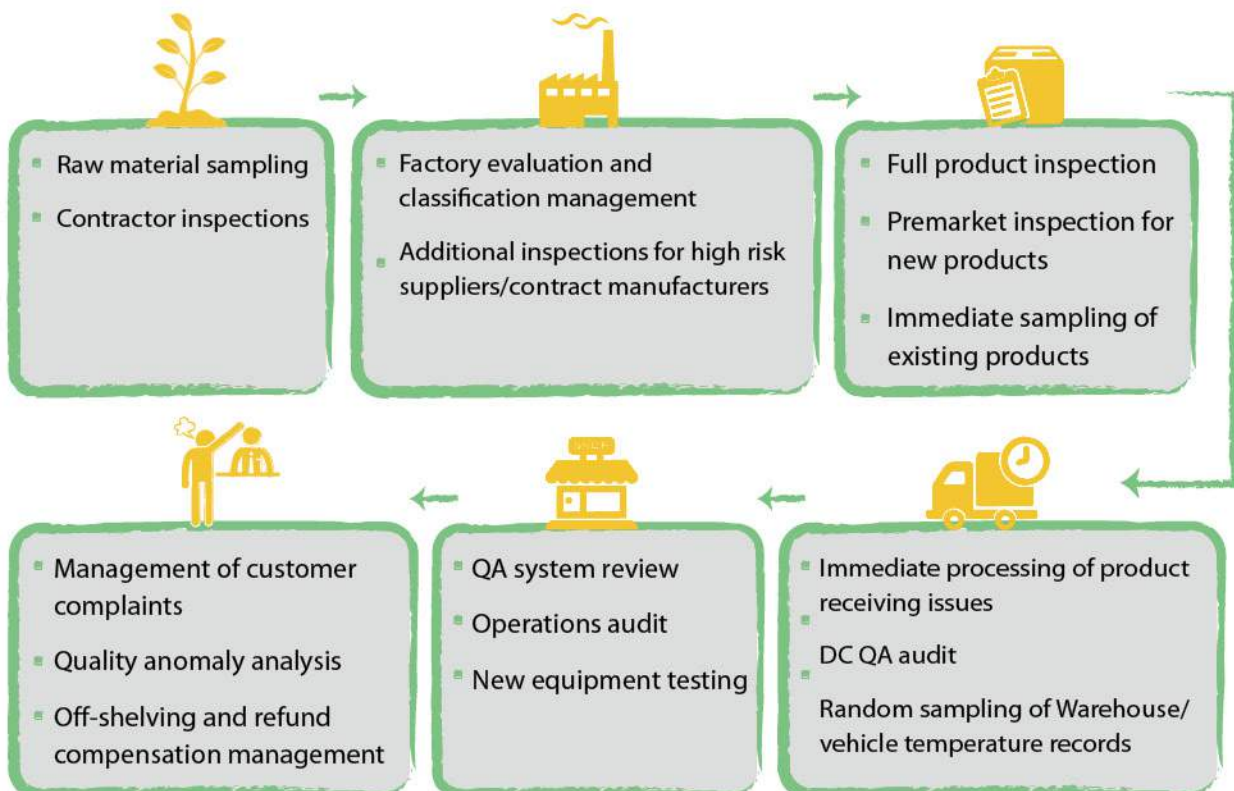
Ratio of products distributed via integrated transportation with respect to all products within the same category



## 2.2 Strict Enforcement of Product Safety

As one of PCSC's core values for sustainable development, we are committed to provide consumers with safe and trustworthy products. To strengthen product management, the QA Team under the Logistics Department was promoted to become the QA Department in 2011, reporting directly to the COO. The three primary functions of the QA Department are risk management, verification/auditing, and quality inspection. Strict policies and controls are enforced starting from raw materials, factory production, distribution, stores, to consumers. We are also in full compliance with the relevant regulations to ensure product safety that meets consumers' expectations. In 2014, there were no fines issued due to violations of food safety and health-related regulations.

### Product flow control process



In recent years, with many instances of food safety scandals both in Taiwan and internationally, PCSC has launched a series of improvements on the food safety QA system in 2014, including the establishment of the Product Safety Committee, internal supervision mechanism for product safety, introduction of upstream supply chain integration, and upgrade of the Food Inspection Lab's testing capabilities. We also drafted medium and long-term directions for making improvements and corresponding business strategies in order to weave a comprehensive safety net.

## Medium and long-term directions for implementing food safety improvements and corresponding strategies

### Directions for improvement

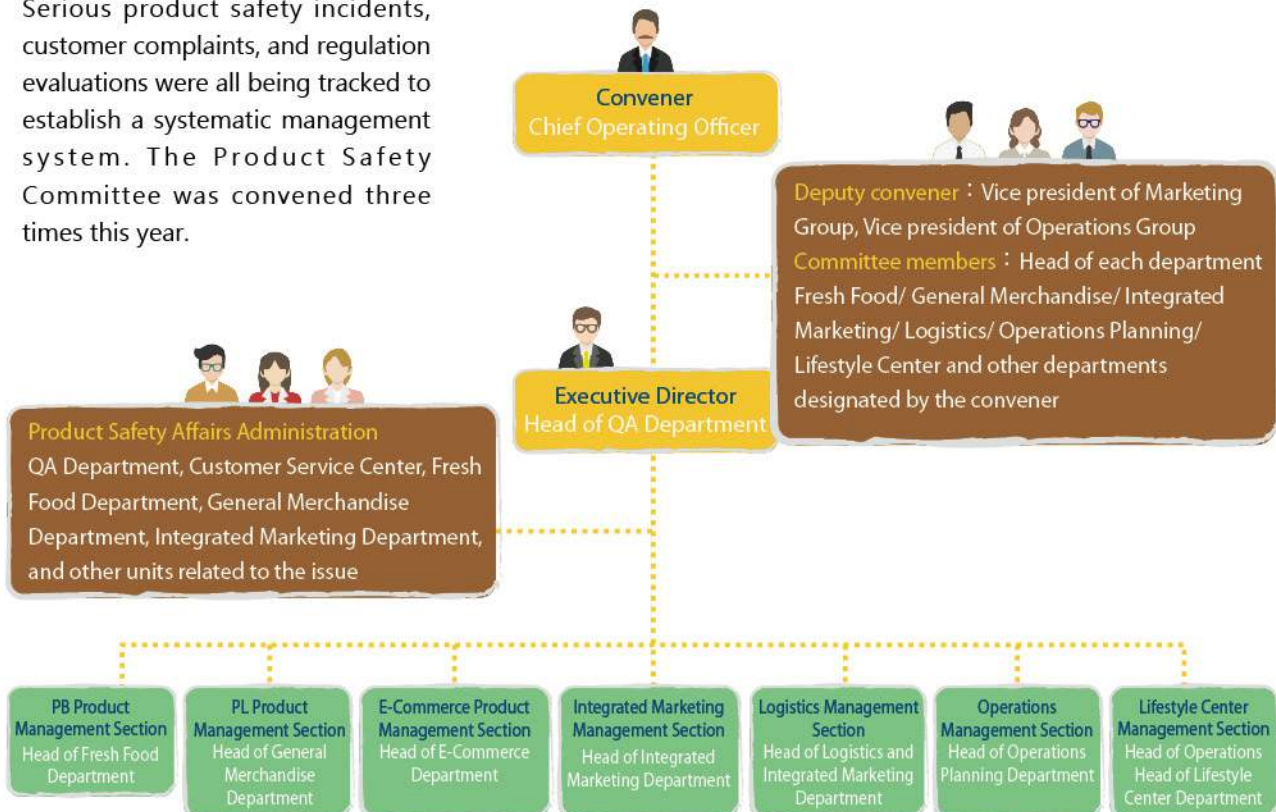
- Strengthen food safety traceability management for domestic and international supply chains and expand to related business functions
- Establish a PCSC farm-to-store supply chain food safety management mechanism in response to the growing consumer awareness of food safety issues
- Cultivate professional experts in food safety management and implement food safety management throughout the supply chain
- Leverage group resources to integrate and share supply chain management information, and establish a safe food ingredient supply circle

### Corresponding business strategies

- Establish raw material and supplier databases for traceability management; enforce on-site inspections and assessments of overseas contract manufacturers and key material suppliers.
- Conduct ISO22000 chief auditor education and training to cultivate PCSC's own internal factory inspection personnel, reducing the proportion of outsourced assessments and enhancing the quality of supplier management
- Strengthen the classification management of suppliers/contract manufacturers and establish the withdraw mechanism in order to make effective use of food safety human resources
- Expand voluntary testing of high-risk food safety factors (e.g. agro-pesticides, veterinary drugs, and additives) to improve our internal food safety monitoring capabilities and reduce risks

In addition, we believe there may be food safety problems hidden within management activities of each department. Every department should therefore consciously conduct self-inspections and identify potential food safety risks. In 2014, we officially established the "Product Safety Committee" with detailed regulations of the organization of the committee and its operations. Through the Product Safety Committee, we reviewed and integrated the management of safety and quality towards proprietary products<sup>1</sup> practiced by all PCSC units.

