

DAISHINKU

CSR REPORT

2020

Message from the President



Chairman **Sohei Hasegawa**

President **Minoru Iizuka**

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.

◆ Toward the Ultimate in Manufacturing

At Daishinku, we conduct research and development in consideration that one of our missions is to always provide our customers with new value, so that the beneficial role that electronics plays in our society can be further expanded. 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 components manufacturer, we are committed to rethinking and addressing our continuing Zero Defect challenges, as well as creating "innovation" based on our motto since our foundation "imagination and creativity in manufacturing," in order to achieve craftsmanship that satisfies our customers. We are confident that our independently developed 3rd generation crystal devices "Arkh.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.

Further, through our efforts to help expand our employees' sphere of activities through education/development, such as the development of educational programs to clarify "ideal models of human resources to be achieved" and assist employees in imagining their own career development, and enhancement of a system to support them through self-development programs, etc., we strive to meet the challenges of the ever-changing business environment and market needs.

◆ To Our Stakeholders

Since the foundation of Daishinku in 1959, we have strived to offer products that meet the increasingly sophisticated needs of the times under the corporate slogan "reliable people, reliable products, and reliable company," and celebrated the 60th anniversary of our foundation on November 3, 2019. This would not have been possible without the support of all our stakeholders, and we would truly like to express our sincerest gratitude. Taking this opportunity, we have formulated our first 10-year long-term business plan "OCEAN+2 Strategy." We will implement the "OCEAN+2 Strategy" focusing on existing businesses, and further increase our presence in the timing devices market by creating added value, pursuing craftsmanship in manufacturing, including in the growing/processing technology for synthetic crystals we have developed so far. 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. We will continue to strive to achieve the 100th anniversary, aiming to be a "company needed by society, where all employees work with a look of determination in their eyes, in support of the development of an electronics society."

We look forward to your continued support and guidance in the future.

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 2018 through March 2020. (Some events mentioned in the report took place outside this period.)

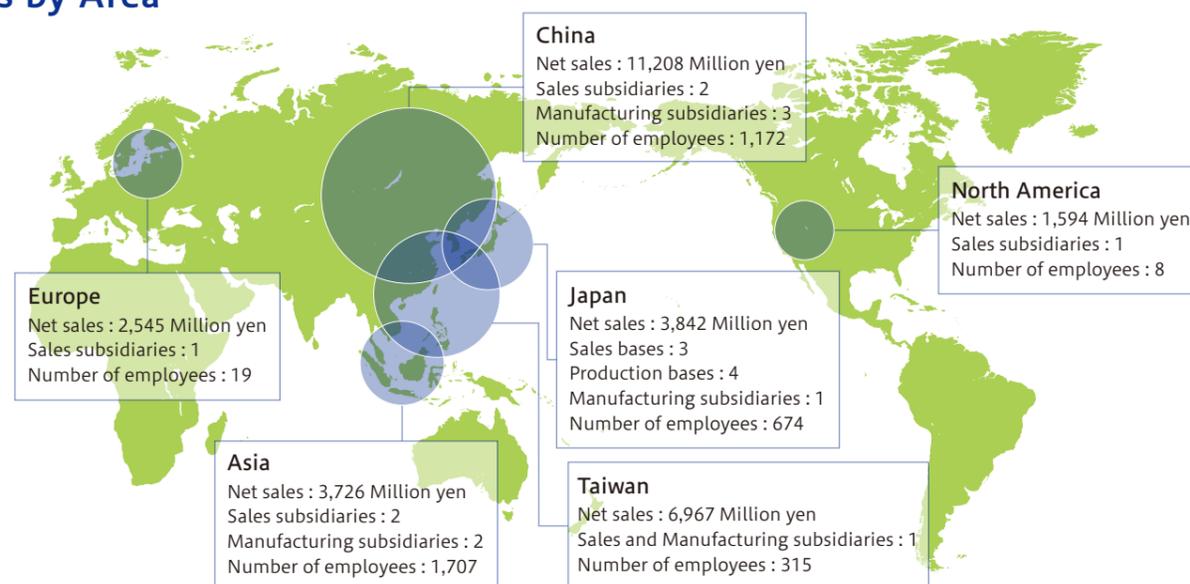
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Company Profile

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	Chairman Sohei Hasegawa President Minoru Iizuka
Capital	19,344 million yen
Number of Employees	Non-consolidated 622 Consolidated 3,895 (as of March 31, 2020)

Sales by Area



※The figures above are based on the consolidated financial data for the term ended in March 2020.

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.



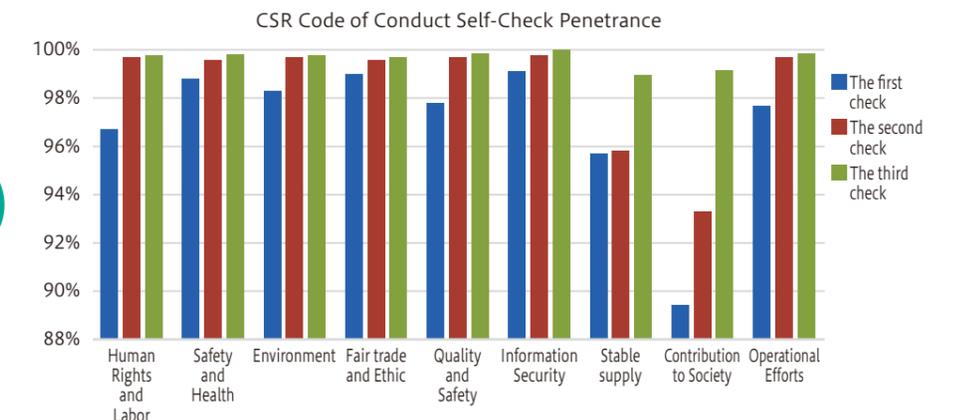
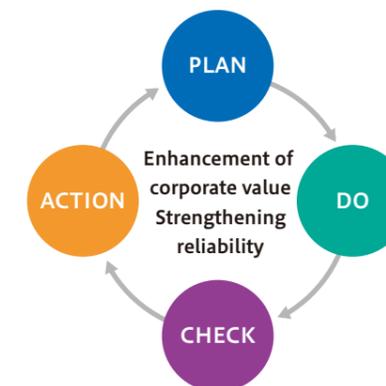
Daishinku’s Code of Conduct on CSR

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: <https://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.

