

## CSR Committee Activities

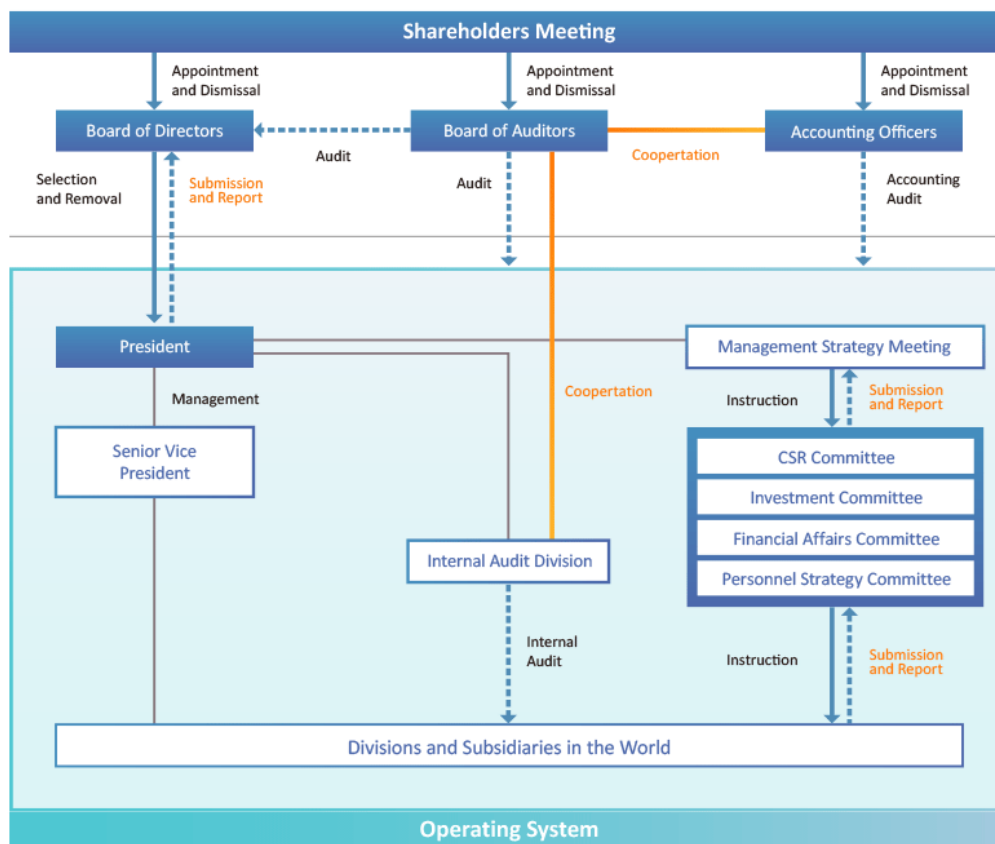
In January 2005, SII established the CSR Committee to promote the CSR activities more efficiently. SII has established a CSR Committee comprised of the President, who serves as the Chairman, and the managers at our head office, who serve as members of the standing committee.

It discusses and decides important issues and matters that are derived from the promotion of CSR activities, including compliance and risk management, and reports their performance to senior management on a regular basis.

## Corporate Governance

To live up to the trust of our stakeholders, we focus on transparency and fairness in our management as an important business priority and strive to enrich our corporate governance to improve our corporate value.

SII has adopted the status of a company with a Board of Company Auditors.



### Internal Control System

At SII, the internal control system is developed and the status of its operation is reported to the SII Board of Directors for supervision every year. This is based on the "Basic Internal Control System Policy" resolved by the Board of Directors.

For our internal control system with regard to financial reporting in compliance with the Financial Instruments and Exchange Act, our senior management evaluates the SII Group's internal control system and we report the results to a publicly listed parent company, Seiko Holdings Corporation (SHD), as one of their subsidiary companies. This is to evaluate and report the internal control system relating to SHD's financial reporting.