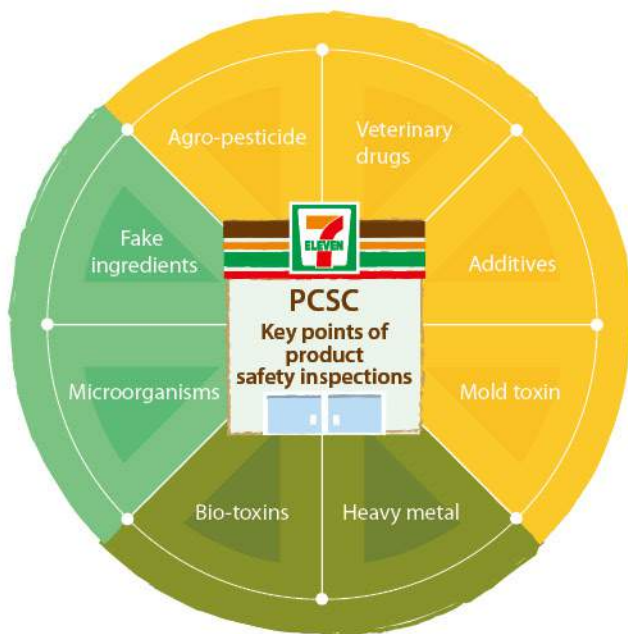
Serious product safety incidents, customer complaints, and regulation evaluations were all being tracked to establish a systematic management system. The Product Safety Committee was convened three times this year.



<sup>1</sup>Proprietary products include those under private brands and private labels. Private brand products are exclusive products mass produced under contract or developed in cooperation with other manufacturers, such as onigiri and oden. Private label products are private brand products designed by ourselves.

## ■ "Food Inspection Lab", a Firewall for Food Safety

To PCSC, establishing food sanitation standards that surpass the statutory requirements is a basic requirement. We set up the "Food Inspection Lab" in 2012 to improve our food safety management. In the last few years, we not only continued to purchase more sophisticated testing equipment, but also recruited professionals from inspection companies, government health agencies, and pharmaceutical companies. Every possible effort has been made to use their food expertise and knowledge to improve our safety inspection capabilities and fulfill consumer expectations. For existing products, as well as new products before they are placed on the shelves, we conduct rigorous testing for veterinary drug residue, agro-pesticide residue, food additives, biological toxins, traces of heavy metal, mold toxins, microorganisms, and fake ingredients. In terms of inspection capability, we not only conduct government-specified inspections, but also focus on non-standard inspection items. We actively search items not deemed dangerous by the government, and study objects of concern in order to develop practical inspection methods. By taking the lead in proposing recommended controls and defining inspection standards, we can continue to improve our quality control standards and minimize food safety risks. By the end of 2014, the Food Inspection Lab has already established 124 inspection items listed by the government in accordance with the inspection methods published by the Food and Drug Administration of the Ministry of Health and Welfare. By the end of 2014, the Food Inspection Lab has established 11 non-standard inspection items based on foreign regulations or methods adopted in international publications. In terms of non-standard inspection items, our goal is to keep adding 10 to 20 each year.

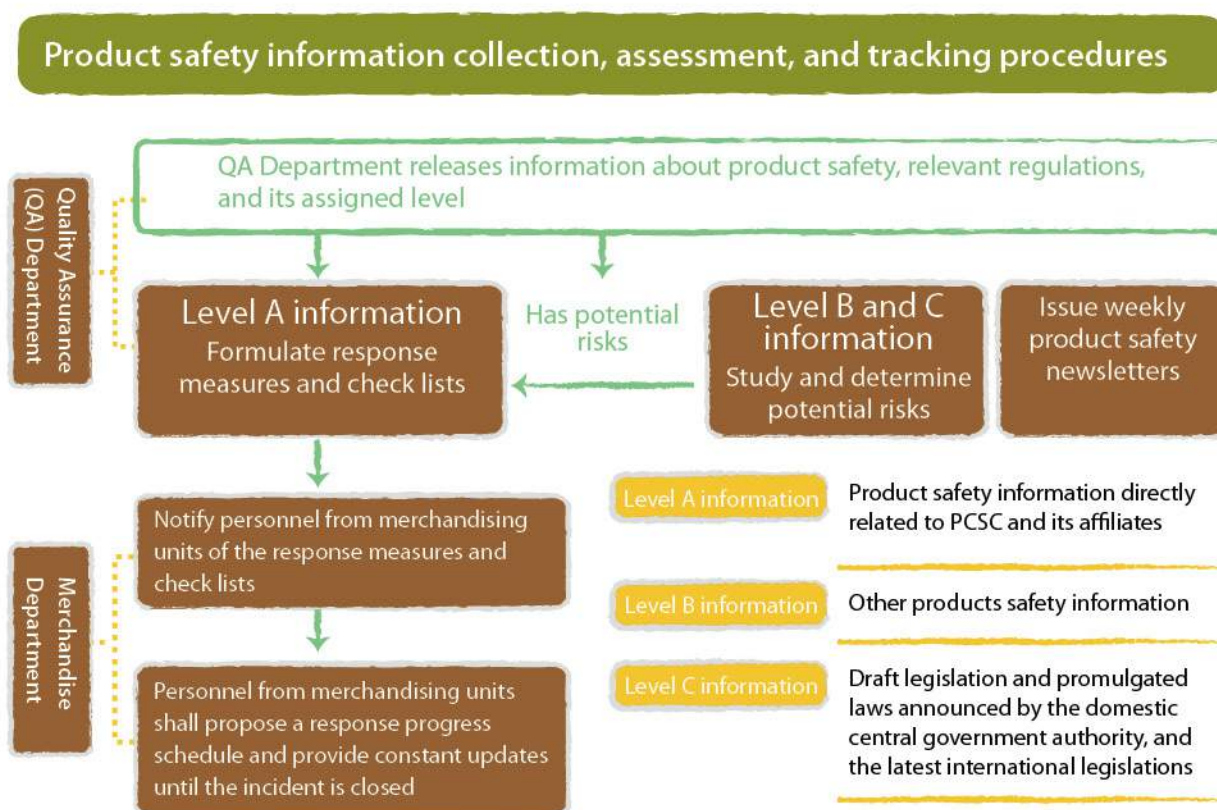


To enhance the credibility of inspection, the Food Inspection Lab has strived for being certified by Taiwan Accreditation Foundation (TAF) and Food and Drug Administration (TFDA) of its inspection items so we can become a professional, credible, and accredited laboratory that is capable of issuing certifications. PCSC is one of the few retail companies in Taiwan to have its own world-class inspection and certification units; this fully demonstrates PCSC's commitment to quality control in building a comprehensive food safety net. Our Food Inspection Lab is ISO/IEC 17025:2005 certified. We have also received TAF and TFDA accreditations for 11 inspection items by the end of 2014. In the future, we aim to achieve additional 1 to 2 accreditations per year by focusing on pathogens, veterinary drugs, agro-pesticides, and food additives.

In terms of the practice of inspections, in 2014, laboratory expenses totaled NT\$17,694,000, which accounted for 0.0135% of the individual operating revenue. As for the inspection of raw material sources/additives and store product inspections, a total of 809 raw materials or products were sampled based on their relative risks in 2014. These raw materials and products were inspected for agro-pesticides, veterinary drugs, additives, mold toxins, or microorganisms depending on their characteristics. According to government and internal company standards, inspection results showed that 781 raw materials or products passed the inspection, a 97% pass rate. The majority of non-conforming raw materials or products were exposed to cross-contamination during manufacturing or storage by the supplier. Deadlines for corrective action were issued, or requested were made to take their products off the shelves as a precaution; these products will only be put up for sale again when their safety has been confirmed.