“Code of Conduct on CSR” Self-Check

Since the establishment of the “Code of Conduct on CSR” in 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 so that it will penetrate and become rooted throughout the organization. As shown in the graph, the check results indicate that the awareness is raised each time the self-check is conducted.

By extracting problems based on information gathered through the “Code of Conduct on CSR Self-Checks” and implement of improvement measures, we will further increase all employee’s 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.



About Quartz Devices

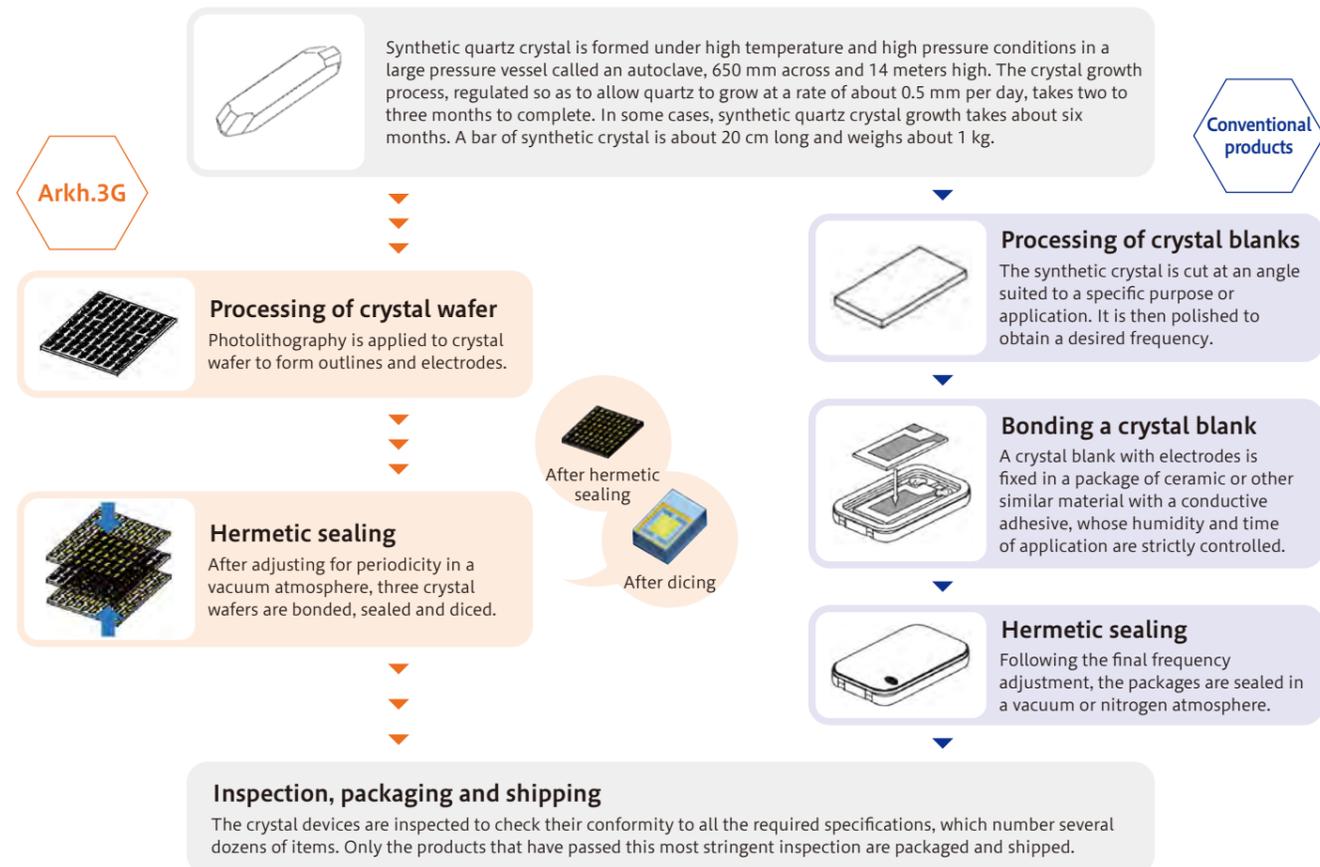


We have established a highly efficient production system that ensures a stable supply of constantly high-quality crystal devices. Our integrated production system, from the development of highly pure synthetic crystal to the cutting and polishing of crystal and product assembly, rapidly meets the needs 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

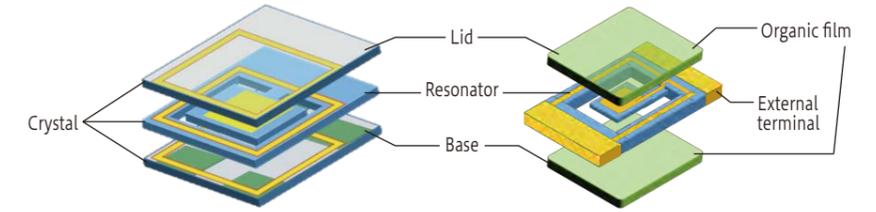


Products

Next-generation Crystal Devices "Ark. series"



Ark.3G



Structure of the Ark.3G

Structure of the Ark.4G

In contrast to the conventional structure where crystal blanks are held in a ceramic package by using a conductive adhesive, the Ark.3G is arranged in a three-layer structure, the host of which is crystal. The lineup includes crystal resonators, simple packaged crystal oscillators (SPXO) and temperature compensated crystal oscillators (TCXO). The concept of this design was evaluated and won the Good Design Award in 2019. Further, we will continue to expand our product lineup for the "Ark Series", such as the "Ark.4G" crystal devices for which cost reduction has been achieved by replacing the upper and lower layers of the three-layer structure of the three quartz crystal wafers bonded of Ark.3G, excluding the resonator layer, with organic films, and the downsized and power saving "Ark.5G" oven-controlled crystal oscillators (OCXO) containing an Ark.3G oscillator, and will provide our customers with new value.

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.



