

DAISHINKU  
**CSR REPORT**  
**2018**



# 信頼

"Reliance"

At Daishinku, we pursue our business activities in a fair and sincere manner to ensure sustainable growth, based on our management philosophy of assuring reliability for all our customers the world over. We thus aim at generating continued profits, providing service to society, enhancing our corporate value, and contributing to the realization of a sustainable society.

## Message from the President

### ◆ Toward the ultimate in manufacturing

At Daishinku, we have been promoting research and development with an emphasis on imagination and creativity in manufacturing so that the beneficial role that electronics plays in our society can be further expanded. Based on our corporate principle of assuring the highest quality products at the lowest possible cost for the earliest possible delivery, thereby maximizing customer satisfaction, we continue to harness the manufacturing technologies and know-how that we have cultivated over the years into even greater achievements in the future.

In order for a manufacturing company to earn trust from its customers, it is critical to improve product quality. As a component manufacturer, we are committed to rethinking and addressing our continuing Zero Defect challenges from various angles, such as equipment, human resource development, etc., to achieve craftsmanship that proves satisfactory to our customers. We are confident that our independently developed 3rd generation crystal devices "Ark.3G Series" will prove to be not only superior products in terms of the environment as a result of a reduction in the number of parts and making product size smaller and thinner, but also in terms of quality by adoption of the Wafer Level Package, which will reduce quality risks by performing each process from wafer cleaning to bonding under a vacuum atmosphere.

Furthermore, upholding environmental protection as a key management policy, we have been implementing measures for global environmental conservation in all aspects of our corporate activities, including the development, manufacture and sale of crystal devices. In this respect, our Environmental Vision guides us with its four focal areas: 1) environmentally responsible manufacturing, as manifested in the reduced use and output of environmentally hazardous materials, 2) environmentally responsible non-manufacturing activities, contributing to global warming control and waste reduction, 3) communication of the Group's environment-related contribution to local communities and 4) environmental management, covering the establishment of intra-Group systems for environmental protection and education for personnel.

### ◆ Toward the ultimate in human resource development - human resources as assets -

To continue developing as a truly global corporation, we manage human resources from a perspective of viewing human resources as assets. This approach encompasses, for example, sound management practices and the recruitment and promotion of diverse human resources. We offer an environment where every individual can fulfill his/her potential irrespective of nationality, race, gender, etc., to develop "human resources" who act from a position of self-reliance, independence and self-containment based on our unique education programs, as well as further promotion of "localization" to strengthen activities rooted in the local cultures and characteristics of different regions that will lead to greater success. To spread Daishinku's management principles broadly and deeply among the employees and strengthen ties and communication among the departments and bases, we endeavor to develop human resources that serve as bridges between different divisions of our corporate family.

We also offer a full range of self-development programs that support employees' individual career development. Helping expand employees' sphere of activities through these programs, Daishinku strives to better meet the challenges of the ever changing business environment and market needs.

### ◆ To our stakeholders

Since the foundation of Daishinku in 1959, we have been endeavoring to offer products that meet the increasingly sophisticated needs of the times under the corporate slogan of "reliable people, reliable products, and a reliable company." We are determined to continue pursuing our activities, including corporate social responsibility (CSR) activities, in order to create new value and contribute to realizing a sustainable society while reinforcing our ties and communication with you, our stakeholders.

President **Sohei Hasegawa**

# On the Publication of the CSR Report

Starting in 2016, Daishinku has disclosed in its “CSR Report,” to share with our stakeholders, its efforts to raise its corporate value in the areas of labor, human rights, customers, quality and contributions to society, etc., and to realize a sustainable society.

It is our hope that this CSR Report will provide you with a better understanding of our CSR activities and that in return you will be encouraged to share with us your candid opinions of our activities, which we will refer to in our future CSR activities.

### Period

This CSR Report mainly covers the Group’s CSR activities and achievements from April 2016 through March 2018.  
(Some events mentioned in the report took place outside this period.)

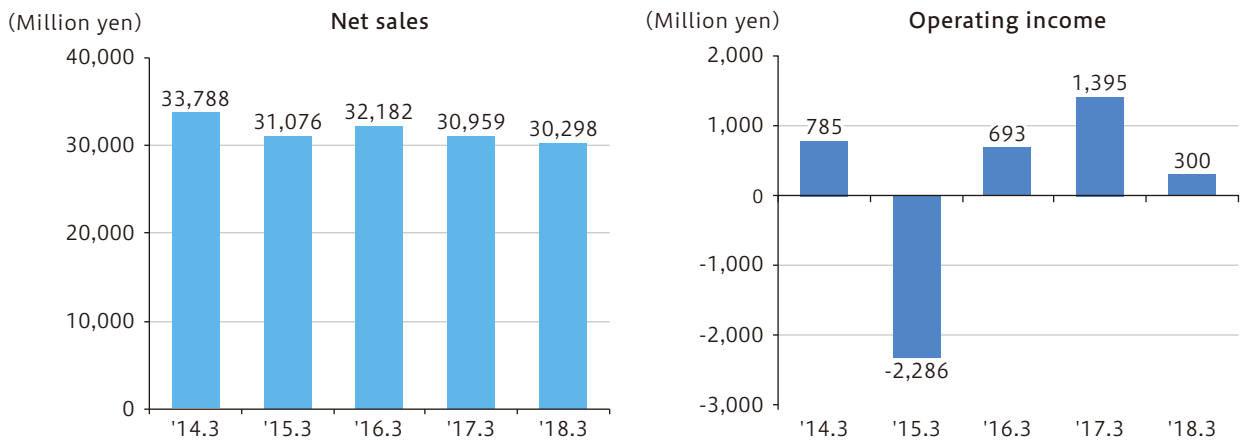
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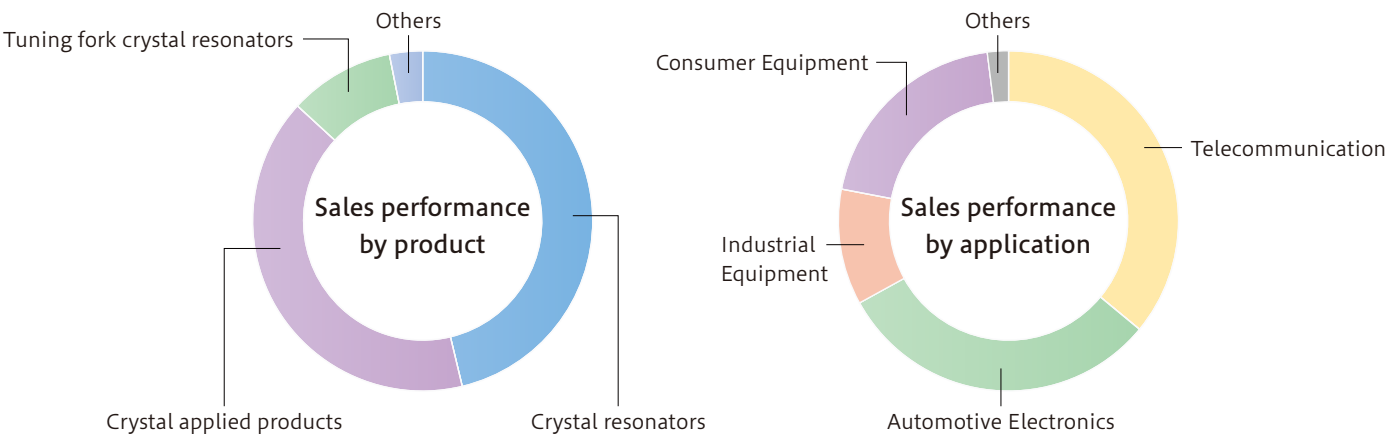
## Company Profile

Trade Name	DAISHINKU CORP
Head Office	1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo 675-0194 Japan
Types of Business	Manufacture and sales of electronic components and electronic equipment
Inauguration of Business	November 3, 1959
Organized as Joint Stock Company	May 8, 1963
Representative	President Sohei Hasegawa
Capital	19,344 million yen
Number of Employees	Non-consolidated 643    Consolidated 4,044 (as of March 31, 2018)

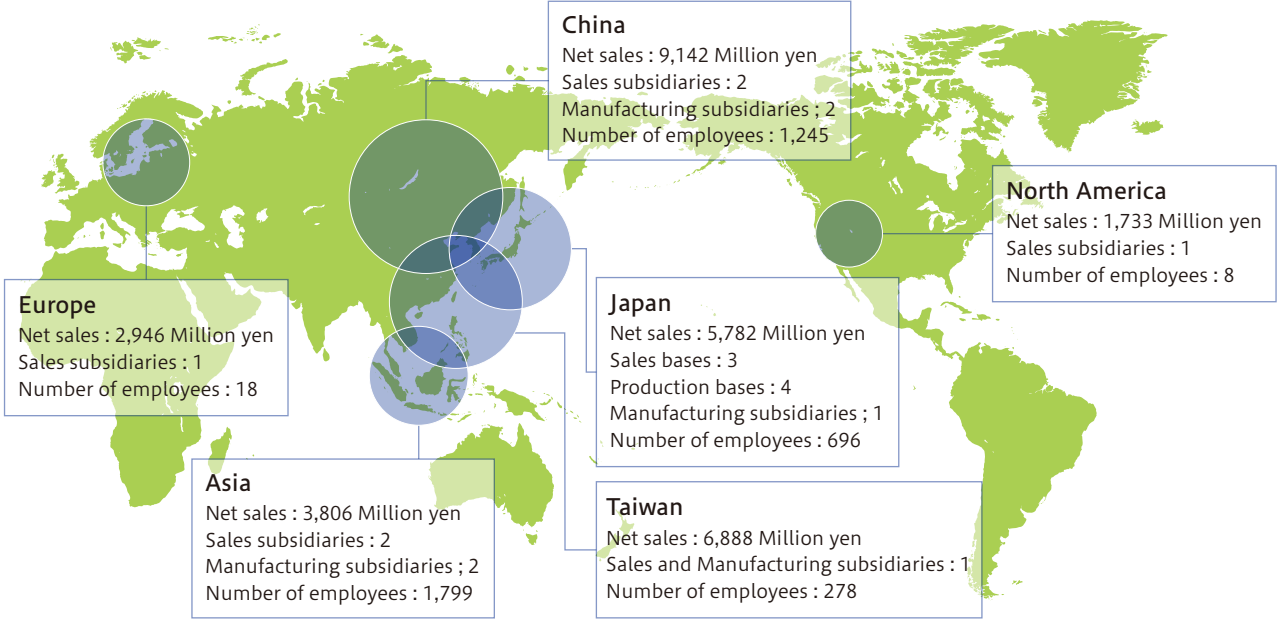
### Company Data



### Sales by Product and Application



### Sales by Area



※The figures above are based on the consolidated financial data for the term ended in March 2018.