## ■ Collection, assessment, and tracking of product safety information

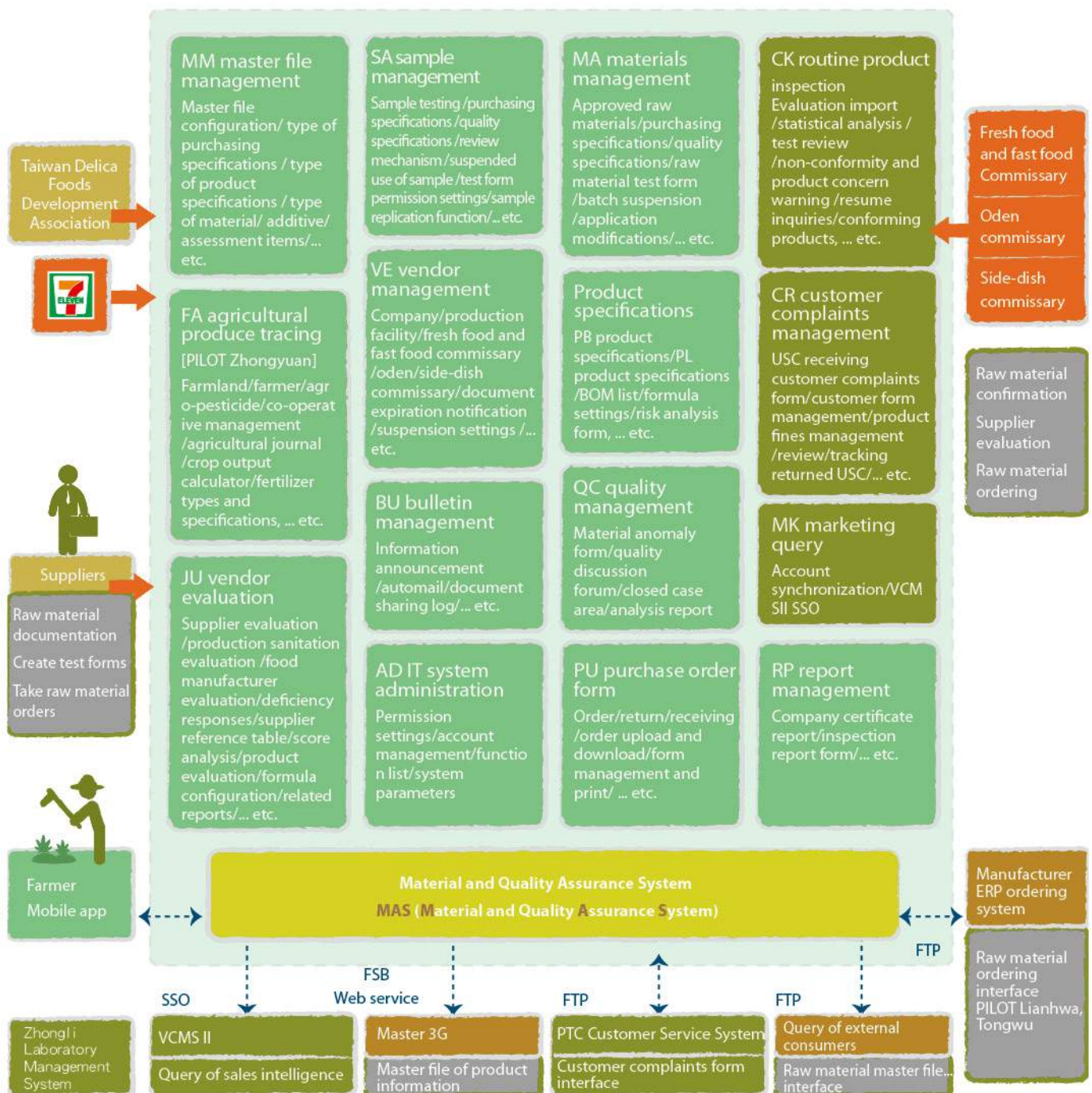
Preventing food safety risks have always been PCSC's top priority. For identifying product risks, we have established the internal "Product Safety Information Collection, Assessment, and Tracking Procedures" to not only collect related product safety information, but also conduct further assessment and tracking; this ensures the safety of all proprietary and non-proprietary products. In 2014, we collected a total of 1,134 entries of levels A, B, and C info. A total of 19 "Level A" info was tracked and executed, including the suspected use of stock feed oil in place of cooking oil, trace amounts of emulsifiers in foods with plastic packaging, and starch not meeting CAS standards. We have checked all products that may be affected and established concrete response measures for case clarification or investigation. The tracking of all cases have been completed.



## Establishing the Material and Quality Assurance System (MAS)

After the occurrence of several major food safety incidents in recent years, the government has devoted significant effort to food safety controls and introduced many response measures. In addition to heavier penalties and sanctions, a number of compulsory traceability measures have also been initiated. While PCSC has not yet been required by law to establish a product traceability system, we spontaneously set up the Material and Quality Assurance System (MAS) to strengthen our own product traceability capabilities. MAS uses material and supplier databases for traceability management with the goal of tracking agricultural raw materials to their originating farm, and additives to their original formulas. When a food safety incident occurs, MAS records can be used to retrieve the raw material purchasing records and its supplier. The supplier's shipping records can then be traced back to other affected materials and products. Starting in 2015, joint purchased raw materials under fresh/fast food categories approved by the Taiwan Delica Foods Development Association (TDF) have been successively incorporated into MAS. Raw materials can now be traced two levels back to the upstream suppliers. In the future, we will extend traceability to upstream suppliers back to the third level in the supply chain.

MAS also combines our existing supply chain document management functions including material management, product specifications, and supplier evaluations. Online management has now replaced traditional paper records. The centralized management of electronic files and servers enable users from each department to query, maintain, and implement this system at the same time; this ensures proper monitoring of all raw materials used. In the future, the system will be linked to the system of customer service center. Any customer complaints relating to food safety can be processed immediately by connecting to MAS.





## Inspection items certified by TAF and TFDA by the end of 2014

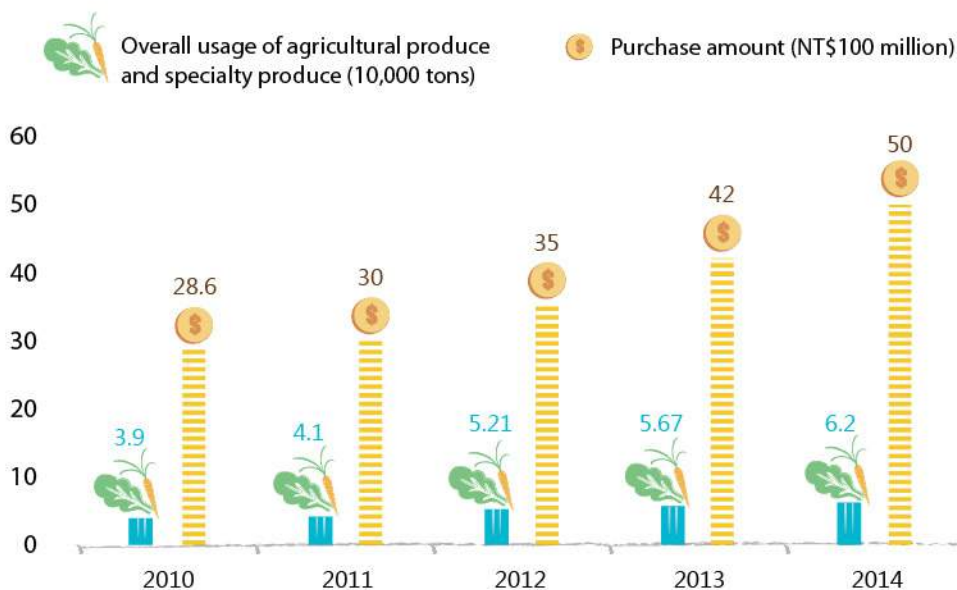
Certification unit	Certified Item
Taiwan Accreditation Foundation (TAF)	3 items related to microorganisms
Taiwan Food and Drug Administration (TFDA)	Veterinary drugs: 4 items related to nitrofurantol metabolites 4 items related to microorganisms