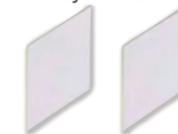
Tuning Fork Crystal Resonators

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.



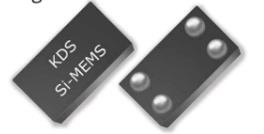
Crystal Oscillators

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.



Legal Compliance

Thorough legal compliance meeting society's expectations and requirements

At the Daishinku Group, 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.

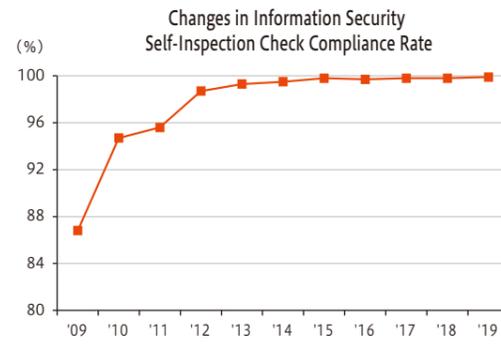
Compliance Education

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. We promote various educational programs on legal compliance to raise employee awareness on the importance of compliance and improve their knowledge. These programs are held as a part of our regular personnel development programs, and offered at the time of recruitment, promotion to higher-grade or executive posts, and other milestones.

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 information.

Further, "Regulations on Cyber Security Measures" have been established to respond to cyberattacks, so that appropriate measures can be taken against cyberattacks, including vulnerability measures, technological measures, personal measures, and threat monitoring. As awareness-raising activities for employees, a periodic information security self-inspection check is implemented to increase awareness, and the results show that the employees' information security awareness is increasing year by year. Since there is a limit to ensuring information security through only technological measures, and awareness of each employee is important, we will continue to develop rules focused on early detection and strengthening of responses, as well as reinforce personal measures through employee education.



Security Export Control

The Daishinku Group will aim to be a company trusted by its customers and society, complying with the Foreign Exchange and Foreign Trade Act and other import and export-related laws established for the purpose of maintaining international peace and security, maintaining an equilibrium in international payments, and sound development of foreign trade and the national economy. We have established the "Export Control Management Regulations," our internal regulations for compliance with export-related laws and notified the Ministry of Economy, Trade and Industry, as well as implemented periodic audits by the Internal Audit Section on the enforcement of such regulations and provide education to related sections to ensure thorough security export controls.

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. As for the activity to protect our own technologies such as intellectual property, we promote IP activities by adopting either a global strategy to promote global actions according to business development or a closed strategy to keep useful information such as manufacturing know-how confidential based on our mid- to long-term perspectives. In addition, to further promote IP activities, we organize patent incentivizing conferences with the Engineering Department and provide in-house education, as well as strive to improve incentives for inventors through enhancement of our IP-related awards system. Furthermore, we have constructed and operate a supervisory system for the Engineering Department to continuously monitor third-party IP rights to prevent cases of infringement.

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:<https://www.kds.info/investors/management-policy/corporate-guideline/>)

Corporate Governance Structure

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 New Directors

Based on our corporate motto, "reliance," we consider it our social responsibility to implement the three types of reliance (reliable people, reliable products, and reliable company) into practice steadily. To meet needs for higher precision, we take advantage of our vertically-integrated organization from crystal ore to products to achieve product development, manufacturing technology capability and quality in pursuit of craftsmanship in crystal products. In the manufacturing process, since a large amount of water resources and electric power are used, we aim to further reduce usage to contribute to the development and sustainability of society.

Masashi Kawasaki

Our management philosophy, "Reliance" a policy we offer to all our customers around the world" serves as the cornerstone of our business activities, and we consider that continuing our business activities in accordance with this philosophy will lead us to always be a reliable company for all our stakeholders. Crystal devices are called "salt of industry" and used in various products. Being aware of the weight of responsibility on us, who have significant impact not only on our customers but also on the development of society and the global environment, we will listen to the voices of all our stakeholders and contribute to realizing a sustainable society.

Shimpei Hasegawa

As a sense of crisis regarding the global environment and the sustainability of society is increasing, it is necessary to promote corporate sustainability as well as social responsibility, management responsibility and accountability to society. We are committed to increasing corporate value in order to earn the trust of all our stakeholders, always in consideration of the environment, society and the economy, not only from a corporate perspective, but also based on the opinions and perspectives of all our stakeholders on how to contribute to society.

Toshiro Hiroshima



From left to right, Masashi Kawasaki, Toshiro Hiroshima, Shimpei Hasegawa

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

An Environmental Management Committee has been established at each of our business bases and regions to promote environmental activities. ISO14001 certification has been acquired for all our operations in Japan, and a Group Environmental Management Committee has been established for control. The Group Environmental Management Committee monitors various changes, and examines and makes decisions on the direction of the Daishinku Group's environmental activities and the results of activities.

● Daishinku Group Environmental Management Committee



Internal Environmental Audit

The Daishinku Group conducts an internal environmental audit periodically 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.

For internal environmental audits, we set focus points based on law and regulation changes, issues of interest to our stakeholders and actual situations of our activities to conduct a clear-cut audit.

Based on the issues and situations confirmed through an internal environmental audit, we review the management system itself following such an audit to ensure effectiveness from multifaceted perspectives, tightening certain controls and simplifying others as appropriate.

ISO Certification Status

The Daishinku Group has acquired the ISO14001 international environmental management standard. Our domestic offices and plants acquired integrated certification in 2000, which is implemented and operated as the management system. For overseas bases, certification is acquired by region, while the management system is implemented for the entire Daishinku Group as necessary in cooperation with domestic and overseas operations.

Twenty years have passed since the acquisition of the certification, and after the completion of upgrading to the 2015 revision of ISO14001, we will review the mechanism and implementation so far to ensure that the management system is efficient and simple and continue to maintain ISO certification.

Waste Risk Management

Various waste is generated from business activities of the Daishinku Group. We outsource waste disposal companies to dispose of industrial waste, but we consider that we bear significant responsibility as a waste generator. For our domestic production bases, we have established mechanisms for proper disposal using the Electronic Manifest System as well as by managing relevant disposal service contracts and permits via a database.

We request disposal service contractors to accept on-site confirmation and make a periodic inspection to check whether the industrial waste entrusted is appropriately treated.