In terms of internal audits, the Internal Audit Division performs periodic audits and the management divisions conduct various kinds of audits on a regular basis.

## 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

The SII Helpline has been set up for consultation with an outside attorney upon discovery of a violation of compliance.

The service has been expanded to include not only SII but also our clients to receive any information regarding our employees' compliance violations. We also provide an internal consultation service, and the detail of the report is informed to the senior management and auditors on a regular basis.

Eight cases were reported to the SII helpline and processed by the consultation service in FY 2018.

## Risk Management

### Group-Wide Risk Management Efforts

At SII, the CSR Committee with the President serving as the chairman plays a central role in promoting across-the-board risk management. The committee aggregates information on various types of risks including potential ones in advance and identifies risks to be controlled every fiscal year. The risks are evaluated and sorted according to their severity and frequency, and the progress of relevant countermeasures is checked every quarter. Critical risks of the fiscal year are reported to the Board of Directors on a regular basis. The CSR Committee met six times in FY 2018.

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.

Upon occurrence of a large-scale disaster which is one of the risks, it could be difficult for employees to go home at least temporarily due to closedown of transportation. Therefore, we have prepared water, food, bedding, and other emergency supplies.

### Risk Management in Continuing Business

SII manufacturing sites conduct risk management 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.

# Information Security

## Our Concepts

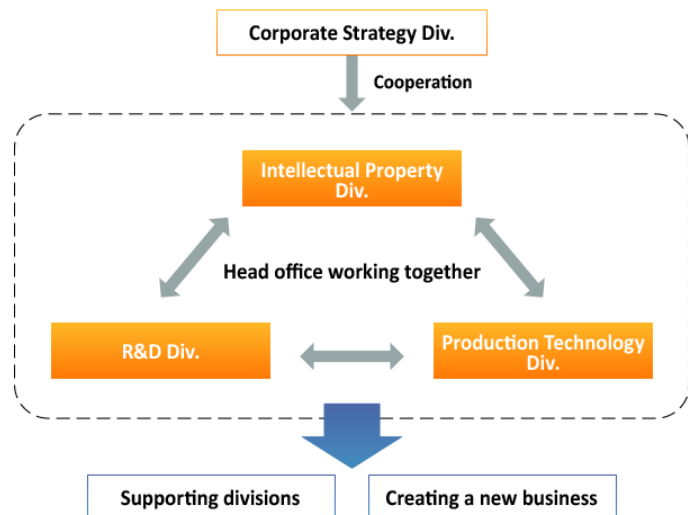
SII began using information and communications technology (ICT) to further enhance the technologies of "SYO"ism that it has developed over the years. We also run many information systems to grapple with the rapidly-changing business environment. As ICT has become deeply rooted in corporate activities, the threats associated with ICT including virus infection and information leakage caused by cyber attacks have also extended to a broad range of activities.

SII regards all information on networks inside and outside the company, as well as information systems including computers and networks, as significant assets of the Group. We recognize that management has an important responsibility to ensure the information security to maintain these assets.

# 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.



## Status of patent applications and patent grants

SII's technology development originated from watch manufacturing based on its patented technology.

In FY 2018, the number of our patent applications within Japan was 199<sup>\*1</sup> and the applications outside Japan was 187<sup>\*1</sup>.

For patent grants in Japan, we improved the patent grant rate from FY 2008, acquired rights, and greatly increased the number of patents. In March 2019, the number of patents reached 1,550<sup>\*2</sup> and the patent grants outside Japan were 1,384<sup>\*2</sup>. The overall numbers of patent applications and patent evaluations have decreased due to business divisions restructuring, however, our applications for patents and acquisition of rights are active in the ongoing divisions.

<sup>\*1</sup> The semiconductor business was spun off from the SII Group in January 2018. The number of applications made for the semiconductor business in FY 2018 is excluded.

<sup>\*2</sup> The number does not include the semiconductor business that was spun off from the SII Group.