

# Corporate Governance

## Governance Structure

SII has adopted a company with a board of auditors as its form of institutional design, and its current structure is as follows (as of June 30, 2023).

Our Board of Directors, consisting of 8 board members, supervises business execution and makes decisions on important matters concerning the SII Group (the term of office of directors is one year). We also introduced the senior vice president system to separate the functions of business execution and supervision, and to improve the speed of business execution.

The Board of Auditors consists of three corporate auditors (including one outside corporate auditor). The corporate auditors audit the execution of duties by the directors by exchanging opinions on information obtained through visits to each business location and other activities. Full-time corporate auditors conduct audits as appropriate by attending important meetings such as the Management Strategy Meeting and the CSR Committee, hearing the status of business execution from the President and Representative Director, holding regular meetings with the management division, and exchanging information with the Internal Audit Division. In addition, SII has established a system that allow us to obtain information necessary for audits, such as by confirming the details of decisions made in electronic meetings.

KPMG AZSA LLC is our accounting auditor. The Board of Auditors and the audit corporation conduct audits by understanding the audit plan and sharing information at regular meetings.

## Internal Control System

The internal control system is developed and the status of its operation is reported to the Board of Directors for supervision every year. This is based on the Basic Internal Control System Policy resolved by the Board of Directors. The Board of Directors is regularly informed of the status of risk management and compliance activities, operation of the internal reporting system, and internal audits.

The internal audit divisions conduct internal audits on a regular basis, and the management divisions conduct various other audits.

As for internal control over financial reporting based on the Financial Instruments and Exchange Act, our senior management assesses the internal control of the SII Group and reports to the parent company, Seiko Group Corporation, as one of their subsidiary companies in order to evaluate and report on the internal control over financial reporting of the parent company.

# Compliance

## SII Compliance System

As our CSR committee carries the function of compliance, it has been working on raising compliance awareness and responding to each compliance problem.

Based on the Internal Control Basic Policy, we continue to reinforce and improve the compliance framework of subsidiary companies in the world.

At the overseas subsidiary companies, their appointed compliance coordinators are promoting activities to enhance the compliance framework.

## Compliance Consultation Services

SII has established the SII Helpline and internal Consultation Service, which is staffed by outside attorneys, for the purpose of early detection and correction of noncompliant acts and to help strengthen compliance management.

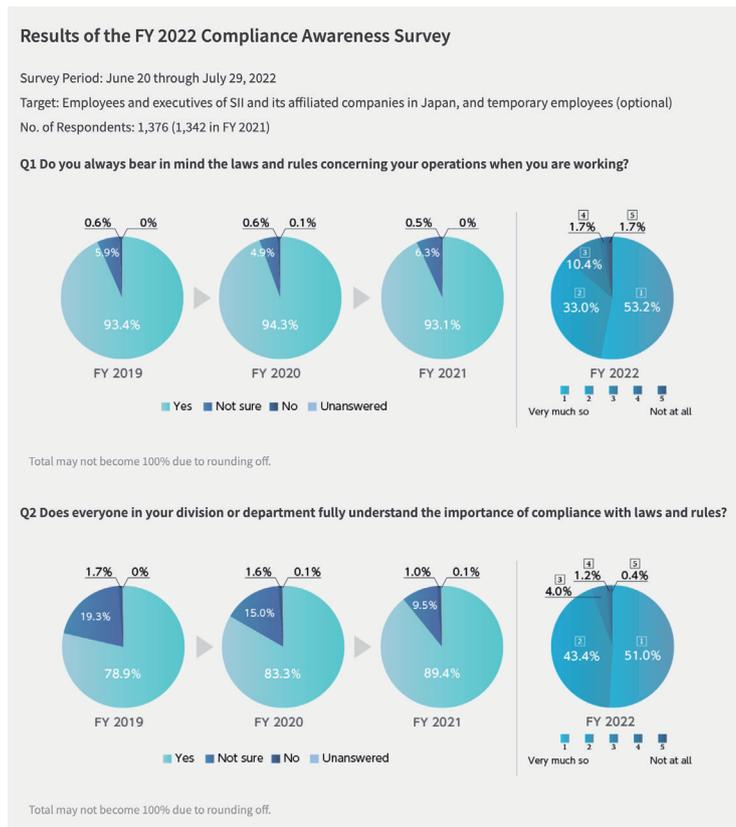
The SII Helpline is open to all retired employees of the SII Group and its companies, as well as business partners of the SII Group, to provide information on non-compliant activities related to the SII Group.

The contents of the reports and consultations are immediately reported to the Chairman of the CSR Committee and the Corporate Auditors, and also to the CSR Committee and the Board of Directors on a regular basis.