# About Quartz Devices

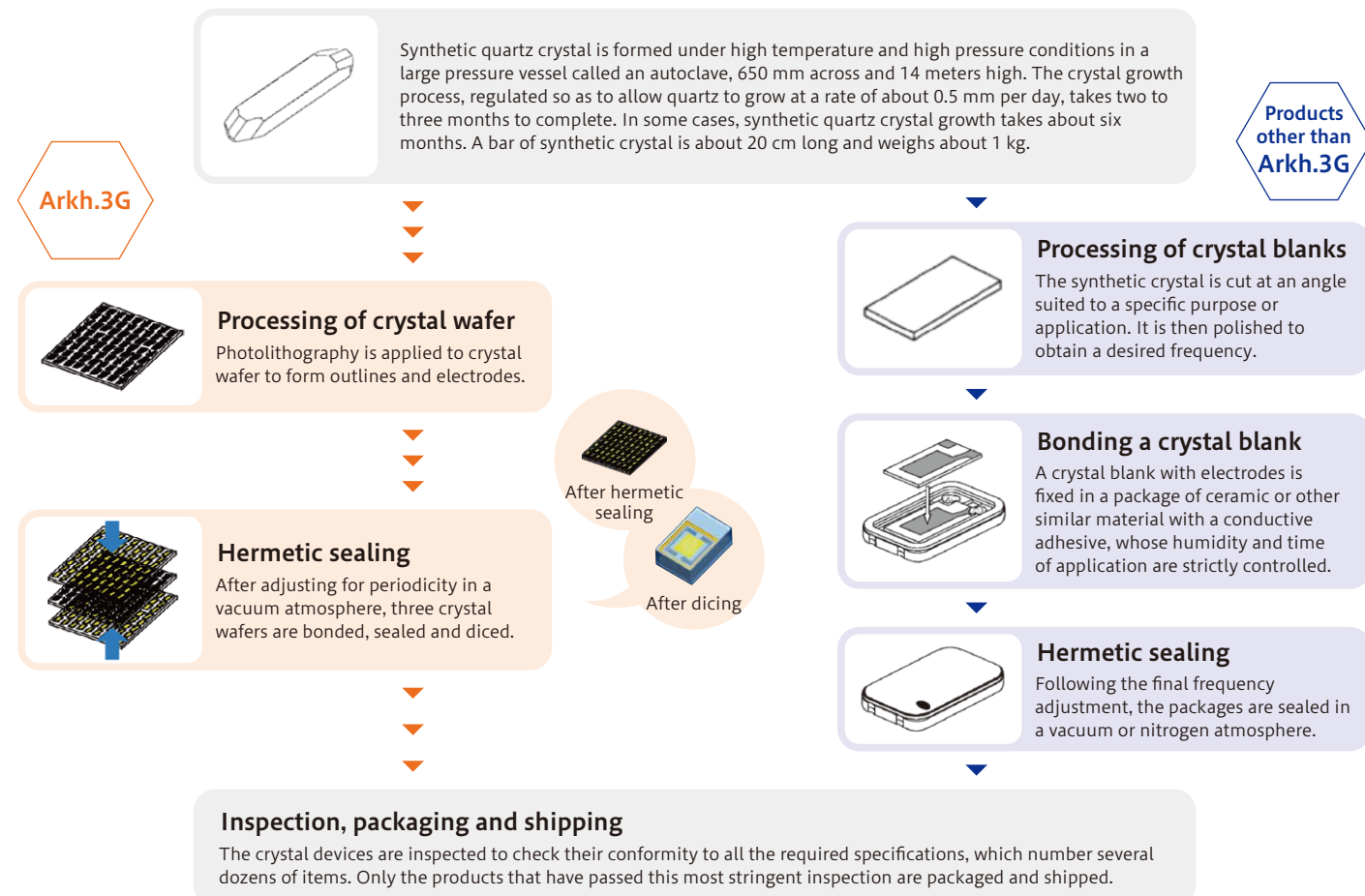


Adhering to our corporate principle of assuring the highest quality products at the lowest possible costs for the earliest possible delivery, we have established a highly efficient production system that ensures a stable supply of constantly high-quality crystal devices. Our integrated production system, from the development of highly pure synthetic crystal to the cutting and polishing of crystal and product assembly, rapidly meets the needs of customers all over the world.

## All About Quartz Devices

Quartz produces an electric charge when it is compressed. This is called piezoelectricity. Quartz also oscillates (i.e., is deformed) when a voltage is applied to it. This phenomenon, called inverse piezoelectricity, which is marked by the production of stable and regular signals, is applied to various devices that support our daily activities. Quartz crystal devices are used in such familiar electronic devices as automobiles, high-resolution audio-visual equipment and products, and smartphones and other information and communication devices. Smartphones enable us to instantly communicate with people all over the world and obtain desired information from anywhere at any time. Smartphones transmit and receive voice and textual information via electromagnetic waves formed from reference signals that are stably and accurately transmitted by quartz crystal devices.

## Quartz device construction process



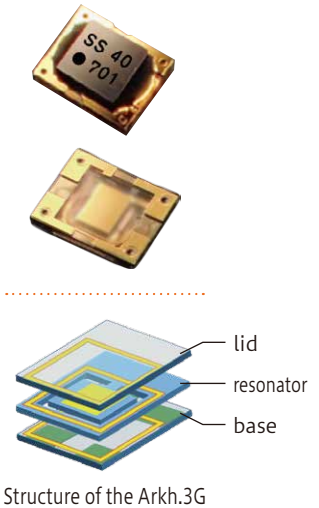
## Products



### Arkh.3G

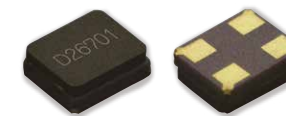
**"Next-generation crystal devices with a thickness of 1/2 of conventional products"**

In contrast to the conventional structure where crystal blanks are held in a ceramic package by using a conductive adhesive, the Arkh.3G is arranged in a three-layer structure consisting of the "lid," "resonator" and "base," the host of which is crystal. The lineup includes crystal resonators, simple packaged crystal oscillators (SPXO) and temperature compensated crystal oscillators (TCXO). With the outlines of the resonator and other parts having been formed by a photolithographic process, three quartz crystal wafers are bonded and diced into a wafer-level package. Thus the holder and resonator parts are formed into an integrated structure without the use of a conductive adhesive. Additionally, it is possible to reduce quality risks by carrying out processes ranging from wafer cleaning to bonding in a vacuum environment. With these products, we provide value that assumes a new way of mounting crystal devices, such as for automotive applications that require reliability including automatic operation, or embedding in SiP modules and IC packages, etc.



### Crystal Resonators

A high-frequency resonator with good temperature characteristics. Comes in various types and sizes and available for a wide variety of application.



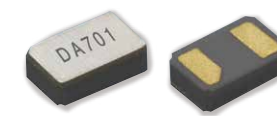
### Monolithic Crystal Filters

A device featuring a frequency selective function that enables particular frequency components to pass through. Most commonly used for radio communication equipment.



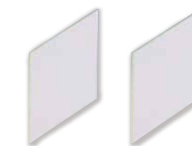
### Tuning Fork Crystal Resonators

A low-frequency resonator with low power consumption, mainly employed for clocks and the clock function of various types of devices.



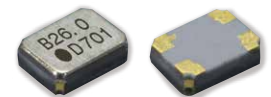
### Optical Products

An optical devices featuring double refraction, such as Optical Low Pass Filters (OLPF) and wave plates. Capable of controlling spectral characteristics by dielectric multilayer film.



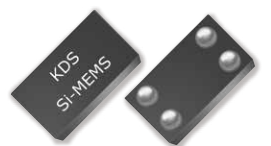
### Crystal Oscillators

A driver IC-equipped oscillator module. Available in a variety of types: simple packaged crystal oscillator (SPXO), voltage controlled crystal oscillator (VCXO), temperature compensated crystal oscillator (TCXO), etc.



### MEMS Oscillators

An oscillator with the oscillation part forming by silicon, combining MEMS technology and integrated-circuit technology. It is suitable for downsizing of package.





# Daishinku's CSR

We strive to continue to generate profits and fulfill corporate social responsibility by realizing customer-oriented, creative and efficient business management, with “reliance” as our company policy.

## Daishinku's Commitment to CSR

### Three Types of Reliance

#### ● Reliable people

With the independence, self-help and self-contained efforts as basic principles of action, we will take full advantage of our strengths for society as a whole and approach everything sincerely and enthusiastically.

#### ● Reliable product

We will help realize an affluent society, by optimizing our abilities to develop best products and services and by offering them to all our customers throughout the world.

#### ● Reliable company

We strive to fulfill our corporate social responsibility by generating continuing profits through corporate activities that comply with all laws and regulations, respecting their spirit and paying attention to harmony with the global environment.

## Daishinku's Code of Conduct on CSR

Acting on the corporate slogan of “reliable people, reliable products and a reliable company,” the Daishinku Group is committed to compliance with all related laws and regulations and ethical conduct. We ensure that our corporate activities are in conformity with our management philosophy of reliability, constantly paying attention to what society expects and requires of us, to be a truly reliable corporation. Accordingly, we have adopted our Code of Conduct on CSR (URL:<http://www.kds.info/company/csr/>), which governs our actions relating to human rights and labor, safety and health, the environment, fair and ethical trade, quality and safety, information security, stable supply, and contribution to society. All the Group executives and employees are well informed of the Code of Conduct on CSR and practice it in all sincerity.