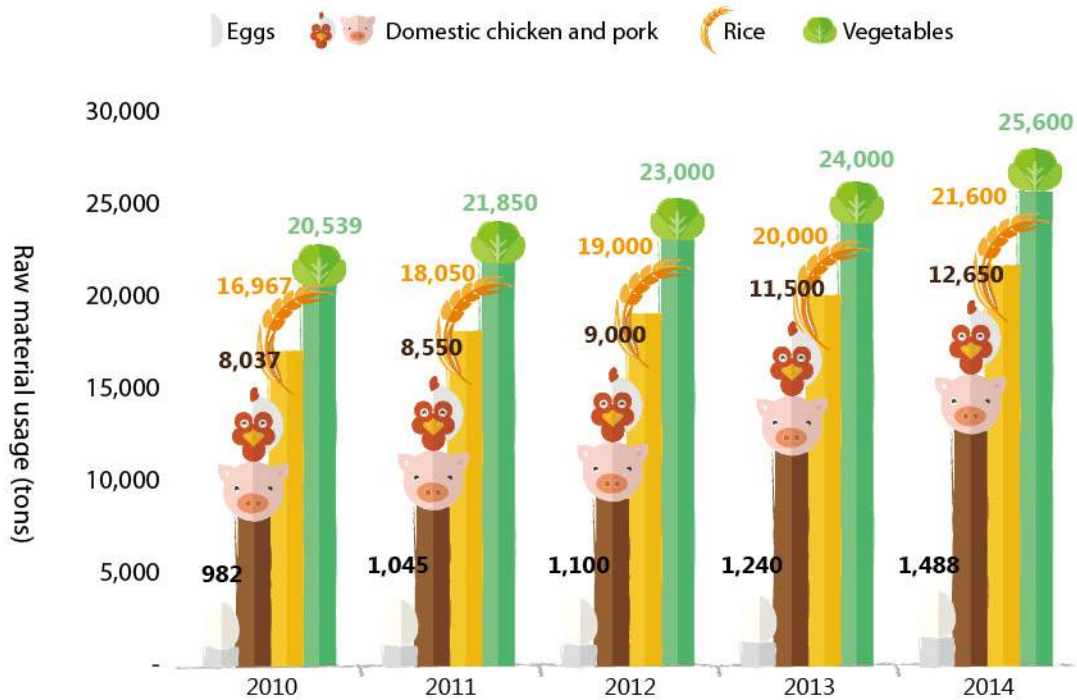
## 2.3 Sustainable Supply Chain Management

Under the big store strategy, PCSC is actively developing a full range of fresh food lifestyle solutions. Our food and beverage sales have been growing in recent years. To provide consumers with trusted, safe, and sanitary products, we apply strict standards to raw material sources, suppliers, logistics, and store management to very strict standards.

### Establishing agricultural product traceability system and "production resume" at the farm

PCSC has launched the "New Agriculture in Taiwan" concept in 2012, by having all products under the brand "Sunshine Farm" including vegetables, sandwiches, salads, fruits, and beverages made only with high-quality, local agricultural produce. We also established a vegetable traceability mechanism and production resume in cooperation with more than 1,000 farmers and over 200 contract growers in Taiwan. In 2014, 62,000 tons of agricultural produce were used by our commissary. Total purchasing amounted to NT\$5 billion, an increase of 19% compared to 2013. By working together, we have created Taiwan's largest fresh food industry.





To uphold our commitment to food safety, we have accelerated the expansion of our safe fruit and vegetable program. In 2013, we introduced co-operative source management for fruits in addition to vegetables, meats, and rice. This is a part of our continued effort to strengthen source management through the three monitoring modes: “contract grower management, on-site management, and whole process control.” In order to allow high-quality, high-value ingredients to be seen, as well as eaten, and to let consumers purchase fresh food products without fear, we have acquired Traceable Agricultural Products (TAP) certification from the Council of Agriculture for fresh vegetables sold through our stores, such as lettuce, spoon cabbage, greenhouse tomatoes, water spinach, sweet corn, etc. In 2014, we ordered fresh vegetables valued at NT\$66,361,000 from TAP-certified growers; these accounted for 59% of all fresh vegetable ordered.



鮮採牛番茄 好菇迺鴻客菇 鮮採高麗菜 鮮採紅蘿蔔 免洗洋蔥

## 生鮮蔬菜專區

產銷履歷安心菜  
嚴選嘉南平原產地直送。產銷履歷認證層層把關  
從產地到餐桌。低溫保鮮看的到青翠。吃的到清脆

北緯 23.5° 優質環境

生產履歷 蔬菜類 溫室栽培

### Adjustment of allergen labeling principles:

The Food Safety and Health Management Act requires foods sold in containers/packages that may cause an allergic reaction in people with certain allergies, to display mandatory or recommended warnings about the allergic substance. The warning should be displayed prominently on the container or exterior of the packaging.



- Shrimp and shrimp-related products
- Peanut and peanut-related products
- Crab and crab-related products
- Milk and milk-related products (Lactitol extracted from milk is exempted)
- Mango and mango-related products
- Egg and egg-related products

**6** types

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- Goat milk
- Shellfish
- Soybean (e.g. soy protein, does not include soybean oil or phytosterol)
- Fish
- Nuts and seeds
- Kiwi products
- Cephalopods (e.g. squid)
- Grains with gluten (e.g. oatmeal, wheat)
- Sulfite and sulfur dioxide residue (>10 ppm, e.g. sultanas, jams)

**9** types

## 2.4 Warm Services, Always Open

By offering more and more diversified services, maintaining a consistent level of service quality in every store is the key fundamental. In 2012, we made a new start from the "heart" and strengthened the service quality of our frontline staff. We used the three key words: "Quality"; "Service"; and "Cleanliness" (QSC) to reinventing high quality service. We focused on the basics such as product quality, staff attitude, and store cleanliness. Most importantly, we must remind ourselves to continue improving our standard of service, because this is also the basic corporate social responsibility of PCSC as a member of the retail service industry.

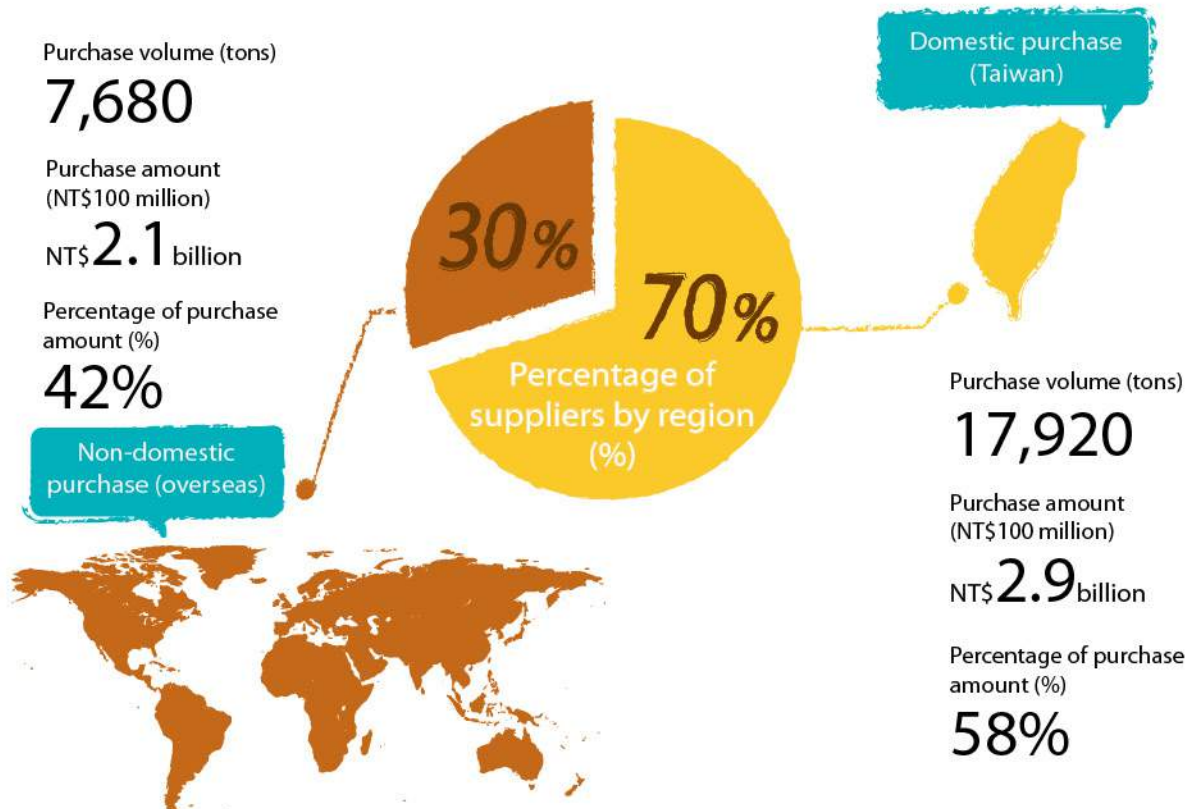
At the same time, we continued to update our "Quality Service SOP Manual" based on the accumulated experiences. We have also produced quality service videos to promote the QSC concept. We hope that through the combination of text and graphics, our store partners can better understand the meaning of service, and internalize quality service as a basic working principle. Apart from the above, we are also using the internal publication "Operations Online" to encourage interaction among our partners and consumers, by promoting examples of quality service to all stores. In order to respond to customer demands in a timely manner, we have established the "Customer Service Center" to provide a unified contact window with dedicated staff and ensure all feedback are processed properly. In 2014, the online resolution rate of the Customer Service Center was 75%<sup>4</sup>, reflecting the timely resolution of complaints.