Emergency Response Training

Response procedures in case of an accident or disaster are integrated into the "Emergency Response Program," which is set out with emergency response equipment.

These procedures and equipment are checked at the time of regular training and updated as appropriate according to changes at business bases.

We continue to work on accident prevention as well.



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. Environmental impact of our business activities is as shown in the tables. We continue our efforts to understand each situation and reduce its impact.

INPUT

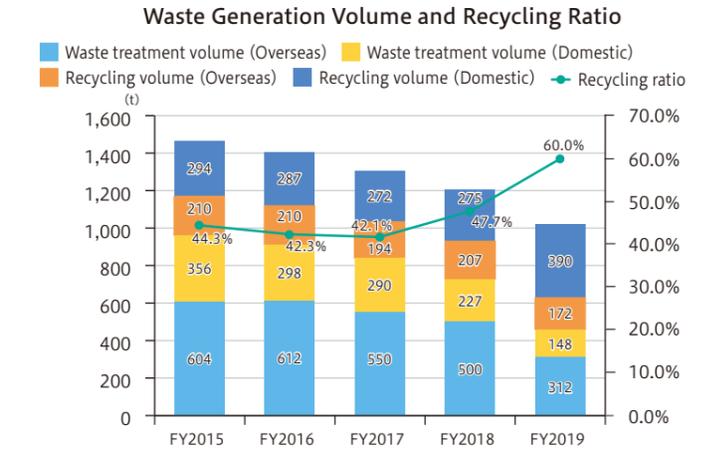
Electric power	('18)	134,523	MWh
	('19)	124,719	MWh
Fuel oil	('18)	884	kL
	('19)	903	kL
City gas	('18)	266	km ³
	('19)	213	km ³
Kerosene	('18)	2	kL
	('19)	2	kL
LPG	('18)	6,898	kg
	('19)	8,016	kg
Water	('18)	876	km ³
	('19)	862	km ³

OUTPUT

CO ₂	('18)	77,034	t-CO ₂
	('19)	72,690	t-CO ₂
Wastewater	('18)	741	km ³
	('19)	712	km ³
Waste generation volume	('18)	1,208	t
	('19)	1,022	t
Waste treatment volume	('18)	727	t
	('19)	460	t
Recycling volume	('18)	482	t
	('19)	562	t
Products	Next-generation crystal devices "Arkh series"		
	Crystal Resonators		
	Tuning Fork Crystal Resonators		
	Crystal Oscillators		
	Monolithic Crystal Filters		
	Optical Products		
	MEMS Oscillators		

Waste Reduction, Resources Recycling

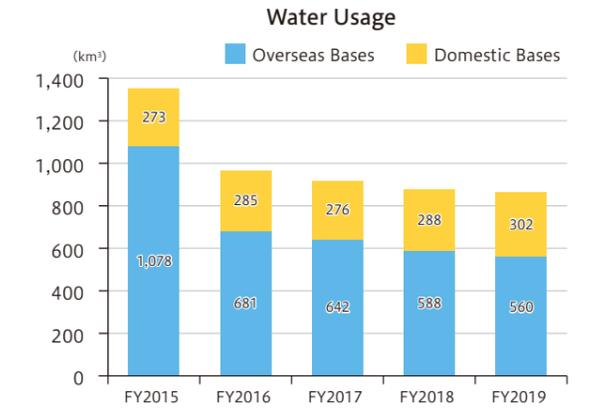
The Daishinku Group is working on proper treatment as well as waste reduction. We adopt two different approaches: reducing the amount of waste for landfill and incineration, and reducing the volume of waste generation itself. Starting two years ago, we have continued our efforts to reduce sludge generation, which accounts for a large part of our waste. We have reduced the amount of sludge generated by making improvements to our manufacturing processes and reducing chemical usage as well as by modifying wastewater treatment facilities and improving treatment flows. As a result of such continuous efforts, the amount of waste has been decreasing.



Effective Use of Water Resources

Water resources are essential for the Daishinku Group's production activities. In FY2016, we conducted a review of production items, which resulted in reduction of water usage by 30% compared to FY2015. Since then, usage has been gradually decreasing as a result of our continuous efforts, and we succeeded in reducing water usage by 40% in FY2019 compared to FY2015.

Climate change due to global warming is affecting the amount of water available. Along with our efforts to prevent global warming, we will work on effective use of water resources.

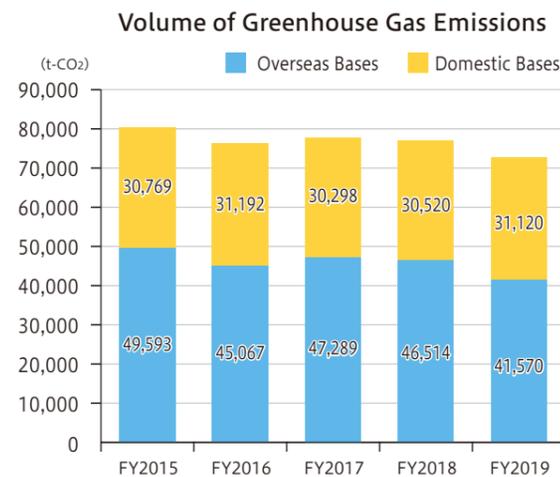


Improvement of Environmental Performance

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.

Prevention of Global Warming

The Daishinku Group uses electricity and fossil fuels for its business activities. We are engaged in CO₂ emissions through their use, and promote activities to reduce greenhouse gas emissions. Since the main cause of CO₂ emissions is the use of electricity, we improved the operation of equipment using electricity at our production bases, in combination with efforts at energy savings. We use energy efficiently to reduce greenhouse gas emissions by reviewing settings so as to achieve optimal operating conditions not for single units of equipment but for the entire system. Further, we make every effort to raise energy conservation awareness of employees through regular training and education.



Topics

Growing Synthetic Crystals with Energy Saving

When growing synthetic crystals, electricity accounts for more than half of the cost of synthetic crystals, and accordingly, reducing electricity usage will lead to energy savings.