#### I. Human Rights and Labor

- I-1 Respect for human rights・Prohibition of discrimination
- I-2 Prohibit of child labor and forced labor
- I-3 Prohibit of inhumane treatment
- I-4 Fair employment conditions and working hours
- I-5 Respect the rights to freedom of association

#### II. Safety and Health

- II-1 Workplace safety and health
- II-2 Occupational injuries and illnesses
- II-3 Emergency procedures
- II-4 Safety and hygiene in company facilities
- II-5 Be careful about physically demanding work
- II-6 Healthcare for employees

#### III. Environment

- III-1 Consciousness
- III-2 Environmental management system

#### IV. Fair trade and Ethic

- IV-1 Anti-corruption
- IV-2 No relationship with antisocial forces
- IV-3 Performance of agreements
- IV-4 Prohibit impediment to free competition
- IV-5 Prohibit abuse of a superior position
- IV-6 Prohibit the offering and receiving of inappropriate profit and advantage
- IV-7 Prohibition of insider trading
- IV-8 Security Export Control
- IV-9 Respecting intellectual property rights
- IV-10 Disclosing information
- IV-11 Responsible Sourcing of Minerals
- IV-12 Early finding of improper act

#### V. Quality and Safety

- V-1 Quality management system
- V-2 Product safety

#### VI. Information Security

- VI-1 Secure computer networks against threats
- VI-2 Appropriate management of important information
- VI-3 Handling personal information

#### VII. Stable supply

- VII-1 Business Continuity Plan (BCP)

#### VIII. Contribution to Society

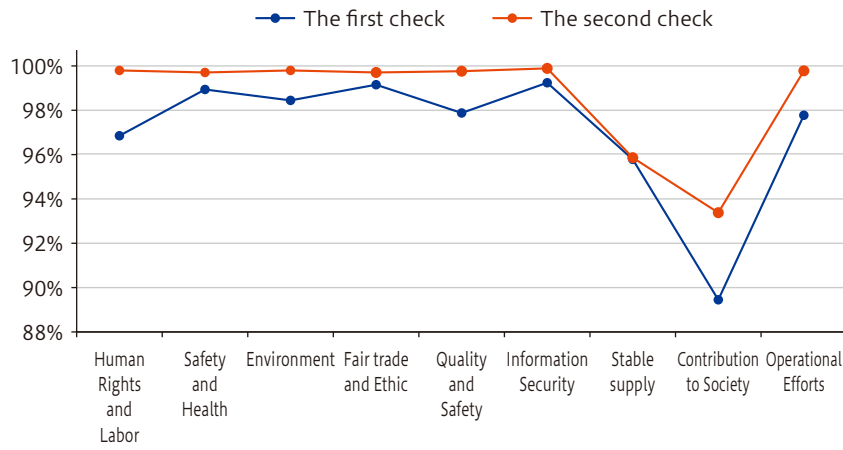
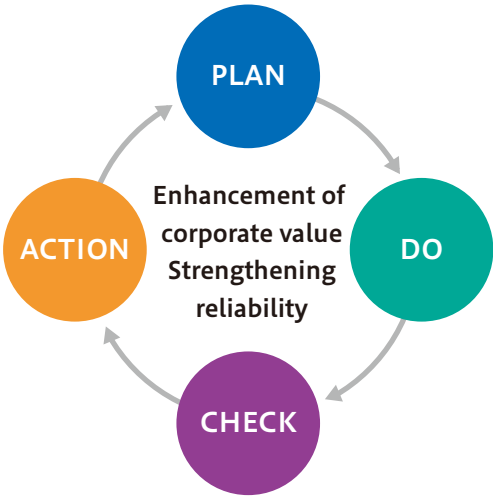
- VIII-1 Contribute to society and community

## “Code of Conduct on CSR” Self-Check

Since the establishment of the “Code of Conduct on CSR” in October 2014, the Daishinku Group has periodically implemented its “Code of Conduct on CSR Self-Check” for all employees in order to raise awareness about the “Code of Conduct on CSR” so that it will penetrate and become rooted throughout the organization. Check content includes understanding of the Code in the areas of human rights, labor, etc., as well as their attitudes and practices in actual operations.

As shown in the graph, the overall results of the second check outperformed those of the first one, but the items related to performance of stable supply and contribution to society remain low in comparison to other items. Analysis of cause revealed that “business continuity management” in the stable supply category is recognized as relevant only to limited sections, and that, with respect to contributions to society, employees fail to participate in “volunteer activities.”

By extracting problems based on information gathered through the “Code of Conduct on CSR Self-Checks” as above and implement of improvement measures, we will further increase all employees’ awareness of CSR and ensure a sound relationship with our stakeholders. We will continue to implement the “Code of Conduct on CSR Self-Check” and implement the PDCA cycle for CSR activities.



### Code of Conduct on Three Types of Reliance

- 1 We will have a correct understanding and recognition of management policy, management principle, and management measures of the Company and act with benefit of the Company and the whole of society in mind, without preoccupation to an individual's benefits and costs.
- 2 We will make consistent and theoretical development from conception to resolution of problems without being constrained by stereotypes or common practices.
- 3 We will have a discussion from time to time with persons concerned, if necessary, to facilitate negotiations of adjustments, and will build good relationships by trying to resolve any problem in good faith.
- 4 We will facilitate the handling of any difficult problem by persistently persuading the other party on the policies with the understanding of the other party's position.
- 5 We will have at all times a view of environmental compatibility and perform environment-compatible activities as one of our main themes.
- 6 We will work in every situation with confidence and with spirit of getting the job done.
- 7 We will endeavor to build such character and personal magnetism that are accepted and trusted by everyone around.
- 8 We will endeavor to build good personal relationships and at times have the courage to accept the vulnerability of others.
- 9 We will comply with laws and regulations as well as any rules, including various rules and regulations and established social norms, and will ensure the security of information recognizing the importance of information.
- 10 We will always take a sensible course of action as a member of society.



# Legal Compliance

## Thorough legal compliance meeting society's expectations and requirements

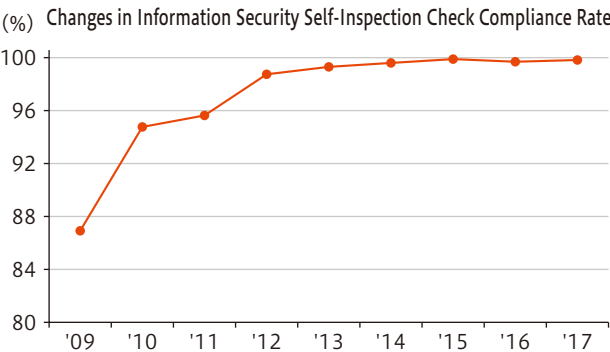
At the Daishinku Group, we believe that thorough legal compliance is essential for our fulfillment of social responsibilities and corporate value enhancement. In addition to the observance of all applicable laws and regulations and internal rules, we ensure to conduct our corporate activities to meet society's expectations and requirements. Moreover, we endeavor to be a corporation whose each and every employee engages in business activities in a fair and sincere manner, winning society's trust, ensuring our continued development, and contributing to realizing a sustainable society.

## Compliance Education

To effectively promote legal compliance in our corporate activities, we believe it is important to educate employees to equip them with the necessary legal knowledge and criteria to serve as a foundation for their conduct and sound and practical decision making in various business situations. Accordingly, we organize various educational programs on the subject of legal compliance to raise employees' awareness of the importance of compliance and improve their knowledge thereof. These programs are held as a part of regular personnel development programs in some cases. Job grade-specific educational programs on compliance, often including group discussions, are offered on the occasions of recruitment, promotion to higher-grade or executive posts, and other milestones. Information meetings on legal compliance, addressed to all employees, are held each year at the respective bases.

## Information Security

Information security is one of the most important conditions that must be fulfilled to conduct business normally and smoothly. Societal need for information security is expected to grow even more strongly in the future. To remain a trusted company, the Daishinku Group has established the "Information Security Basic Policy" aimed at protecting our information assets and other related internal regulations and is working on development and improvement of rules and systems for appropriate handling of various information. Moreover, as part of our efforts to enhance awareness-raising activities for employees, we have implemented an awareness reform program through a periodic information security self-inspection check, and as a result, awareness related to information security has continued to increase on a yearly basis in comparison to its initial launch, in respect to handling confidential information, response to receiving suspicious e-mails, initial response to virus detection, etc. Furthermore, we are moving forward with appropriate information management through employee training seminars. In response to recent cyber-attacks such as targeted attacks, ransomware, etc., we have taken measures to install anti-virus software at client sites and gateways, intrusion prevention by firewalls, etc. In addition, we have strengthened technical countermeasures including installation of behavior detecting antivirus software to protect against unknown malware which cannot be detected by pattern matching. Although a 100% prevention occurrence rate can never be guaranteed, as malware is constantly evolving, this makes it mandatory to maintain vigilance in continually strengthening our technical countermeasures. In the end, human judgment becomes vital, so we will promote not only prevention but also strengthening of human measures through education and establishment of rules for improved detection and response.



## Prevention of Insider Trading

To live up to the confidence that our shareholders, investors, and the security market place in us, we strive to disclose relevant and necessary information in an appropriate and timely manner and realize strict internal information management. With Regulations for Insider Trading Prevention in place, we organize a range of programs designed to prevent the illegal practice, such as special training at the time of recruitment and educational programs at the respective divisions as part of their monthly meetings.

## Security Export Control

### Development and Notification of the Export Control Management Regulations

As an effort toward more reliable security export controls, we have developed the Export Control Management Regulations and voluntarily notified the Ministry of Economy, Trade and Industry as well as submitted an implementation status of the Regulations on a yearly basis.

### Thorough Implementation of Education

To ensure implementation of security export controls, it is essential for employees to acquire necessary knowledge and control procedures and act in accordance with such procedures. To improve the practical skills of employees, the Daishinku Group focuses, in particular, on enhancement sales staff education. In addition, we actively acquire information on briefing sessions, etc., hosted by organizations related to security export controls and direct relevant employees to participate in them as needed.

### Practice of Countermeasures against Risks

The Daishinku Group applies security export controls to all exports of not only in-house products but all products including those procured externally, as well as to the provision of technology to foreign countries.