<sup>4</sup>Online resolution rate = 1 - (forwarded cases/total cases). Forwarded cases are those that could not be resolved right away, but case follow-up will be conducted

To provide consumers with a clear and timely review of the production resume, we added QR Codes to the product packaging. Consumers can now simply scan the QR Code to find out about the product's production and processing history; they can also see the farmer's profile and farm management information. 7-ELEVEN vegetable products have continued to use the "fine small packaging" concept. By working with selected agricultural production and marketing group and using greenhouses to ensure quality, we aim for higher goals such as meeting "Export Standard", "Good Agricultural Practice (GAP)" certified, and "Shen-non Award" to provide consumers with high-value food ingredients in season. Through the QR codes printed on the new exterior packaging, 23 different types of leafy vegetables such as mountain cabbage, water spinach, and sweet potato leaves can now tell their own stories to the customer. In the future, we will continue to cultivate the "narrative" of each fresh vegetable product; this will upgrade the "Green Gold" series of products and increase their value.

We believe that fresh foods made with local and in-season ingredients offer the freshest products with sustainable concept for consumers to enjoy. This not only directly supports the local agricultural industry, local in-season ingredients also have shorter distribution distances; thus, reducing its carbon footprint. In 2014, up to 58% of agricultural products have been purchased locally. In addition, PCSC has applied scientific data analysis to the use of fertilizer and agro-pesticide. Contract farming and field coaching are also used to help farmers adopt environmentally-friendly growing techniques; this not only increases their unit of production, but also boosts farmer confidence by protecting their income and providing them with steady growths in purchasing quantities.

### Proportion of locally purchased agricultural products in 2014



## ■ Supplier Management

PCSC does not operate its own factories. Suppliers can be divided into two categories, proprietary product supplier and non-proprietary product supplier. Suppliers of proprietary product are our key management focus. We defined the internal "Product Safety Management" standards to manage proprietary product suppliers. For suppliers of non-proprietary products, we manage them through contracts and sample inspections. Quality is monitored by the respective brand-name vendors themselves. Before a new supplier of proprietary products is introduced, a new supplier development evaluation shall be carried out, while existing suppliers go through routine audits and evaluations. To strengthen supplier management, in 2014, we set up an independent supply chain management team within the QA Department to ensure that the product quality policy is thoroughly enforced for proprietary products. We also strengthened our cooperation with Uni-President's Food Safety Center to enhance our internal inspection capabilities, as well as demonstrate PCSC's commitment to the development of fresh foods, the enforcement of quality assurance, and the construction of a complete food safety net.

To improve suppliers' product quality and work together with them to ensure food safety, we strive to request proprietary product suppliers to acquire ISO 22000 certification for food safety and health management system. By the end of 2014, there were a total of 56 proprietary product suppliers with a total of 73 product lines. 60<sup>2</sup> of the product lines have been certified to ISO 22000, which accounts for 82% of the total proprietary product lines.

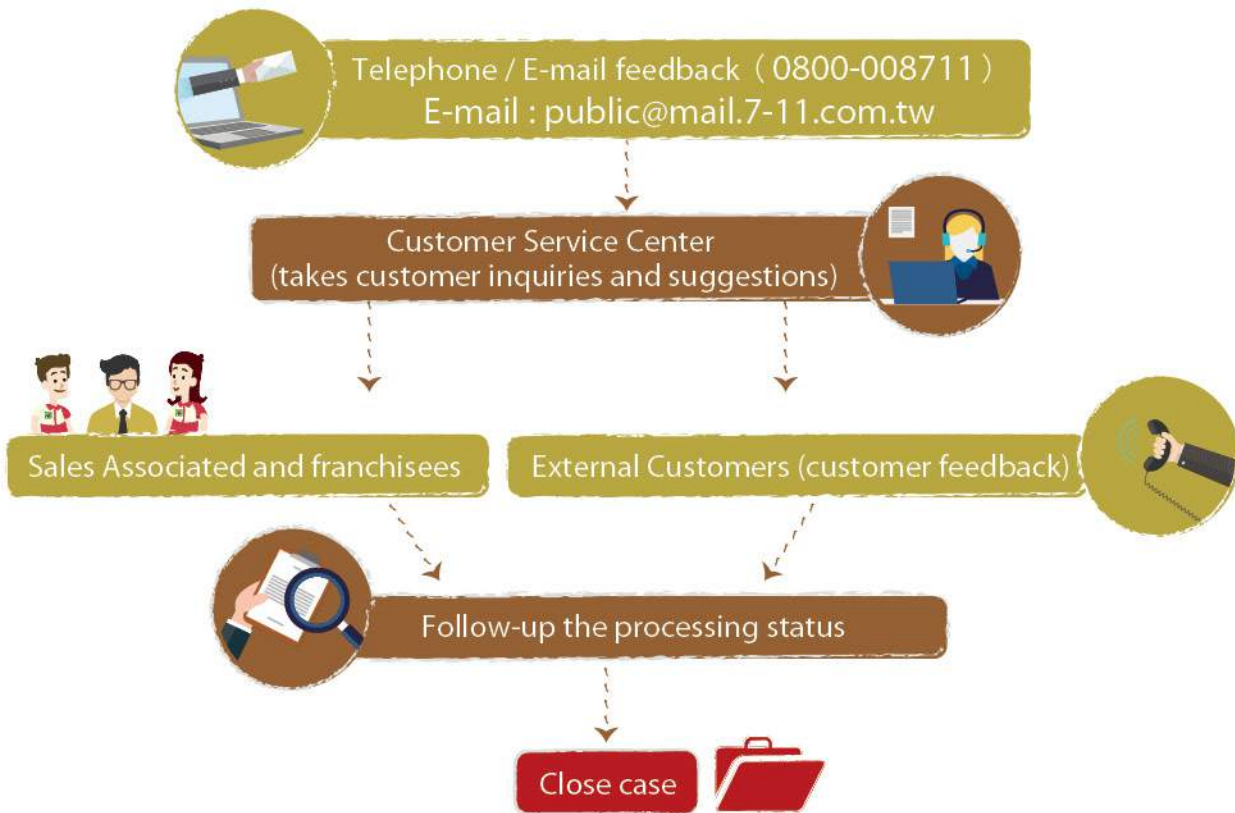
### Selection criteria for new suppliers

- (1) Regulatory conditions:  
Holds a valid company registration, factory registration, business registration, or change notice (those determined by authorities to be exempt from registration must provide additional supporting documents as proof). The registration certificate must indicate product categories that the supplier is eligible to process. Overseas contract manufacturers should follow the relevant local legislation of their home countries.
- (2) Priority given to those with CAS, GMP, HACCP, or ISO 22000 quality certifications.
- (3) Possesses a sound management system, proper quality management, internal QC capabilities, production management, health management, and solid financial standing.
- (4) Raw materials are traceable to ensure the products meet relevant Taiwan's national food safety and health regulations concerning agro-pesticide residue, veterinary drug residue, and heavy metal.

One month before the launch of new proprietary products, new supplier's production facility will be evaluated during the pilot production phase in accordance with the selection principles. The minimum passing score for private brand products is 80, and 70 for private label products. In 2014, a total of 4 production facilities for new proprietary products were assessed and all of them passed.