Reducing the number of days of growth would lead directly to energy savings, but will also result in reduced quality. Therefore, it is important to achieve reductions in the number of days of growth while preventing a deterioration in quality, and the growth conditions to enable this are being established. Once such growth conditions are established, electricity usage per growth process will be reduced by 14%. We will continue our efforts toward improvement to further reduce the number of days of growth without a sense of complacency as regards the current situation. In addition to the efforts to reduce the number of days of growth, we are also promoting energy savings for the growth furnaces themselves. In particular, for furnaces using a heater which is high in electricity consumption, we have achieved a reduction of electricity usage per day by 20% by reinforcing and repairing the insulating materials.



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

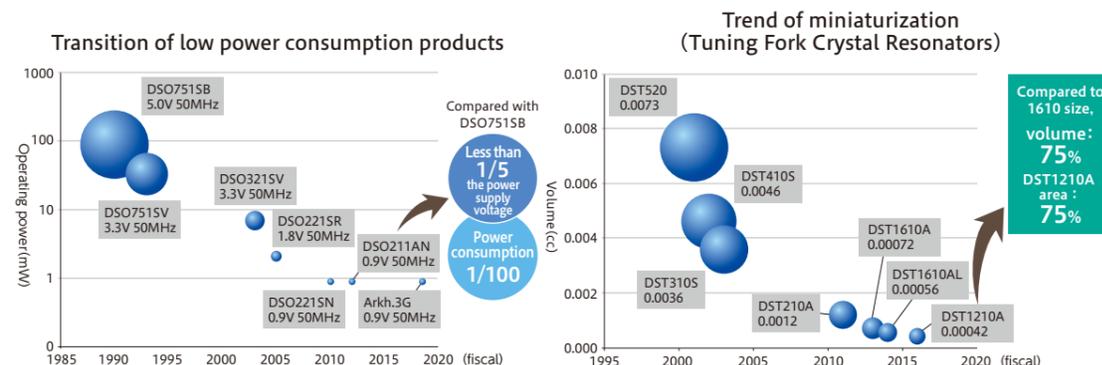
Reducing the power consumption of our crystal products has lowered power consumption by PCs, smartphones and other electronic devices. This in turn contributes to reducing CO₂ emissions.

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 CO₂ 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.



Energy Saving Performance of Arkh.5G (OCXO)

Crystal devices have temperature characteristics where the frequency fluctuates according to the external temperature. To correct such temperature characteristics, crystal oscillators called TCXO equipped with a function to correct frequency are generally used for GPS/GNSS and other purposes, but even a higher frequency stability is required for application at base stations, etc., and therefore, crystal devices called OCXO are used for such purposes.

OCXO is a device to reduce the influence of external temperature changes by continuously heating the crystal oscillator using a heater, but power consumption was very high for an electronic component. However, it is very important to improve this because as the 5G network expands in the future, the number of base stations will overwhelmingly increase compared to the 4G LTE era due to the frequency band used. Accordingly, we have developed the new OCXO Arkh.5G Series that can reduce power consumption to 1/4 or less of our conventional products. With this Series, we have minimized the heat capacity of the crystal by using in it our unique ultra-small crystal device, Arkh.3G oscillator, as well as achieved a drastic reduction in power consumption by adopting a heat insulation structure taking advantage of its small size.

We estimate that 50 million units of OCXOs for 5G base stations will be newly applied in the coming five years. If these are calculated based on the power consumption of Arkh.5G products, the volume of CO₂ reduced compared to our conventional products will be equivalent to that absorbed by 18,000ha of forest per year. Thus, we will promote market penetration of Arkh.5G products also from an environmental perspective and contribute to a reduction in environmental impact.



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.

Our Approach to CSR from the Viewpoint of Quality



Executive Officer and General Manager
Quality Assurance Div.

Toshiya Matsumoto

Under the corporate quality policy, the Daishinku Group strives to provide reliable products to the market and engages in quality improvement activities by implementing the principle of “Customer First,” complying with laws and regulations and customer requirements, and establishing the concept of quality values. Further, upholding the “Realization of Ultimate Zero” policy of the Quality Assurance Div., we aim to be a company not just by supplying products but also by providing products that our customers admire and find truly irreplaceable. By establishing a quality management system that can meet our customers’ expectations, we will continue to make efforts to provide all our stakeholders with security and safety.

Continuation of “ZD”
↓
Assertive Quality Control
↓
Ultimate Zero

- Reliance and Security -
“Towards Ultimate Zero from External/Internal Perspectives”

Quality Philosophy

- Thorough customers-first attitude
- Compliance to legal and regulatory requirements
- Establishment of the Concept of Quality Values

Quality Policy

- 1) Establishing a management system towards “Ultimate Zero”;
- 2) Disseminating the “concept” horizontally in a repeated manner to move toward the phase of prevention;
- 3) Executing reliable evaluation of contradictions with “change” as a starting point;
- 4) Standardizing good practices by making “comparisons” between production bases;
- 5) Enhancing analytical abilities to propose the next move.

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

The Quality Management System (QMS) is the international standard necessary for quality assurance and enhancement of customer satisfaction relating to product quality. The Daishinku Group has acquired ISO9001 certification at production bases in Japan and overseas (except for Kanzaki plant). 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. (<https://www.kds.info/product-support/iso-certificate/>)

Communication with Our Customers



Director and General Manager
Marketing & Sales Div.

Hirofumi Okahara

We believe the situation with which customers are most impressed would be when we achieve results which are more than what customers expected. In other words, in case of when customers' expectations are not still clear, it would be much more valuable to our customers, if we could create suggestions on time which meet their potential needs. In order to do that, we will deepen our understanding of our customers and their industries, satisfy general expectations of our customers, communicate profoundly, and meet the needs which was drawn through mutual understanding as a sales department.

Based on the daily communication with customers, we will propose stable, high-quality products and services, while considering state of society and industrial situation. Then we will try to do our best to impress our customers than ever before.