#### 1. Systemized Determination of Applicability

To ensure prompt and accurate determination of applicability, we have established a system to automatically determine applicability for in-house products. Furthermore, we have put procedures in place in line with system upgrades according to revision of relevant laws and regulations and development of new products, or where any restrictive conditions are applied, with which a perfect internal system to avoid any omission or impact on delivery dates must be ensured.

#### 2. Implementation of Periodic Audits

We clarify the section related to export control operations and periodic audits are implemented by the internal audit department. Any issue identified in such a periodic audit is addressed in individual guidance for improvement on a daily basis.

#### 3. Double-checking

We have a double-checking system in place, in which externally-procured products or in-house equipment are first checked by the Procurement Department or Production Engineering Department to determine applicability based on materials for such determination and then the result of such determination is checked again by the Legal Department.

### Security Export Control for Provision of Technology

When an engineer is dispatched on an overseas business trip or when providing technology to technical interns, applicability is determined.

## Exclusion of Anti-social Forces

Championing legal compliance and corporate activities in conformity with society's norms, we refuse to engage in any dealings with criminal organizations or other anti-social forces. As our pledge to social justice, our Basic Policy of Internal Control and the Code of Conduct on CSR mention Daishinku's resolute refusal to make contact with anti-social forces. This company policy is made well known to all the employees. We gather information from the police and other organizations on a regular basis and prepare to respond to eventualities in collaboration with external specialized organizations such as the police and law firms. Contacts with customers are made on condition that they exclude any relationship with anti-social forces.

## Internal Reporting

As an important means to prevent violation of laws or any wrongful acts, a system for internal reporting has been introduced, whereby contact points for reporting and consultation are opened as well as establishment of Internal Reporting Regulations that provides for acceptance of reports, implementation of investigations, implementation of corrective measures, prohibition of dismissal and other disadvantageous treatment of reporters, follow-up, etc., and applied appropriately.

## Respect for Intellectual Property Rights

Recognizing that intellectual property (IP) activities are important for a stable continuation of business, we promote active IP activities according to business development. For intellectual properties for which we aim to acquire rights, we adopt either a global strategy to promote global actions according to business development or a closed strategy to keep useful information confidential including manufacturing know-how, as appropriate in the promotion of IP activities. As part of our IP activities, we organize patent initiative conferences and conduct in-house education, thereby reinforcing our base for IP asset creation and the IP management system. We also have rules that clarify how to pursue IP management. To encourage IP initiatives, we have improved incentives for inventions and patents and have adopted a system for commending individual employees involved. Needless to say, we have a supervisory system to prevent infringements on third-party IP rights.

# Corporate Governance

Building a structure of management enabling accurate understanding of the business environment, decision making for rapid and precise responses to changes in the business environment, and lawful and reasonable operation, for globally competitive management that is fair and transparent for stakeholders.

We exert efforts to enhance our corporate value to protect and augment the interests of all stakeholders supporting our corporate activities and to maximize our long-term and continued stockholder value. At the same time, we believe it is essential to reinforce our corporate governance to remain a company that continues to enjoy society's trust. To clarify our structure for, and realize, effective corporate governance, we have established the Daishinku Corporate Governance Guidelines.  
(URL:<http://www.kds.info/investors/management-policy/corporate-guideline/>)

## Corporate Governance Structure

### Board of Directors/Board of Auditors

Daishinku's corporate governance structure basically comprises two entities: The Board of Directors exercises the decision-making right on basic management policies and other important matters and supervises the operational execution of the President and Representative Director. The Board of Directors includes external Directors who are independent of the Company and have specialized knowledge and experience in financial, accounting, or legal areas. The Auditors and the Board of Auditors supervise the operational execution of the Directors. The Auditors supervise the Company's management mainly by attending Board of Directors' meetings and other important meetings at which they present their views from an independent and neutral viewpoint. Furthermore, accounting auditors are appointed to provide accurate information relating to accounting, thereby ensuring an environment in which audits are conducted in a fair and impartial manner.

### Messages from External Auditors

It has been three years since I assumed the post of external corporate auditor of the Company. During this period, I have had an opportunity to learn various things by way of the Company's corporate culture, human relationships, etc., and I have learned to consider from the viewpoint of an employee what it is that is necessary to maintain and develop the Company's outstanding technical and creative capabilities. It is important for an external auditor to have objective points of view, and for that, internal viewpoints need to be cultivated as well.

The roles to be played by external officers for the improvement of corporate governance and compliance are said to be increasing. I would be happy if I could contribute even just a little to the sound development of the Company in a rapidly changing business environment.



Keita Ushijima

Corporate governance is defined as "a mechanism for ensuring that a company makes transparent and fair decisions promptly and decisively in light of the views of its shareholders, customers, employees, local communities, etc." In this context, I am constantly aware of the viewpoints of shareholders, customers, employees, local communities, etc., and as an auditor, a major task is to assure the legality of the execution of each director's duties. Furthermore, placing importance on "external" viewpoints, I make every effort to realize the basic principles of corporate governance such as "realization of prompt and transparent fair business management," etc., by collaborating and cooperating with "external directors" and "accounting auditors" for successful communication.

Toshiaki Hanasaki



# With Our Customers

Putting into practice the principle of "Customer First," the Daishinku Group endeavors to offer products that are trusted by our customers and the market. With our Quality Management System in place, we constantly strive to improve the quality of our products. We sincerely respond to feedback obtained through dialogues with our customers to maximize customer satisfaction.

## Quality Management

### Quality Philosophy

#### Thorough customers-first attitude

DAISHINKU supplies, every quality is for the customers.

DAISHINKU advances always take actions that conform to customer's quality needs, based on following Slogans.

#### Slogans

**BETTER PRODUCT, BETTER PRICE, BETTER DELIVERY, BETTER SAFETY**

#### Compliance to legal and regulatory requirements

DAISHINKU observes statutes and regulation requirements, and focus on producing products that fully meet customer requirements.

## Quality in Three Aspects



### Quality in Systematization

Continued quality improvement activities under the Quality Management System, in conformity with the global quality standards ISO9001 and IATF 16949.

### Quality in Technology

Quality improvement activities focusing on stable production satisfying the conditions for product conformance based on reliability evaluations and preventive measures by means of combining design management technology obtained from past experience with new elements.

### Quality in People

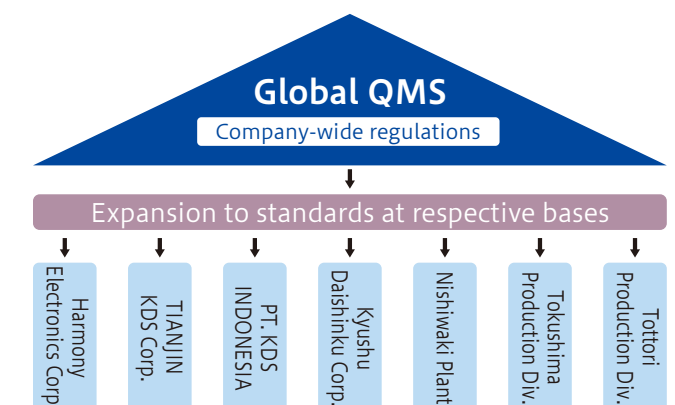
People as the true foundation of manufacturing, and human resource development with an emphasis on the cultivation of an acute sense of quality through QMS activities.

## Quality Management System

Our Quality Management System (QMS) converges with the international standards required for the enhancement of customer satisfaction with product quality. All the production bases of the Daishinku Group, including those outside Japan, have acquired ISO 9001.

The production bases that manufacture products for the automobile industry have acquired IATF16949 certification, which is specific to this industrial sector. We actively pursue continued product quality improvement with QMS.

Our ISO certification status is viewable on our official website.  
(<http://www.kds.info/product-support/iso-certificate/>)





# With Our Customers

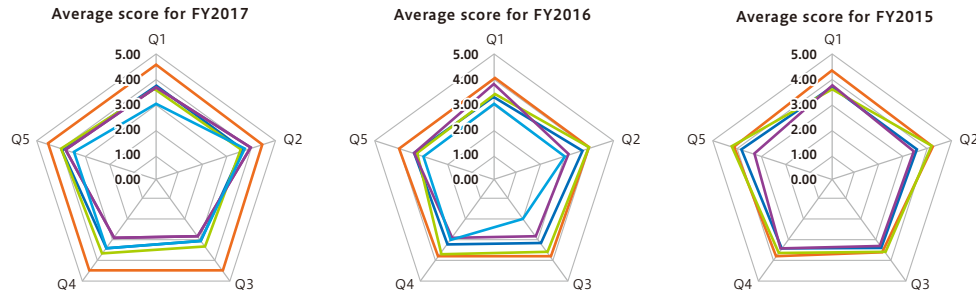
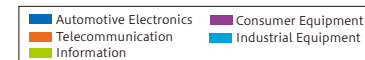
## CS Survey

As an effort to improve customer satisfaction, we have introduced surveys by questionnaires since 2002 to reflect opinions obtained directly from customers in relation to our products and services. Based on answers received from customers, we conduct SWOT analysis on our response situation in terms of sales and marketing, delivery dates, pricing, technology and quality, respectively, to clarify our strengths and any issues requiring countermeasures or consideration, and internally discuss solutions related to weaknesses and methods to enhance the strengths in a continuous effort for improvement.

### Results of Survey by Market <Technical>

- Q1. Are you satisfied with our development capabilities to address your issues and needs?  
Q2. How were our responses?  
Q3. How about the frequency of visits by our technical staff?  
Q4. How was the technology presentation?  
Q5. Are you satisfied with our approach with the circuit investigation?

Scored 4 points or higher for all items related to telecommunication in FY2017.