<sup>2</sup>Some suppliers cover 2 or more product lines

### Workflow of the Customer Service Center



#### A Story of Quality Service - Customer Feedback

Customer Service Center received a customer phone call, praising the Huashan store located in North 1st Zone. It was raining very heavily on that day; my friend and I were both completely soaked. We decided to walk into a 7-ELEVEN store to buy some hot food and get a bit of rest. I got a lunch box and went to pay at the counter. The sales associate was quick, efficient, and friendly. When he asked me if the lunch box was for here or to-go, I said it was for here. The sales associate asked me to wait a moment. When the lunch box came out of the microwave, he brought it to me on a tray and reminded me to be careful because it was hot! That was very thoughtful of him. I took my tray to the seating area and it was when I finally discovered what made this store unique. They served complimentary tea! I've never seen any other store do this. On this cold day where my friend and I were both soaked through, a cup of hot tea not only warmed our bodies but also our hearts. The complimentary tea at this store was a really great idea; it felt special and very heart-warming!!



## Existing supplier evaluation

In 2014, there were a total of 42 Private Brand food suppliers<sup>3</sup> (with a total of 47 production facilities). There were 33 suppliers (with a total of 37 production facilities) being audited a total of 149 times this year. An audit score of 80 or above is required for passing the assessment. A total of 143 times of auditing passed the assessment, with a passing rate of 96%. Vendors with failing scores were fined according to the product quality contract, and were requested to make necessary improvements. During the following month's re-evaluation, all failing vendors met the standards and passed the assessment. In 2014, there were a total of 28 Private Label food suppliers (with a total of 40 production facilities). This year, we audited 22 suppliers (with a total of 33 production facilities) 33 times. An audit score of 70 or above is required for passing the assessment and all of the suppliers met the standards, resulting in a 100% pass rate.

According to the internal "Product Safety Management", new and existing suppliers of proprietary products are assessed on the following: environmental health management, quality management, production process management, anomaly management, warehouse temperature, personnel, and quality sanitation management.

### Key audit items for suppliers of proprietary products in 2014

Category	Item
Food ingredients list and full disclosure	<ul style="list-style-type: none"> <li>Conforms with regulations</li> <li>No additives/no use of prohibited ingredients</li> <li>The actual purchase and use of raw materials/content of specifications / consistency in product packaging and labeling</li> <li>Solid product traceability details</li> </ul>
Anomaly product/object management and disposal	<ul style="list-style-type: none"> <li>Clear labeling and separation</li> <li>Form and record used for documentation</li> <li>Discard procedure: Must notify PCSC (product owner), response forms, and photos</li> <li>Items must be positioned in place/Anomaly object must not occur</li> </ul>
Date as shown on label	<ul style="list-style-type: none"> <li>The date when the smallest packaging of a product is made shall be the date manufactured (the date is included in the calculation of shelf life)</li> </ul>
Sub-contractor management	<ul style="list-style-type: none"> <li>Contractor's management plan and its execution for sub-contractors</li> </ul>
Vector breeding and personnel sanitation	<ul style="list-style-type: none"> <li>Internal and external environment control of production facilities to keep pests out</li> <li>Regular cleaning of hair and other foreign bodies by personnel</li> </ul>

<sup>3</sup> Because of the consistency in our business philosophy and desire of product quality, the scope of supplier auditing does not include the parent company Uni-President Enterprises Corp. The following supplier audit numbers does not include Uni-President Enterprises Corp.

Due to increasing market emphasis on social responsibility, we have now included basic CSR clauses such as compliance with labor regulations and environmental protection into our standard supplier's contract. Apart from production facility sanitary evaluations, the Audit Office also conducts joint supplier evaluations with the Marketing Group and QA Department based on risk assessments. For private brand raw material vendors and private brand/private label contract manufacturers, on-site inspections are conducted on food safety, environmental safety, and labor safety. During each audit, random samples are taken and sent back to the lab for testing in order to detect raw material risks. In 2014, we conducted joint audit of 93 suppliers based on risk assessments with 288 random sampling of raw materials. Apart from requiring vendors to take immediate corrective action for any problem discovered during evaluation, they must also undergo a repeat evaluation within 3 months to track the outcome of improvements made. For items that do not conform to the product quality agreement, a fine will be issued in accordance with the contract, and the product may be removed from shelves immediately or a decision may be made to change vendors; this is to ensure that all suppliers conform to the law.

From year 2015 onwards, we began to integrate the audit forms used by each department for suppliers of proprietary products. In the new version of the audit form, we added CSR-related items in five key areas: pollution prevention measures, waste disposal, emissions control, energy-saving and carbon reduction measures, declaration of toxic chemical materials, and automatic recall of non-conforming products. We hope that as we create new markets, we can also lead suppliers to pay attention to CSR issues. This will encourage suppliers to approach business management, product design and development with a sustainable mindset, which will in turn boost the supplier's business performance and competitiveness. By ensuring positive operational returns, both parties can reap the benefits.

### Fresh food suppliers' conference

PCSC regularly hosts various supplier gatherings each year. Through these events, we explain our current situation, future prospects, business focus, new supplier management regulations, as well as listen to suppliers' feedback up close. The interaction between both sides will hopefully lead to a better cooperation model. The "Looking Forward to 2015, Fresh Food Suppliers Conference" held in 2014 invited the upstream fresh food commissaries and raw material suppliers with long-term involvement in the development of proprietary products. More than 80 representatives from 43 vendors including relevant Uni-President business departments, President Musashino, and Lianhwa Food took part. During the event, we thanked our business partners for their hard work over the past year, and also created opportunities for vendors in the fresh food supply chain to communicate with each other in order to stimulate progress and reform within the industry chain. The conference focused on the fresh foods market prospects for 2015, as well as the development strategies for the supply chain. With the increasing awareness of food safety issues and the implementation of government regulations such as the Food Safety Act, "Trust", "Safety" and "No Additives" became our three major concepts.



Award	Awarded vendor	Number
<b>Best Facility Management Award</b>	4°C temperature level President Musashino in Taipei, Dong He, and Luxe	3 companies
	18°C temperature level President Musashino in Tainan, Lianhwa in Changhuay, Golden Harvest Food Products	3 companies
<b>Best Product R&amp;D Award</b>	President Musashino, Lianhwa Food, Golden Harvest Food Products, Shinhu Farm	4 companies
<b>Outstanding Supplier Award</b>	Lianhwa (seaweed), Happy Mountain (meat products), Excellent Gravure Industrial Co. (packaging material), King Egg (egg products)	4 companies

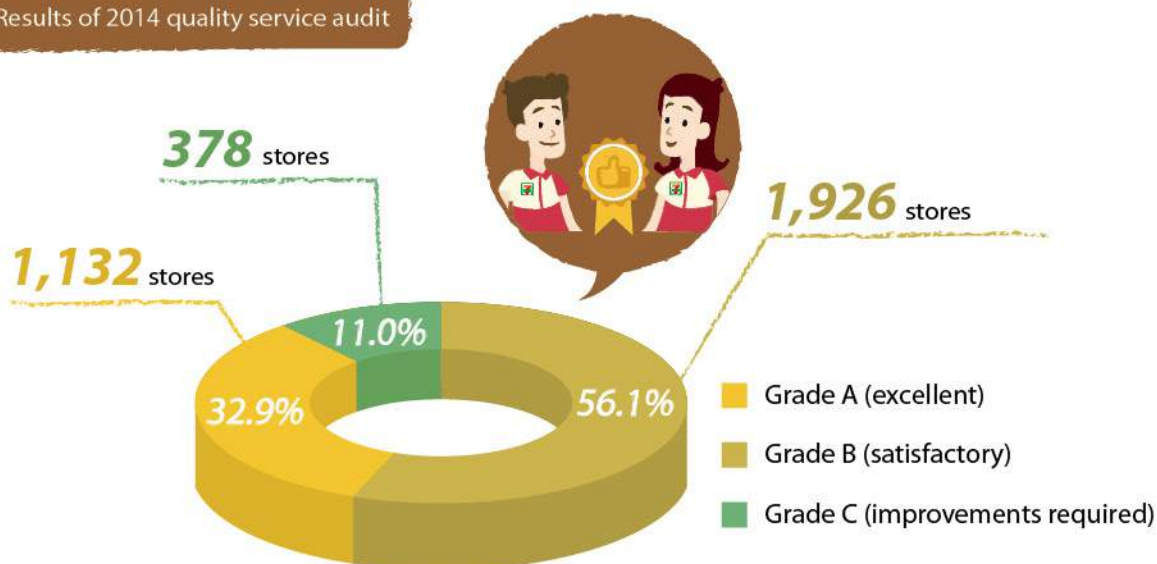


To ensure our service levels are where they should be, we introduced an external assessment mechanism by using "mystery shopper evaluations" where auditors are disguised as ordinary customers in different scenarios to observe how store employees would react. This helped guarantee proper store services and provide product quality control.