CS Survey

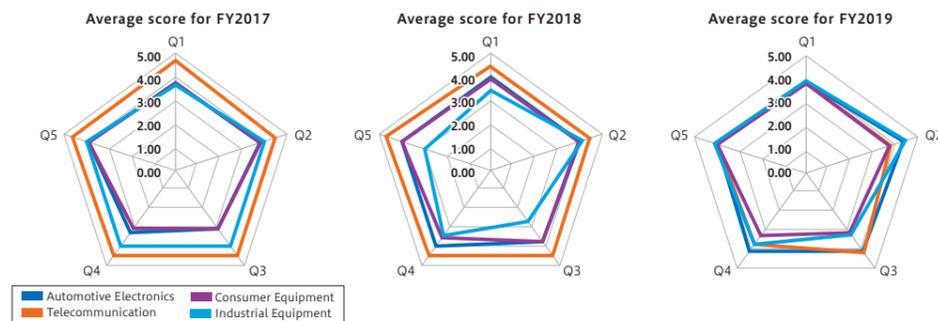


Sales Coordination Sec.
Atsushi Tanaka

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?

As an initiative to improve customer satisfaction, we have introduced questionnaire surveys 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 in terms of sales and marketing, delivery dates, pricing, technology, and quality. For FY2019, we received an average score of 4.0 or higher from customers of automotive electronics, but scores were lower for frequency of visits by technical staff and presentations. We will continue to clarify our strengths and any issues requiring countermeasures or consideration, and internally discuss solutions related to weaknesses and methods to further develop our strengths in a continuous effort toward improvement.



Response to Our Customers



With the Sales Department playing a pivotal role, various departments are working in cooperation to provide products and services satisfactory to customers. The Engineering Department joins meetings with customers to draw out their potential needs and makes concrete/proactive proposals to obtain higher customer satisfaction. Our engineers are stationed not only in Japan but also at major overseas bases in order to provide prompt and appropriate responses to customers around the world.

In the past, other than by e-mail or telephone, we mainly held face-to-face meetings with customers, but due to changes in the external environment, web-based meetings are now actively adopted as an effective means of communication. Previously, when we held discussions with a customer at a remote location, we mainly used telephone conference calls that connected multiple bases, but web meetings now allow us to hold discussions face-to-face with a sense of presence and to even share data, which allows us to realize meaningful discussions. The greatest advantage is that customer satisfaction is enhanced as not only the customer, Sales and Engineering Departments, but also relevant staff from Quality and Manufacturing Department can participate simultaneously.

Efforts in Indonesia



PT.KDS INDONESIA
Rofiqoh Cahaya Wulan

At PT.KDS INDONESIA, in order to produce and ship products that ensures customer satisfaction, we have conducted Zero-Defect improvement activities continuously since 2017. Each employee works to resolve problems autonomously and proactively, considering how to prevent defective products and where to find problems.

At the initial stage of these activities, we focused on preventing problem products from being shipped, but this has gradually shifted to a perspective of where and why a problem arises. For products with a record of complaints, we make an analysis of the contributing factors, trace the cause to a specific process, and take countermeasures as we continue monitoring. Further, we also conduct in-process patrols to ensure that past problem countermeasures are complied with. Moreover, we always look at our tasks from new perspectives, considering how to eliminate problems, such as implementing an initial flow check when operation is resumed after repairing any equipment, etc.

As a result of these efforts, the frequency of problem occurrences has resulted in a downward trend, and has declined by approximately 50% per month compared to last year. However, our goal is Zero Defect, and further efforts are required. 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 cause, 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.

What is most important to prevent problems from "recurring." To establish our corporate motto, "reliance," together with our customers, we will continue our improvement activities, such as reviewing the improvement process for achievement of Zero Defect.



Efforts in Tottori Production Div.



Tottori Production Div.
Hiroaki Iwaki

At Tottori Production Division, we manufacture crystal resonators, crystal oscillators, and tuning fork crystal resonators, that allows for downsizing and a high degree of precision. We maintain production lines that allow products based on new technology, such as the Arkh.3G series to flow - with high manufacturing skills and at a high-quality level, and conduct improvement activities day to day, aiming to be the best in the world in terms of QCD, as well as to increase customer satisfaction as a production division aspiring to be the mother factory of Daishinku.

What we consider the most important for QCD is Q (quality) and we are implementing Zero-Defect improvement activities. As a result of reviewing standard operations by quality risk prediction training, strengthening controls by automatic delivery of abnormal values, analysis focused on specific defects, etc., we have reduced the number of complaints by 70% compared to last year.

To achieve the Zero-Defect objective, we consider that the following measures are essential:

- 1) Check points to prevent defective products from flowing into the next process;
- 2) Activities to reduce defects under the principle of "3 Gen (Actuals)" – Genba (actual place), Genbutsu (actual product) and Genjitsu (actuality);
- 3) Standardization to prevent defective products from arising.

In the future, as further initiatives to achieve Zero Defect, we will create an environment to elicit input from on-site workers on problems they face and continuously make improvements, such as focusing on



secure startups under optimal conditions from a 4M (Man, Material, Method and Machine) perspective at the time of mass production of new products.

We aim to achieve quality that makes our customers always eager to purchase Daishinku products. We will continue to make daily progress in improvements, and strive to create a better work environment that inspires all to work together in the future as well.

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 promote CSR activities throughout the entire supply chain, the Daishinku Group prepared the "CSR Procurement Guidelines" (URL: <https://www.kds.info/company/csr/>) in June 2017 so that our Basic Purchasing Policy will not only be implemented internally but also understood by our suppliers. The Guidelines establish the Group's basic stance as well as our requests including not only from a perspective of compliance with a laws and regulations but also consideration for human rights, labor, safety and health, and the environment, in order to promote CSR activities within the supply chain together with our suppliers.

Fair and Favorable Partnership with Suppliers

Our suppliers are important partners for stable production of high-quality products, and it is essential to establish a framework for cooperation with them. The Daishinku Group holds a "business information meeting" every year to share the Group's current status, management policies, production strategies, technological trends and other information concerning the environment that surrounds us and our suppliers, in an effort to build relationships of trust, with the aim of contributing to the realization of a sustainable society.



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.