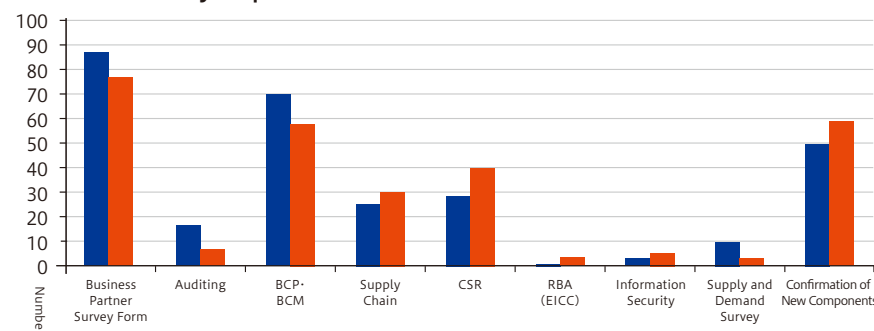


## Response to Customers' Survey

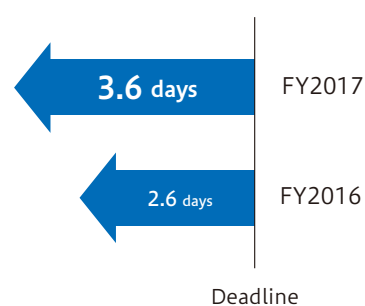
We have received requests for the business partner survey form to report the Company's status from many customers around the timing of the announcement of financial statements, and we respond to such requests by engaging relevant departments. Since many departments are involved in "auditing," materials are prepared in cooperation with relevant departments for any survey on such items. The number of requests for BCP/BCM questionnaire surveys remains high, though requests have fallen compared to FY2016, which indicates high interest of each company including those in the supply chain. Furthermore, we respond promptly when any event arises which has the potential to impact business activities, including disasters.

Requests for CSR questionnaire surveys or surveys on the code of conduct on RBA (former EICC) are on the rise, and greater interest is expected. Information security surveys are requested on a periodic basis. Requests for component investigations related to information on newly traded products are increasing.

### Number of Survey Requests Received from Customers



Responses have been accelerated from 2.6 days to 3.6 days prior to the customer's deadline.



### An employee's voice

We confirm the deadline of the survey request from the customer and proceed with the work with cooperation from the relevant sections. In cases where the questions cover extensive content, it used to take time to allocate them to different sections, but we have sped up internal processing by preparing a contrast table of titles and texts of question items and relevant sections. In FY2016, we delivered our responses 2.6 days prior to the deadline on average, but as a result of improvement, we were able to respond 3.6 days prior to the deadline in FY2017. We will continue with our efforts to meet the requirements of customers in cooperation with the relevant sections.



Sales Coordination Sec.  
Keisuke Okamoto

## Efforts in Indonesia



PT.KDS INDONESIA  
Takuji Ikeda

PT. KDS INDONESIA produces small-sized lead type resonators and SMD (surface-mounted) crystal resonators in ceramic packages. Lead type resonators were its major production items until several years ago, but it has shifted to SMD crystal resonators in ceramic packages to respond to the customer demands for smaller and thinner, etc. The plant previously produced items mainly for consumer use, but currently it has become a production site for items mostly for automotive applications.

In order to produce and ship products satisfactory to customers, we engage in daily improvement activities, particularly regarding 'quality' as a priority issue. Up until the end of last year, quality improvement activities have been conducted mainly by Japanese personnel, giving instructions and guidance to local staff. However, since December 2017, Zero-Defect improvement activities have been promoted with the Indonesian Vice President as the leader and Japanese personnel as advisors so that local staff can engage in activities in a self-motivated and proactive manner.

The Zero-Defect improvement activities include the following basics quality improvement activities:

1. Checkpoints and monitoring to prevent problems from being sent downstream to the subsequent process;
2. Getting to know the actual job site, actual products and reality where problems have arisen;
3. Immediate tentative measures to prevent continuous occurrence of problems, and permanent measures after investigating the root cause;
4. Standardization to prevent recurrence;
5. Daily meeting by the CF team to check the progress; and so on.



While investigating problems, it has been found that work depending on individual workers and variations in the skills of such workers are part of the causes, and therefore, we are proceeding with development of a detailed work instruction chart based on workers' motion analysis to standardize the work, in parallel with consideration of shifting to automation or semi-automation.



Up until now, owing to self-motivation and proactive quality improvement activities by local staff, results have shown improvement with the number of quality problem cases in process significantly decreasing, although not yet to zero. Our goal is Zero Defect, therefore, we must pursue root causes and implement permanent countermeasures to build quality in the process and prevent quality issues which occurred in the process from recurring.

However, for some items, expected effects of countermeasures have not been achieved. To create an environment in which local staff can conduct improvement activities in an even more self-motivated manner, we will continue to give guidance on the method to perform deeper analysis of problems, etc., and implement continuous improvement activities aiming at achieving the goal of Zero Defect.

### An employee's voice

Since I joined PT.KDS INDONESIA in 1991, I have been engaged in quality-related work in the Quality Assurance Department and have experience in the machining and in the assembly processes of crystals, and am currently the manager of the Quality Assurance Group acting as the contact point for customers. In addition, I received training on environmental systems to be an EMS (environmental management system) manager and have been engaged in work regarding acquisition and maintenance of ISO 14001 certification alongside.

In the future, I will train Quality Assurance Department staff who will take charge of construction and management of EMS as well as provide education not only on quality and the environment but also on industrial safety and health so that all employees share in the awareness of HSE (health, safety and environmental) to meet the requirements of the Indonesian government and customers.



PT.KDS INDONESIA  
Endaria Perangin Angin



# With Our Business Partners

In the Daishinku Group, we endeavor to create value in collaboration with our business partners on the basis of trust, building a mutually beneficial partnership that also contributes to society.

## Daishinku's Basic Purchasing Policy

### I. Partnership

We endeavor to build, maintain, and further improve a favorable partnership with all our suppliers founded on mutual understanding and trust.

### II. Openness and equity

We offer business opportunities equally and openly to all our potential suppliers in and outside Japan in the spirit of free and fair competition.

### III. Social responsibility

We give due consideration to legal compliance, quality, security, environmental conservation, safety and health, respect for human rights, and labor, actively contributing to society in making purchasing decisions.

## CSR Activities throughout the Supply Chain

To carry out CSR activities throughout the entire supply chain, the Daishinku Group requests that its suppliers understand and accept the concept of social responsibility as manifested in our Basic Purchasing Policy, and act likewise in consideration of their corporate social responsibility.

In recent years, the environment and social situations surrounding companies have changed dramatically, and it is required of every company, not only to pursue profits, but also to fulfill its responsibilities as a member of society in consideration of all stakeholders including consumers, employees and local communities, etc., factoring in human rights and the environment, as well as complying with laws and regulations. From the perspective of the supply chain, we believe that CSR can only be promoted with understanding and cooperation from our business partners in addition to our own internal efforts.

Therefore, in order to share the concept of CSR procurement with our business partners and promote better CSR activities, we publish our own CSR Procurement Guidelines (URL: <http://www.kds.info/company/csr/>).

## Fair and Favorable Partnership with Suppliers

Each year, the Daishinku Group invites its major suppliers to a business information meeting. At this meeting, we share with our business partners the Group's management policy, manufacturing and product strategies, market and technological trends, and other information concerning both sides so as to strengthen our partnership.

We clearly stipulate in the Guidelines that "abuse of a dominant bargaining position is prohibited" and carry out procurement transactions in good faith, complying with corporate ethics, not to mention laws and regulations. We recognize that this is a prerequisite for the existence of a company as well as what forms the basis of business management.

With respect to the "Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors" (hereinafter the "Subcontract Act") which is closely related to procurement operations, we work to develop company regulations (Business Partner Contract Regulations, Procedural Manual for the Subcontract Act) to ensure compliance with the Act and its spirit. In addition, we strive to thoroughly disseminate all company regulations within the company by providing every opportunity for those assigned to a relevant post to receive internal training on the Subcontract Act and to participate in training sessions or seminars held by an administrative agency or a relevant organization.

## Restrictions on Chemical Substances

To offer society environmentally responsible products, we endeavor to purchase components and raw materials that do not contain hazardous substances. Regulations governing the use of chemicals are in place in different countries and regions around the world, including the Restriction of Hazardous Substances (RoHS) Directive, the End of Life Vehicles (ELV) Directive, and the Regulation Concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), all three of which are European Union directives, and they have been made stricter year by year. We at the Daishinku Group compile a requirement and carry out green purchasing in collaboration with our suppliers.

## Conflict Minerals

In compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of the United States enacted in July 2010, manufacturers are required to audit and disclose information on their purchase of natural resources so-called "conflict minerals" (gold, tantalum, tin, and tungsten) so as to control the use of minerals produced in and around the Democratic Republic of the Congo (DRC) and sold to fund local armed groups.

The Daishinku Group has adopted the following policy to our business activities.

We avoid purchasing or using minerals that can directly or indirectly lead to the funding or profiting of armed groups in the DRC or its neighboring countries.

As a company situated mid-stream in the supply chain, we request that our suppliers audit and report their use of natural resources to check against conflict minerals, using the industry's common reporting template. We compile information thus collected and share it with our customers. In fiscal 2016 and 2017, we had all of our suppliers in and outside Japan audit their use of conflict minerals and confirmed the total absence of minerals funding local armed groups.

## Management Index Survey, BCP/CSR Management System Check Sheet

We have included matters relating to CSR in the management index and risk management system check sheets for our business partners since 2017. From the perspective of supply chain, we believe that CSR activities cannot be achieved by our own efforts alone, but understanding and cooperation from our business partners are indispensable. Aiming at promoting better CSR activities by sharing our ideas about CSR promotion with our business partners, we collect and analyze corporate information about our business partners including their financial information through questionnaires. We conduct surveys of our business partners on points they are satisfied with and dissatisfied with regarding our transactions as well as their future needs, and improve our daily business activities by checking the evaluation results of each survey. The Procurement Department strives to develop relationship of trust and establish fair and equitable partnerships with our business partners by understanding and enhancing each other.

### ◆ An employee's voice

We explain our Code of Conduct on CSR if our business partners have a system for CSR activities in place upon commencement of any new transactions and confirm on an annual basis for business partners with ongoing transactions of major materials.

In addition, we conducted supply chain CSR surveys (human rights and labor, health and safety, environment, fair trade and ethics, quality and safety, information security, stable supply, contribution to society) related to our business partners' status of construction and operation/management of a CSR mechanism in the year in which our CSR Procurement Guidelines were established. With increasing occurrence of unexpected disasters and accidents in recent years, we acknowledge their importance.