### Quality service audit

The quality service audit covers aspects of basic service, professional service, environmental comfort, and appropriate response. Scores and ratings were given based on how well employees followed through in each aspect to achieve satisfaction. In 2014, a total of 3,436 stores were audited. For stores that received a rating of C, the operations field consultants must visit the stores to provide coaching within one week of receiving notice. Recommendations on corrective actions must be proposed for deficiencies, and the store must convene a store meeting to discuss the corrective actions together and establish a follow-up mechanism. A re-evaluation will be conducted after one month, and the entire process will be repeated until improvements are made.

#### Results of 2014 quality service audit



### Product expiration and QA audit

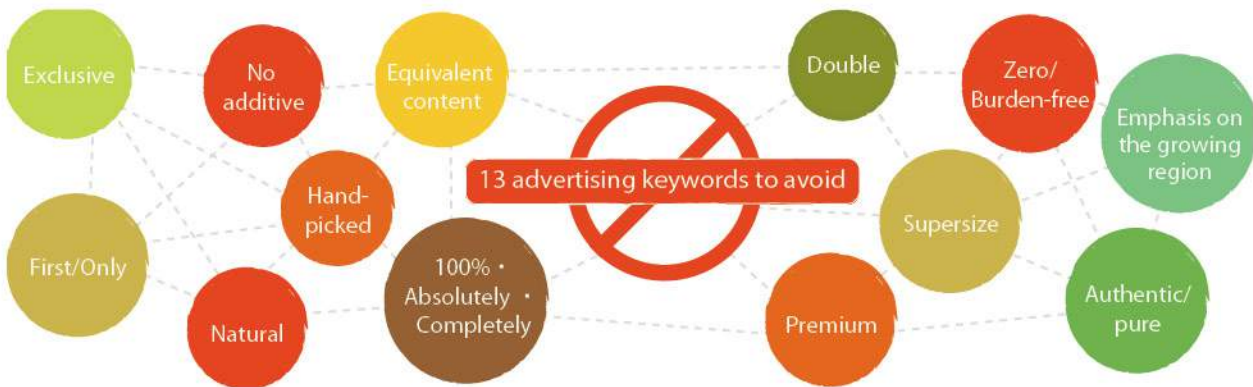
In terms of controlling and managing the removal of expired products from store shelves, in 2014, we conducted 21,433 times of store audits with a total of 20,824 times passing, achieving passing rate of 97%.<sup>5</sup> For stores that failed the audit, the operations field consultants have been requested to provide additional coaching. Contract and performance bonus mechanisms were also used to reduce the frequency of expired products remaining on store shelves. In addition, we now require staff on duty to follow the daily work journal when conducting regular inventory checks. Regular audits are also conducted by us to ensure store execution. To improve food safety and health, we also audit store QA including environmental cleanliness, machine temperature, and product expiration date labeling. In 2014, a total of 55 deficiencies were discovered. Most were related to non-conformities with oden and refrigerator temperature management. Store staff has been asked to conduct checks and take corrective actions.

<sup>5</sup>If not a single product is found to be expired, then the store is given a passing grade. Passing rate = Number of times when no expired products were found/Total number of audits

To encourage quality vendors and create unity, we organize the "Gold Medal Commissary" and "Outstanding Raw Material Supplier" competitions every year to reward business partners for their outstanding performance. The "Gold Medal Commissary" is divided into two awards: "Best Facility Management" and "Best Product R&D". The former takes the sum of monthly audit scores and selects the top 3 commissaries with the highest score from the 4° C and 18° C temperature levels respectively; for the latter, the fresh food product developed by the commissary must achieve an average of more than 5-unit sales per store day for 4 consecutive weeks.

### Product labeling management

Due to draft amendments and regulations of food safety, in 2014, we introduced many new measures on product labeling management. First, in terms of "review proprietary product labeling and advertising content", we required all of our supplier partners to complete an inspection of proprietary products and sign a declaration guaranteeing that their product's ingredients, production process, labeling, and advertising all comply with the law. PCSC upholds the principle of good faith; our labeling is truthful and true to fact. We have defined a 38-point internal checklist on compliance, special claims, certification labeling, and voluntary standards, as well as 13 advertising keywords that should not be used. A strict, cross-department packaging review process ensures these rules are enforced.



Due to revisions of government regulations, we have also stepped up education on proper labeling for "food ingredients list and full disclosure", and "adjustment of allergen labeling principles." For new products, we adopted new labeling principles immediately. For existing products, we revised the packaging in accordance with the guidelines.

Should be changed to spices, strawberry juice concentrate

**Private lable - Strawberry milk tea**

- Product name: 7-SELECT Strawberry Milk Tea ●
- Ingredients: water, black tea, cane sugar, milk powder, condensed milk, maltodextrin, strawberry juice, emulsifiers (fatty acid glycerides, diacetyl tartaric acid esters of mono- and diglycerides, sucroesters), baking soda. This product has a caffeine content below 20 mg/100 mL ●Weight: 600 ml ●Storage: Store at room temperature away from high temperature and direct sunlight. Refrigerate after opening and consume as soon as possible to maintain its taste and quality ●Shelf life: 6 months ●Expiration date (unopened): Shown on bottle cap

#### Label with expanded food additive information:

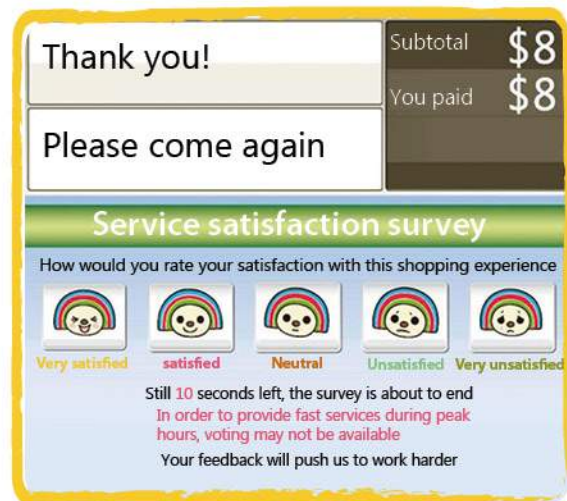
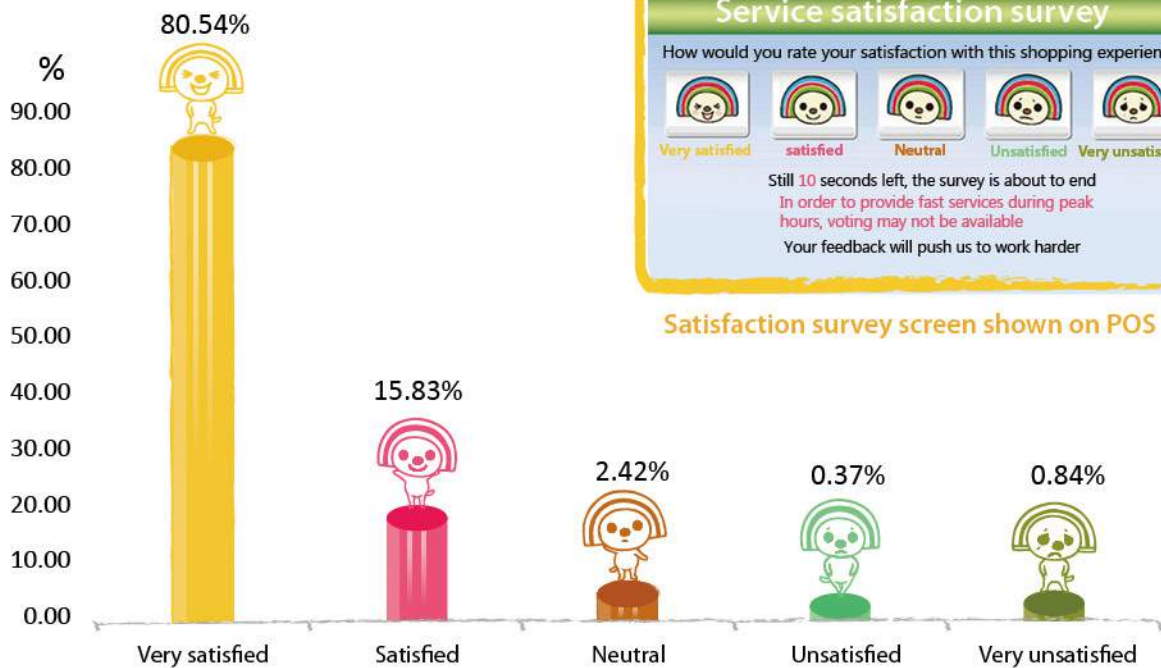
If the name of a food additive consists of two or more types of food additives mixed together, the product name or generic name defined by the central government authority should be used. Labeling based on functions (purpose) is not allowed.