There were one report and consultation in the SII Group in FY 2022.

## Compliance Awareness Survey

SII continually conducts compliance awareness surveys to check how much the SII Group employees' compliance awareness has been raised and entrenched. The FY 2022 result is as follows. Some questions have been changed from three options to five options since FY 2022 in order to provide a more detailed understanding.



## Risk Management

### Group-Wide Risk Management Efforts

Under the group risk management system of Seiko Group Corporation, SII promotes company-wide risk management centering on the CSR Committee chaired by the President. The CSR Committee aggregates various risks each fiscal year, identifies risks, evaluates them on a risk map mapping them in terms of impact and likelihood of occurrence, and confirms the progress of risk countermeasures every quarter. In addition, business risk situations are also managed using key performance indicators (KPI), which are monitored regularly at the management meetings.

Also, the status that could be business risks is managed using KPI, Key Performance Indicator, and monitored at the management meetings on a regular basis.

In preparation for large scale disasters, which represent one of the risks, we have provided each employee with a helmet. After a disaster strikes, in anticipation that it may be temporarily difficult for employees to return home due to traffic restrictions and road disruptions, etc., we have systematically prepared water, food, emergency blankets, and other emergency supplies. In addition, we have equipped the head office and each unit with emergency radios so that we can communicate with each other even in the event of a failure of the public communication network.

### Business Continuation

SII manufacturing sites implement initiatives to prevent production interruption, aiming to continually provide products even when a risk arises.

The examples of our wide-ranging risk management are operational improvements at the local-working level and radical improvement which requires equipment investment.

We operate a system whereby Group employees, etc., who become aware of the occurrence of a serious accident, etc., report to the President.

## Information Security

### Our Concepts

SII has been using IT systems to further enhance the technologies of "SYO"ism that it has developed over the years. We also run many IT systems to grapple with the rapidly-changing business environment.

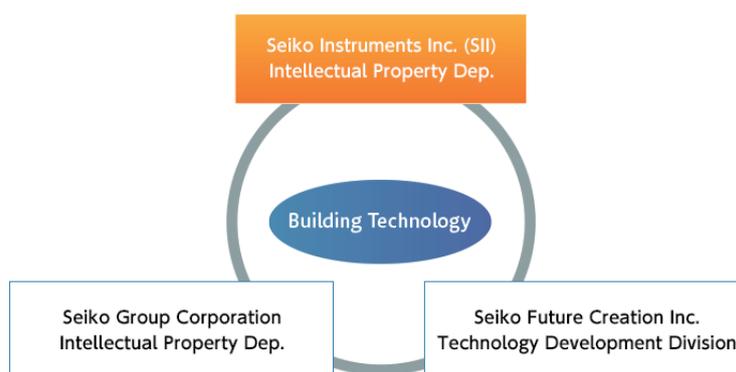
While digital transformation (DX) is being promoted in recent years, the threats, such as information leaks due to cyber attacks on the IT systems that support businesses and fraud using business email, are becoming more widespread and more serious.

SII continues to review and implement information security measures as a key management responsibility in order to protect and maintain the IT system as an important infrastructure.

## Intellectual Property Initiatives

### Basic Policy and Management of Our Intellectual Property

Regarding intellectual property as an essential resource for business activities, we proactively obtain and utilize our development results as intellectual assets. Based on the mid- to long-term policy to "develop a business culture that respects intellectual property," the Intellectual Property, R&D, and Production Technology Divisions work together to implement intellectual property-related activities to create new business and supporting divisions in cooperation with the Corporate Strategy Division.



Seiko Future Creation Inc. was established on July 1, 2022 as a group company of Seiko Group Corporation, the parent company, with the primary functions of group-wide research and development, production technology development, business support, and new business development across the group. Seiko Future Creation Inc. will strengthen its collaboration with the Seiko Group, and will enhance the building of intellectual property that will contribute to the growth of the Group.

### Status of patent applications and patent grants

There were 64 patent applications and 72 grants within Japan in FY 2022. Similarly, the number of patent applications outside Japan was 84, with the order of filing regions being China, the United States, and Europe. The total number of patent grants outside Japan was 65.

At the same time, we have been working to improve the rate of patent grants since FY 2008, with the aim of improving the quality of each application. Although the rate varies from year to year, the rate has been improving, and it is now at a level higher than the overall rate in Japan published by the Japan Patent Office. The rate of patent grants for FY 2022 reached a high level of over 80%.

As for the number of patents held, as of March 2023, the number of patents held within Japan was 572. The patent grants trend outside Japan is similar, with 656 patents held as of March 2023.