We give consideration to improvement of the survey form so that it is easy to understand and answer, and strive to make further improvements so that we can effectively efficiently comprehend the latest situation from our business partners.



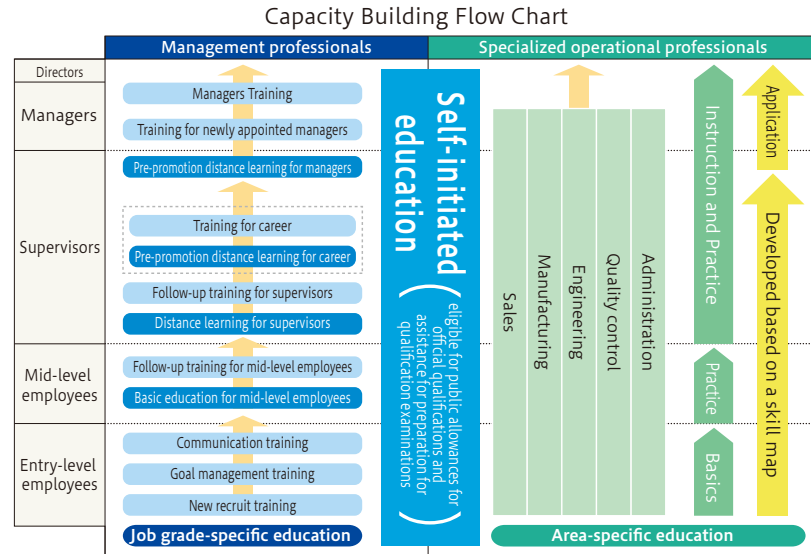
Procurement Sec.  
**Masato Terakawa**

## Challenging Corporate Culture and Proactive Human Resources

We endeavor to be and remain a company that plays a leading role in this rapidly changing society by realizing greater convenience and comfort with our technologies. To do so, we believe that it is essential to nurture human resources capable of proactive self-improvement and create a mechanism and workplace environment that allows such individuals to continue to aspire for greater achievements. To realize all of this, we are determined to continue our utmost efforts.

### Human Resource Development

Daishinku's mechanism for human resource development is constructed around two pillars: job grade-specific education in which participants learn business management in a structured manner from the basics, and area-specific education designed to train operational professionals. In addition, there are well-developed systems that assist employees in their self-improvement (foreign languages, specialized learning, etc.) and preparation for official qualification examinations, supporting their individual career development. These systems are designed based on the concept that the main actor in capacity building is the person himself/herself, to entice employees to proactively, rather than passively, engage in self-improvement.



## Becoming a Company with Rich Diversity in People

As a global corporate group, Daishinku hires people with various backgrounds to be responsive to diverse needs and actively adopt new values and ways of thinking. To expand women's sphere of activities, we strive to maintain a workplace environment that facilitates their participation. In fact, women have already surpassed men at Daishinku in terms of their average number of years of uninterrupted service. We continue to develop employment conditions that enable all employees, regardless of their nationality and gender, to fully demonstrate their abilities and enjoy a fulfilling work life. We also aim to nurture candidates for executive posts who can serve as role models for others in the future.

We introduced the limited regular employee system recommended by the government in June 2015. This is a new employment arrangement under which one can limit the work location and job type for improved work-life balance, which was introduced for the purpose of securing excellent human resources. This system is appropriate for employees hoping to continue with familiar work routines in their hometowns, but there is also a mechanism for those who would like to challenge themselves in securing a position with greater responsibilities to advance their career path by switching to the regular employee course, which already has a proven track record. We have reviewed the system several times, but intend to continue revising it into the future as well, adopting various opinions to make it a better system.

### ● An employee's voice

After joining the Company, I was in charge of accounting, but as I gained experience in the following years, I have engaged in management work as well. As the scope of my responsibilities expands, my knowledge and understanding deepen, and I feel that this is contributing to significant personal growth, not only in terms of work but also my views on human relationships. I sometimes face difficult challenges, but I experience a feeling of accomplishment as I work to solve them one by one. I deeply appreciate that new tasks are entrusted to me, as well as that such opportunities are given to me. Blessed with an ideal boss and colleagues, I take delight in that I can work with trustworthy workmates in a lively workplace.

I will keep engaging in work proactively and do my best to contribute to the Company and the local community through various experiences.



DAISHINKU(HK)LTD.  
Brenda Mak

## Workplace environment

### ● Self-declaration system

Employees are given the opportunity to try working in new sections in consideration of their personal career development plan and self-improvement results.

### ● Employees' health maintenance

Daishinku is committed to maintaining and enhancing its employees' health. Employees who are found to have health problems in the annual physical examination are guided to take a complete checkup or receive medical treatment, under an occupational physician's direction.

### ● Mental health and stress check

As legally required, an annual inspection is conducted on stress levels to which employees are exposed. In addition, careful follow-up is provided, including analysis of the inspection results and the leveling off of the work burden where needed, to maintain and enhance employees' mental health and stability.

### ● Childcare and nursing leave

Daishinku offers employees childcare or nursing leave with more advantageous conditions than those legally required, helping them reconcile their work and family duties. Large percentages of employees take childcare leave and resume work after childbirth. We strive to continuously improve our workplace environment so that female employees can stay with the company for many years.

Of the women working at domestic bases of the Daishinku Group **100%** have taken childcare leave, and **100%** have resumed work after childbirth.

### ● Commendation system

To motivate employees, those who have made remarkable achievements at work are commended each month. Those whose achievements are particularly outstanding are commended at the annual event commemorating the company's foundation. Younger employees are increasingly doing well, with some receiving commendations as early as in their second year of employment.

### ● Industrial safety and health management

It is matter of course for a company to provide a work environment where employees come to work with an energetic and healthy frame of mind and go home in the same frame of mind, but factors that cause industrial accidents always lie lurking somewhere and it is the challenge for each company to reduce those factors to an acceptable level, i.e. a state in which an industrial accident is not likely to occur. Aiming at construction of an industrial safety and health management system, the Company has organized the Company-wide Industrial Safety and Health Committee. This industrial safety and health management system is a mechanism to enable reductions in danger and harm, integration of safety and health into business management, and inheritance and continuous implementation of know-how. Previously, the safety and health committee of each base worked independently to improve the level of industrial safety and health, but currently we strive to raise the level of industrial safety and health with a strong driving force based on the unified policies of the Company Group. Even with respect to issues of another base, we try to solve them by exchanging ideas within a mutual framework and learn from experience to prevent such problems at one's own base. Through such efforts, we aim at creating a safe and comfortable workplace in which the employees can work with a sense of security and to which their family can see them off without worry.

### Topics

### Introduction to the Training Facility (Tottori Training Center)

To further enhance the educational system and career development system, we constructed a training facility equipped with accommodations suitable for training camps in Tottori in April 2014, where various training sessions are provided. Such training sessions include not only training camps just to provide knowledge, but also those designed to enhance partnerships through discussions on various issues and interactions with different departments for managers and regular employee positions.

#### [Examples of Actual Training] \*Excerpt

- Newly-appointed Manager Training (2 days and 1 night for those newly assigned)
- Manager Training (2 days and 1 night annually for all managers)
- Training for Regular Employee Positions (2 days and 1 night for those newly assigned)
- Newly-hired Employee Training Camp (2 days and 1 night for newly-hired employees)
- Manufacturing Staff Training (2 days monthly for staff and regular employee positions in charge with manufacturing process)
- Overseas Technical Interns (3 months for overseas-based employees/managers)





# For the Environment

## DAISHINKU Group Environmental Policy -Environment Philosophy-

### ◆ Social responsibility

The DAISHINKU Group contributes to creating a progressively developing society through environmental conservation activities which are harmonious with the environment.

### ◆ Compliance to legal and regulatory requirements

The DAISHINKU Group observes statutes and regulatory requirements and is engaged in the development of environmentally friendly products.

### -Policy-

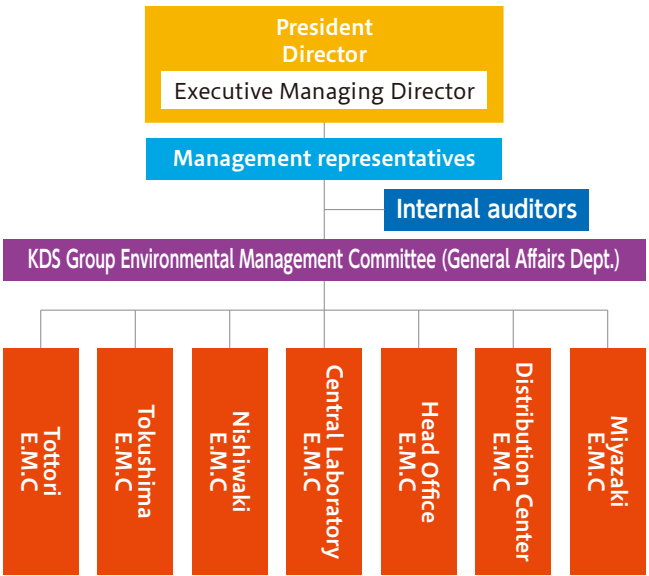
Throughout all areas of its' business activities, from the development, production and sales of its crystal applied products, the DAISHINKU Group business policy promotes universally trusted environmental management activities.

- 1 Take the initiative in energy and resource saving by properly controlling the substances with environmental impact and reducing the use of them.
- 2 Effectively utilize resources and prevent environmental pollution through the reduction and proper disposal of waste, including reuse and recycling.
- 3 Prevent global warming by carrying out energy conservation activities and CO2 emissions reduction.
- 4 Avoid the sourcing or use of minerals that directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo or adjoining countries.
- 5 Observe relevant environmental laws, standards, agreements and any other requirements to which the company subscribes.
- 6 Set environmental targets based on this Environmental Policy and whilst promoting these activities also continuously strive to improve the environmental management system to enhance the environmental performance.
- 7 Educate all employees and those who work for our group in our environmental policies and raise their awareness of environmental conservation through the educational and awareness-raising activities.
- 8 Ensure information on our environmental conservation activities is available to the public.