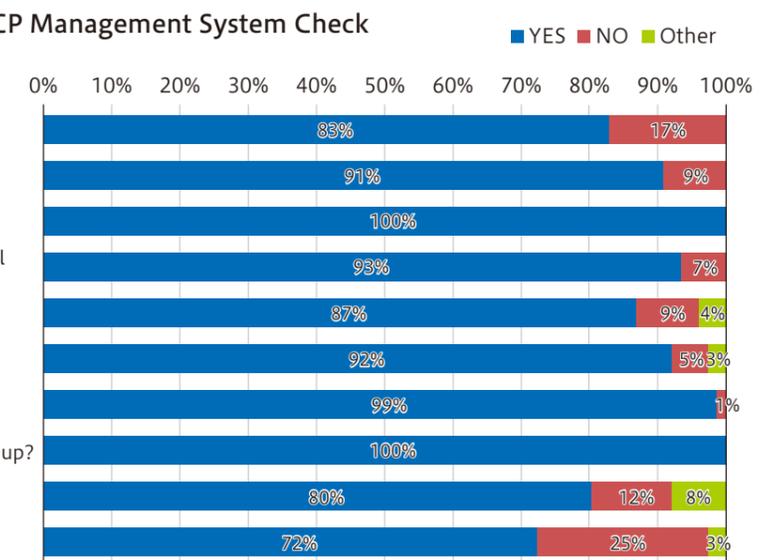
As a company situated mid-stream in the supply chain, we request that our suppliers audit and report their use of natural resources to check against conflict minerals, using the industry's common reporting template. We compile information thus collected and share it with our customers. In fiscal 2018 and 2019, 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 conduct the Management Index Survey and a questionnaire survey using the BCP/CSR Management System Check Sheet of our major business partners every year. For FY2020 surveys, all 76 companies surveyed responded, and we learned that they have a high level of interest in implementing BCP/CSR. We will strive to reinforce the procurement system for stable supply of products and promote CSR activities together with our business partners based on mutual understanding.

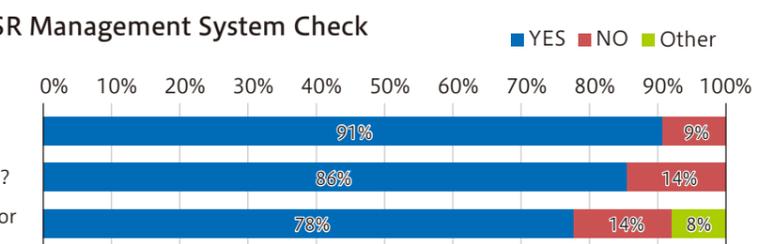
BCP Management System Check

- Is there a BCP plan?
- Is a crisis management organization established?
- Is the information transmission route network of the organization clear?
- Is there a disaster prevention manual (evacuation, initial action, role, etc.)?
- Is there a countermeasure organization for production restoration?
- Is the emergency supplier of equipment, molds, and materials clear?
- Are there multiple means of transportation (in-house delivery, courier)?
- Is electronic data (production information, etc.) backed up?
- Is seismic retrofitting of power equipment (variable equipment, boilers, etc.)?
- Are you able to grasp production base information at the procurement material level?



CSR Management System Check

- Do you understand the Daishinku CSR Procurement Guidelines?
- Is there a system for CSR activities within the company?
- Are there any policies, systems, rules, and procedures for thorough implementation of the company?



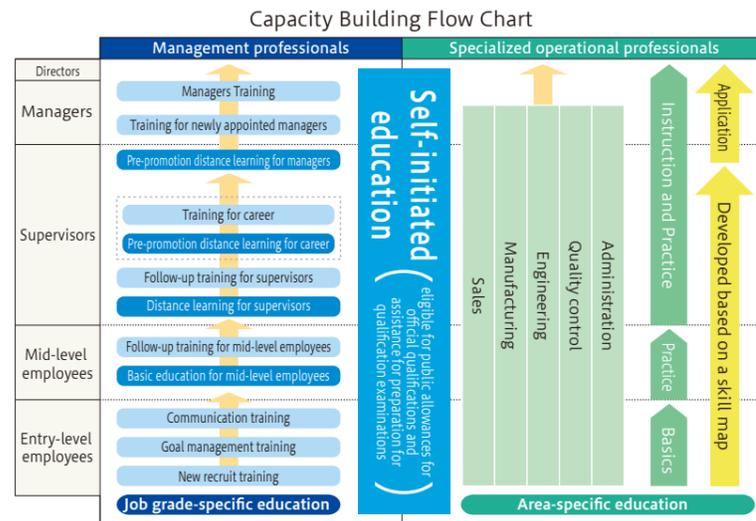
With the Employees

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 company, we consider that the key to the company's strength lies in a rich diversity of people taking advantage of their respective strengths. As part of our initiatives, we strive to maintain a work environment that encourages participation of women to expand their sphere of activities, and, in fact, women have surpassed men in terms of average number of years of uninterrupted service. The number of female managers continues to increase, and we will continue to develop employees who can serve as role models for others so that we will have a frontline of excellent female candidates for executive positions.

Further, we strive to develop a system that can better reflect the motivation of individual employees, such as changing the system to allow an employee hired for a local position to switch to a main company-wide career track more easily.

We will continue to improve the work environment so that every employee can fully demonstrate and fulfill his/her potential and be rewarded accordingly, and revise the system where necessary that incorporates various opinions.

Tighter Work Hour Management Control by Introducing the IC Card-Based Attendance Management System

As Work-Style Reform Laws have come into force, work styles focusing on work-life balance has drawn worldwide attention, and we are also implementing initiatives. One such initiative is work hour management based on punching in/out using an IC card and an attendance management system has been introduced with the following two purposes in mind.

First, to improve the work environment, we aim to realize a more employee-friendly workplace environment by simplifying management and visualizing problem areas. We aim to realize a workplace environment where every employee can work comfortably, such as giving consideration to their physical and mental safety by curbing long work hours and making it easier for managers to track the work conditions of each person by computerization of various applications to promote workload leveling. Second, we aim to implement tighter management control. For example, if punching out after a regular time causes an error message, the former mindset "I can stay a bit longer to finish this work" will not be accepted. Each employee will start considering how to work more efficiently, which will inevitably promote work improvements and reform.

A comfortable workplace environment will ensure greater benefits for employees and the Company from improved work performance as a result of efforts made by each employee. Aiming to create such a workplace environment to enable a win-win relationship, we will continue to address the issue of work-style reform.