In addition, all store staff must now attend food safety and health training according to the Ministry of Health and Welfare guidelines on food sanitation. Store QA training courses held in 2014 included seminars for newcomers of the food industry, QA and freshness management, and store QA advanced training (including online courses). A total of 15,494 people took part in the training.

To implement the system of manager on-duty in everyday services and encourage good service behaviors, we have continued to cultivate services with warmth. In 2015, we organized the best manager on-duty competition in the districts. In order to be eligible, candidates must demonstrate a passion for service, willingness to share with store partners, ability to lead the team in demonstrating a passion for service, and propose clear examples of good service so that other stores can learn from their experiences, and serve as an inspiration to encourage outstanding store employees.

To gain a true picture of customer satisfaction with respect to store service, we have quantified and defined customer service. This will provide a reference for running business by store and by trade area and for improving customer services. Starting from June, 2014, we began conducting customer satisfaction surveys at our stores and Lifestyle Centers. By allowing customers to make selections directly from the touch-screen at the checkout counter, all customers, no matter when they visited the stores, could provide immediate feedback on the level of satisfaction. This also served as a constant reminder for store staff to continue improving their services. The voting rate was quite low at the beginning, therefore incentives were offered in August to encourage store staff to actively ask customers to participate and let them know about this function. The voting rate increased from 1.61% during the initial stage to 23.66%. The introduction of the voting system has proven effective in raising the proportion of Grade A stores. As of October, 2014, the number of Grade A stores was 11.3% higher than the same period in 2013. The average voting rate from June to December, 2014 was 10.5%. Over 95% were satisfactory.

**Satisfaction survey results**



Satisfaction survey screen shown on POS

## ▪ [Friendly Service Offered in the Trade Area - Rende Service Area]

PCSC began managing the PCSC Lifestyle Center at "Rende Service Area" in 2011. In order to provide northbound and southbound tourists with the most comfortable rest area, since the PCSC Lifestyle Center Department took over the business, it has continued to make improvements in four major areas: "Friendly Parking", "Friendly Dining Environment", "Friendly Restrooms", and "Friendly Breastfeeding Facility" to create a retail environment suitable for all ages. Parking is the most important issue for users of freeway service areas. In April, the Lifestyle Center Department made changes to the traffic flow to make the parking area safer and more driver-friendly. Adjustments were made to the parking spaces for large/compact vehicle, night-time parking spaces for women and disabled to improve the traffic flow for each group and provided parking spaces under 24-hour security surveillance. Bilingual graphical signs were also installed to help drivers find parking and gas stations more quickly. For restaurants, access ramps for disabled and dedicated seating areas were introduced to cater to the dining requirements of senior citizens and handicapped individuals. It is worth noting that PCSC has also made the space at "Rende Service Area" available, free of charge, to charitable organizations such as Garden of Hope Foundation, the Sunshine Foundation, and Children Are Us Foundation for street performances and charity sales, creating a charitable atmosphere around the rest area. We also received the "Excellence Award" in the "2014 Friendly Building Competition - Restaurant Category" organized by the Ministry of the Interior.

## ▪ Excellent Capability of Personal Information Management

The protection of personal data is now an international trend. Every country is passing laws to govern the appropriate use of personal data and the protection of customer privacy. PCSC has spared no effort when it comes to protecting consumer privacy as well. In 2012, external authentication was introduced. The DP Mark for data privacy protection which is valid for 2 years was also issued by the MOEA Department of Commerce, making PCSC the first domestic enterprise to receive this certification. To ensure that our company's personal information management system conforms to Taiwan's personal data legislation, all PCSC employees must enforce the requirements for personal information protection and management in their routine work. A complete reporting system and set of guidelines were also defined. In 2014, the scope of renewed certification audit covered the PCSC headquarters and 5 company-owned stores.

To promote the protection of consumer privacy, we not only established a cross-department "Personal Information Protection Task Force" to regularly launch and assist other units with personal information audit, risk analysis, internal system evaluations, bulletin updates, education and training, and data disposal. We also applied the spirit of TK (TanpinKanri) and the spirit of accountability to the training of representatives from each department in order to promote knowledge of personal information.

To increase employee awareness of personal data, starting in August of 2014, the Legal Affairs Department began publishing the quarterly "Personal Information e-Newsletter". The sharing of the latest personal information cases is used to educate employees on PCSC's personal information protection goals and policies. Due to the importance of personal information management, the Human Resources Department has also developed mandatory online personal information training courses for the headquarters and stores; this has reached 100% implementation rate.



## PCSC Personal Information Protection and Management Policy

### **Regulatory compliance:**

Adheres to relevant regulatory requirements of personal information safety

### **Personal information management procedures:**

Established a cross-department personal information task force to regularly inspect, review, and examine the effective functioning of the management system

### **Restricted use by third parties:**

Personal information must not be illegally or casually distributed or disclosed to third parties

### **Maintain the accuracy of all personal information and guarantee owners' rights:**

Establish a regular audit mechanism for personal data and detailed lists

### **Safe and appropriate management measures:**

Use risk analysis of the personal information held by each department to adopt appropriate responses and safety management measures

### **Emergency response measures:**

If there is a personal information leak, take immediate and appropriate action. The individual involved should be notified as well as be provided with the relevant channels for making inquiries and addressing issues

### **Education and training:**

Conduct necessary training to educate employees about the personal information protection policy and relevant management measures

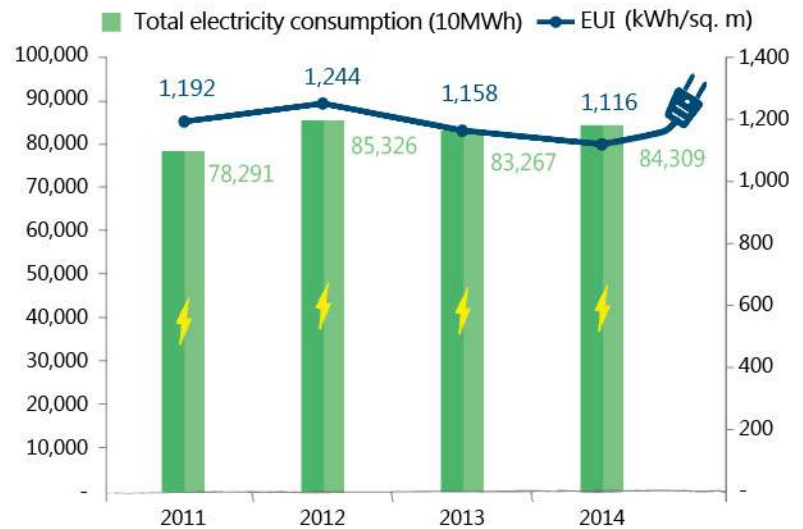
## Energy Consumption and GHG Inventory

The main form of energy used by our stores and corporate headquarters is electricity. In 2014, our stores and corporate headquarters consumed a total of 843,090MWh, with over 99.8% being used by stores. The addition of 53 new stores in 2014 compared to 2013 resulted in an increased total electricity consumption by the additional stores and equipment. For energy management and tracking, we used Energy Use Intensity (EUI) as our performance indicator. In 2014, our EUI was 1,116 kWh/sq. m. This was a

3.6% decrease from 2013, clearly demonstrating the progress made by our energy-saving programs.

With growing store numbers and new services, the volume of transportation and logistics has been increasing accordingly. To deliver the latest products to all of our stores throughout Taiwan and into the hands of consumers, three logistics company Retail Support International, UPCC, and Wisdom Distribution Service send trucks to distribute products and services across Taiwan, provide consolidated receiving and sorting services, distribute ambient, refrigerated/low-temperature, frozen products, publications, and e-commerce packages. The overall management of logistics vehicles including fuel consumption monitoring, the introduction of eco-friendly vehicles, and training of drivers are handled by President Logistics International Corp. In 2014, our total fuel consumption (diesel) used for transportation was 10,256,537L. The fuel consumption per vehicle per trip was reduced by 0.77% compared to 2013, contributed by an introduction of an onboard monitoring system to effectively reduced idling.

### Electricity consumption and EUI statistics



### Logistic fuel consumption statistics

- Average fuel consumption per vehicle per trip (L/trip)
- Total fuel consumption (L)