## Organizational Structure

In order to effectively promote our Environmental Management System, an Environmental Management Committee has been set up at each of our business bases, and a Group Environmental Management Committee has been established to supervise the entire Daishinku Group. The Group Environmental Management Committee determines the goals of environmental activities of Daishinku as a whole, examines and makes decisions on the results of the activities, makes effective use of the PDCA cycle, and works for the continuous improvement of environmental performance.

### ◆ Daishinku Group Environmental Management Committee



## Internal Environmental Audit

To ensure the efficiency of the Environmental Management System, it is important to check that environmental management is being properly implemented and to correct any problems found. The Daishinku Group conducts an internal environmental audit once a year to check the status of its management system. The results of the internal environmental audit are reported to the management, to discuss effectiveness and areas for improvement, contributing to the continuous improvement of the Environmental Management System. To ensure that the internal audit is conducted properly, the Daishinku Group selects and trains qualified personnel as internal environmental auditors.

## ISO Certification Status

Daishinku Group has acquired the ISO14001 international environmental management standard. Our domestic offices/plants acquired the certification in 2000, to promote implementation of an integrated management system for the whole Daishinku Group. TIANJIN KDS Corp., PT. KDS INDONESIA and Harmony Electronics Corp., our overseas production bases, have also acquired ISO 14001 certification and are committed to environmental conservation in cooperation with our domestic offices. We are currently updating to the 2015 revision of ISO14001 at each base.

## Waste Risk Management

We use outside waste disposers to dispose of industrial waste discharged by our business activities. In recognition of the responsibility that an industrial waste generator bears for its disposal, we have established rules concerning waste disposal and management and conduct audits of the firms we entrust with waste treatment. Before the entrustment of industrial waste disposal, we conduct a site inspection of the firms concerned. Furthermore we continue to do annual patrols of the disposal firms after the contract has been handed out.

## Appropriate Management of PCB Waste

PCB (polychlorinated biphenyl) is highly toxic to living organisms and the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes requires proper disposal of PCB by March 31, 2027. The Daishinku Group has completed disposal of highly-concentrated PCB waste. Disposal of waste of a small amount of PCB remains unfinished, but we will work on proper management and early disposal.

## Emergency Response Training

In preparation to counter any accident or disaster, we have established the "Emergency Response Program" that summarizes response procedures with emergency response equipment in place. We conduct emergency and accident response training situations in June, designated as "Environment Month," to check whether the procedures for emergency measures, channels of communication, location and number of equipment, etc., are appropriate, in order to prepare ourselves for any emergency situation or accident.



Tokushima Production Div.:  
Training to prevent chemical spills

# Environmental Impact

At each stage of product development and design, manufacturing and sales we use resources such as water, energy and raw materials. We try to understand the environmental burden resulting from these business activities and endeavor to reduce its impact.

## INPUT

Electric power	('16)	131,826	MWh
	('17)	134,965	MWh
Fuel oil	('16)	1,087	kL
	('17)	915	kL
City gas	('16)	352	km <sup>3</sup>
	('17)	380	km <sup>3</sup>
Kerosene	('16)	2	kL
	('17)	3	kL
LPG	('16)	5,466	kg
	('17)	6,583	kg
Water	('16)	966	km <sup>3</sup>
	('17)	919	km <sup>3</sup>

## OUTPUT

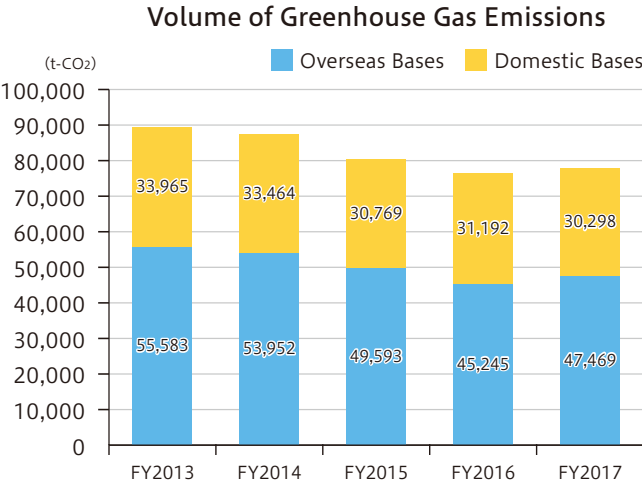
CO <sub>2</sub>	('16)	76,437	t-CO <sub>2</sub>
	('17)	77,767	t-CO <sub>2</sub>
Wastewater	('16)	804	km <sup>3</sup>
	('17)	765	km <sup>3</sup>
Waste generation volume	('16)	1,408	t
	('17)	1,305	t
Waste treatment volume	('16)	910	t
	('17)	839	t
Recycling volume	('16)	497	t
	('17)	466	t
Products		Crystal Resonators	
		Crystal Oscillators	
		Monolithic Crystal Filters	
		Optical Products	
		Hermetic Seal	
		MEMS Oscillators	

# Improvement of Environmental Performance

Throughout the whole process of product design, manufacturing and sales we work towards the prevention of global warming through the promotion of energy conservation and waste reduction activities.

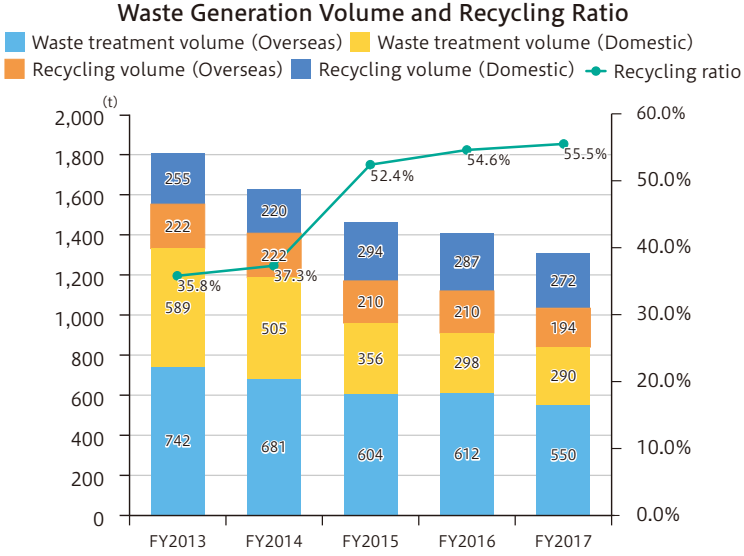
# Prevention of Global Warming

The Daishinku Group is committed to reducing emissions of greenhouse gases such as CO<sub>2</sub>. In FY2017, we saw an increase by 1.7% compared to the previous fiscal year, but it is on a downward trend over the medium term. We have actively implemented improvements including switching to energy-saving types of equipment, shifting to LED lights, etc., with a focus on production bases. Furthermore, we make every effort to raise the energy-saving awareness of employees through energy-saving patrols and training and education. We will promote energy-saving activities across the entire Daishinku Group including overseas bases.



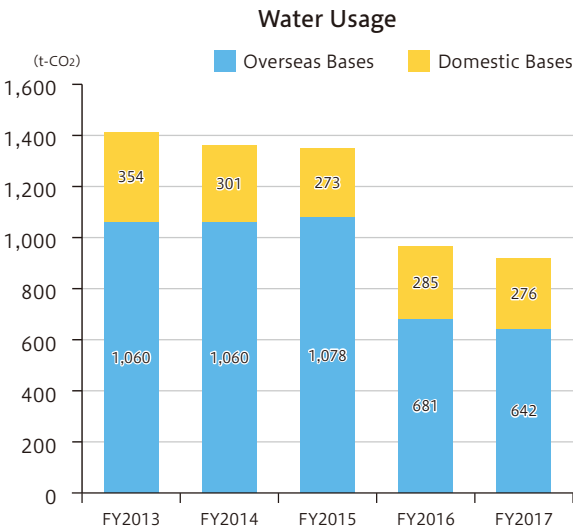
# Waste Reduction, Resources Recycling

The Daishinku Group has been working to reduce the amount of waste for landfill and incineration, as well as the volume of waste generated. We could suppress the volume of waste generation as a result of reuse of packaging materials and conversion to valuables. Sludge accounts for about 80% of waste generated in our facility. We have been striving to reduce sludge generation by improving our manufacturing processes and thus using less chemicals and modifying the wastewater treatment facility and improving the treatment flow. We also promote recycling for effective use of sludge which used to be landfilled for final disposal.



# Effective Use of Water Resources

The Daishinku Group uses a large amount of water in its production activities. Although we were able to reduce water usage amounts as a result of conducting a review of production items in FY2016, excluding the effect of the review, usage remains nearly at the same level. We will make further efforts such as thorough implementation of water-saving measures and consideration of cyclical use, etc.



## Topics

## Increase in Size of Synthetic Crystals Lead to Energy Savings

Currently, we promote synthetic crystals of up to 4 inches, and plan to promote synthetic crystals of up to 6 inches in the future. Since electricity accounts for more than half of the cost of synthetic crystals, suppressing this electricity expense will lead to energy-savings. Assuming to produce crystal blanks of a 1008 size, if we change the size of synthetic crystals from 4 inches to 6 inches, we can expect an efficiency improvement of 11% per blank. On the other hand, electricity expenses will increase as it will take longer to grow larger crystals, and the price per crystal will increase because of its larger size, but the number of wafers obtained will increase due to the larger size of the crystals and the number of crystal blanks will increase due to the larger size of the wafers, which will result in reduction in electricity cost per crystal blank by approximately 23%.





## Environmental Considerations Relating to Product

Our products are used in everyday electronic devices such as smart phones and tablet PCs, audio visual equipment and car electronics. At the stage of product development and design, we are committed to providing environmentally friendly products under the three keywords, “power saving”, “miniaturization”, and “proper management of chemical substances.”

### ◆ Environment-friendly Product Design

#### Power consumption reduction

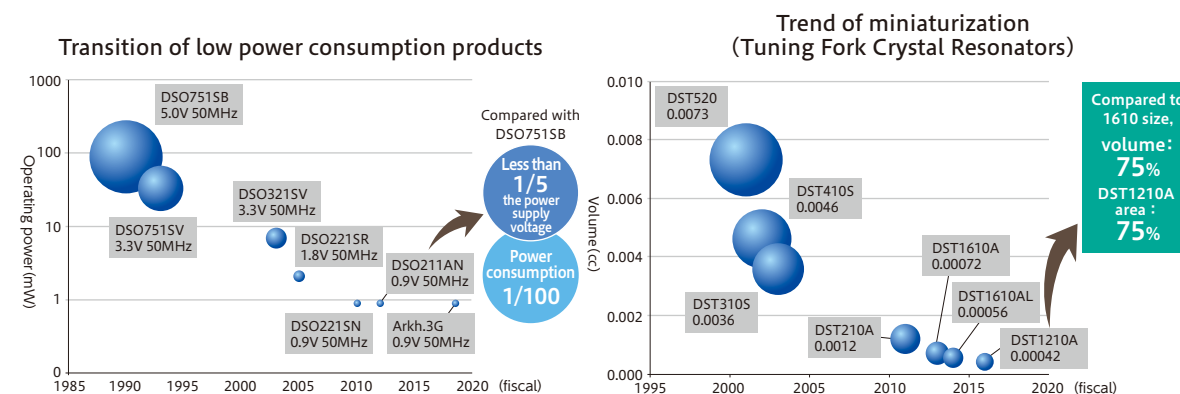
Reducing the power consumption of our crystal products has lowered power consumption by PCs, smartphones and other electronic devices. This in turn contributes to reducing CO<sub>2</sub> emissions.

#### Downsizing

By reducing the usage amounts of resources achieved through downsizing of products, this will contribute to space savings for substrates on which our products are embedded. Moreover, this also contributes to a reduction in CO<sub>2</sub> emissions during transportation and contributes to a reduction in resources to be consumed throughout the supply chain.

#### Strict management of chemicals

During examination in the phases of design and development of products, we confirm that no environmentally hazardous substances are used in components. Furthermore, also in mass production, we periodically check for existence of any environmentally hazardous substances by XRF analysis.



### ◆ Development of Arkh.3G Series

The Arkh.3G Series of products were developed to make products smaller, thinner and with greater reliability, as well as to realize high quality that matter, contributing to a reduction in environmental impact at the same time.

For example, conventional products use a conductive resin adhesive to bond crystal blanks with ceramic packages, requiring a considerable amount of energy for heating as they are exposed to high temperatures of 200°C - 300°C for several hours in the drying process, etc. However, the Arkh.3G Series of products are designed in which the frame and resonating part have an integrated structure without using a conductive resin adhesive so that a heating process is not required. Moreover, there is no affect from aging attributable to the resin material, causing no bottleneck in the product life of the equipment in which the Arkh.3G Series of products are used. As described above, because this design does not use a conductive resin adhesive, we can expect a direct effect on energy reduction in production and an indirect effect on contributions to the product life of the equipment in which crystal devices are used. Furthermore, in the conventional process, devices are assembled one by one, but for the Arkh.3G Series, we adopt a process in which devices are assembled on a wafer level and divided in the end, therefore, productivity per floor area improves by approximately twice. This means that the area to be air-conditioned and lighted is halved for the same production volume, which also contributes to a reduction in energy, and in addition, making products smaller and thinner results in a reduction in packaging materials and in energy consumed during transportation as well. In this way, we expect that the Arkh.3G Series will contribute even just a little to the achievement of a more efficient and cleaner ICT society.



※ As of December, 2018

## With Our Shareholders and Investors

We constantly strive to enhance our communication with stockholders and investors through the reinforcement of corporate governance and timely and appropriate information disclosure.

### Communication with Stockholders and Investors

#### ◆ Communication with Shareholders

We recognize that the general shareholder's meeting is a forum for constructive dialogue to exchange opinions directly with our shareholders and we strive to develop an appropriate environment for the exercise of their rights at a shareholders' meeting. We send a notice of convocation of a shareholder's meeting approximately three weeks prior to the date on which a meeting is to be held, as well as make disclosure on the website prior to such date of sending notification in an effort to ensure shareholders have sufficient time to consider proposals to be discussed at a meeting. In addition, we publish reports addressed to shareholders twice a year.

#### ◆ Communication with Investors

In order to share the Group's operating results and management policies/business strategies with institutional investors and securities analysts and enhance their understanding, we hold briefings on financial results twice a year in Tokyo and Osaka, as well as respond positively to individual interviews and questions in an effort to maintain ongoing communication with them. Furthermore, we make every attempt to make prompt and fair disclosure of information, posting briefing materials on financial results, financial materials such as Fact Book, and other timely disclosure documents on our website (URL: <http://www.kds.info/investors/>).



We will continue to make efforts to obtain further understanding of the Group from our shareholders and investors.

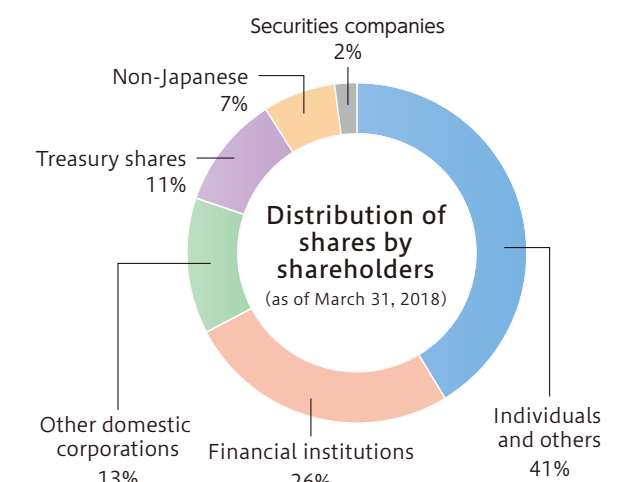
### Dividends

It is our important basic policy to continue paying dividends to our stockholders in a stable manner to return wealth back to them in consideration of the company's overall constitutional strength to maintain our competitiveness.

### Stocks

As of October 1, 2016, we executed a reverse stock split (five stocks merged into one) and modified the unit number of stocks (from 1,000 to 100). The total number of outstanding stocks and the unit number of stocks as of October 1, 2016 were as follows:

The total number of outstanding stocks : 9,049,242  
Unit number of stocks : 100



# For the Local Communities

Through our community services and communication, we hope to strengthen our ties of trust with the local communities and remain a corporation that is loved by all.

## Participation in “Charity Event”



Harmony Electronics Corp.  
**Zoe Chen**

Harmony Electronics Corp. has been participating in the charity event hosted by the Chung Yi Social Welfare Foundation annually for the last several years ago. Proceeds collected at the garden party are utilized as funds for medical expenses and support facilities for children who need help. Also in May 2017, the Corporation participated in the “Loving you at the same time, children dancing and having fun together” held at the Taipei Expo Park. The number of companies participating in the charity event has increased a yearly basis, and more than 100 companies took part this year. From the Corporation, about 20 employees participated, including as volunteer guides at the site, staff in charge of a bazaar, etc. The entire site was embraced in a warm atmosphere as if we all are one family, and we could deepen communication with people who visited our bazaar booth filled with smiles and laughter. We not only participate in external events but also host such events and donate proceeds from bazaars and daily necessities collected within the company. We will continue to raise our employees’ awareness about CSR and contribute to local communities through these activities.



## Conducted “Cleanup Campaign”

As part of our social contribution activities, the environment management committees of the Head Office and the Distribution Center jointly conduct a “Cleanup Campaign,” an activity to clean up the local area in November of each year.

The “Cleanup Campaign” started in 2006 and approximately 40 employees participate every year to pick up and collect waste cans, used bottles, cigarette butts and other garbage alongside the commuting route starting from the Distribution Center to the nearest station divided into five blocks, while sorting garbage into combustible waste and non-combustible waste. Thanks to the

daily activities of the local people, the amount of waste is decreasing year by year, but littering is still noticeable around the station. Since we use the route for daily commuting, we make every effort to collect waste with great care.

The Cleanup Campaign is conducted only once a year, but on the day of the campaign, we receive warm words of “thank you” from the local people which makes us feel good. We will continue with these activities not only to contribute to cleanup of the local area, but also to deepen our relationship with the local people.



Production Control Sec.  
**Minoru Takeda**

## Implementation of “Company Tour”



TIANJIN KDS CORP.  
**Kuniharu Hayashi**

Chinese universities dispatch their students for company tours as field training as part of their coursework. Tianjin KDS Corp. received five students majoring in electrical studies at the request of Tianjin University, with which it has had connection since before for system development, etc. The company tour was conducted for two days. On Day 1, we explained the system and mechanism of corporate governance to implement CSR, such as compliance, social justice, environment preservation, etc., in addition to mobility and judgment necessary for a company to survive intensifying market competition. On Day 2, we introduced our products and showed the students around the manufacturing process, and explained to them how our products are manufactured under strict management procedures in the manufacturing process and in what products they are used. It was a short training session of just two days, but we have obtained feedback that it was a very meaningful experience for them in preparation of joining the workforce in the future by learning about a governance system different from academia and observing the manufacturing process which they rarely see. Since it is a precious opportunity also for us to have contact with students and get new inspiration, we will continue to accept students actively in the future and contribute to the local communities.



## Implementation of “Office Tour”

In December 2017, the Tokushima Production Div. hosted an office tour as a field trip at the request of the Tokushima Prefectural Kamojima School for Special Needs Education that they “wish to provide the pupils with an opportunity to have contact with society.”

The pupils had a tour inside the facility and experienced what is produced by Daishinku, what the products are used for and how they help society, etc., by “seeing” and “touching” the actual products starting with the stage of raw materials. They asked questions one after another and seemed to be interested especially in that there are various jobs within a company.

The Division has had contact with Tokushima Prefectural Kamojima School for Special Needs Education through Santa Claus visits organized by the Daishinku Trade Union every year since 2002, but it was the first time for us to accept a request for such a field trip, so we sometimes felt at a loss as to how to explain things so that even children could understand. However, seeing their shining eyes during the tour, we were sincerely glad to have accepted the tour. We will continue with our contribution to society, deepening relationships with the local people, including hosting such office tours in the future.



Tokushima Production Div.  
**Kenji Oda**



**DAISHINKU CORP.**

<http://www.kds.info>

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