Workplace Environment

Self-declaration System and In-house Staff Recruitment System

Under the self-assessment system, employees with service of less than eight years are given an opportunity every two years to move within departments. This in-house staff recruitment system started in 2019. This system allows departments to secure necessary staff through open call to employees. Employees may apply for a job which they really want to do, so high-probability matching can be expected.

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.

Stress Check and Mental Health 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. A mental health check is conducted as necessary after interviewing employees who have worked significant amounts of overtime, connecting them to an interview with an industrial physician. It is important to reduce employee workloads, of course, but we consider it just as important to have a safety net in place.

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.

*From April 2018 through March 2020

Commendation System

Employees who have made achievements are commended every month, and especially significant achievements are commended at the founding commemorative event. We commend a wide range of employees from young employees to veteran employees to improve their motivation.

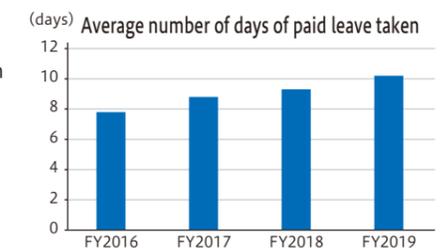
Employee Training

Through training sessions, employees will gain awareness and behavior required for their positions that cannot be acquired in the course of their daily work to lead that leads to changes in behavior. These types of training sessions are continuously reviewed for improvements.



Annual Holidays

We consider that it is important for employees to enjoy a change of pace and routine and refresh themselves appropriately on holidays so that they return recharged for high performance. Accordingly, we provide them with as many holidays as possible and encourage them to make active use of the paid leave system.



Topics

New Wage System

As of October 2020, we changed our wage and appraisal system to a so-called performance-oriented system, so that employees who are highly motivated and maintain a level of high performance keep that motivation and level, while those with a lower performance level are encouraged to change their behavior to enhance their skills from a sense of crisis.

To survive in highly competitive environment, we need to become a stronger company that can ensure continuous profit into the future. A strong company is built on the maximum performance of all its employees, and we consider that all employees who work with a look of determination in their eyes will demonstrate maximum performance. What is important are "proper content" and "proper operation," which are like the wheels of a cart – if one doesn't work properly, the cart cannot move forward. Implementing changes to the system is not the end goal but a starting point. We will monitor the status of operations continuously and review and improve the system as necessary.

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

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. Also 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, 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: <https://www.kds.info/investors/>). We will continue to make efforts to obtain further understanding of the Group from our shareholders and investors.



Topics Launch of 10-year Long-Term Business Plan - "OCEAN+2 Strategy"

Taking the opportunity on the 60th anniversary of our foundation on November 3, 2019, we have developed our first 10-year long-term business plan "OCEAN+2 Strategy," which was launched in April 2020. With the "OCEAN+2 Strategy," we aim to break free from a red ocean to an "ocean of blue" of a stable high-profit structure, based on thorough activities focused on strategies and development of products with competitive advantages.

7 Basic Strategies under "OCEAN+2 Strategy"

- One** : "Single Supplier" taking advantage of our thin Arkh.3G products;
- Cost** : "Challenge Towards Lower Cost Ranges" based on the world's lowest material cost of the new Arkh Series;
- Element** : "Material Business" by selling wafers, taking advantage of our growing/polishing technology;
- Alliance** : "Co-creation" by open innovation/ collaboration;
- Niche** : "Advantage of Being a Survivor" securing stable profits in niche markets.
- +1** : "New Crystals" by our challenge in the growth of new crystals; and
- +2** : "New Devices" aiming to create value by establishing new underlying technology.

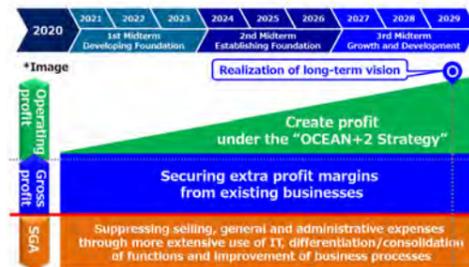
Milestone



Further, the long-term plan is divided into three phases, for each of which milestones are established. While continuing with the business of existing products and Arkh.3G, we will complete various preparations for the "1st Midterm: Developing Foundation." In the "2nd Midterm: Establishing Foundation" phase, we will put the material business on track and launch collaboration initiatives and new crystal businesses. And in the final phase of "3rd Midterm: Growth and Development," we will further these strategies for growth and development.

While suppressing selling, general and administrative expenses through more extensive use of IT as well as differentiation/consolidation of functions and improvement of business processes, and securing extra profit margins from existing businesses, we will create profit under the "OCEAN+2 Strategy," aiming to be a "company needed by society, where all employees work with a look of determination in their eyes, supporting the development of an electronics society" and contribute to a sustainable society.

Profit Generation Image



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.

Support Activity in the Mountainous Area in Thailand



HARMONY ELECTRONICS (THAILAND) CO.,LTD.
Maung Aung

At HARMONY ELECTRONICS (THAILAND) CO., LTD., we have donated food and daily necessities to families in need in the mountainous areas, once a year for several years, in the spirit of "returning profits gained from society to society," aiming to achieve development of both the company and the community.

Families living in the mountainous area face difficulties in obtaining supplies of goods and do not have enough books or stationery for children to acquire knowledge. Thus, we started delivering various supplies from the company and donating them to the mountainous community. On the day of our visit, we cook and deepen communication with the residents and then present the supplies we brought. The time we spend with them is not much, but it feels good when we see their smiles.

We have only limited opportunities to communicate with local people, so we would like to appreciate every moment of such opportunities, recognizing that it serves as a precious time for communication between our company and the local people, and will raise CSR awareness among the employees and, therefore, we will continue to contribute to the local community.



Santa Claus' Visit to Tokushima Prefectural Kamojima School for Special Needs Education

At Tokushima Production Division, we organize a Santa Claus' visit to Tokushima Prefectural Kamojima School for Special Needs Education in early December every year. We have been continuing this activity for the last 18 years and it has been well-received by the community as the company's activity. Students of the school look forward to our visit every year, and we take great satisfaction in continuing this event. We visit the school on the day of their Christmas Party for lower elementary grade students and engage



with the students, by singing and playing together. For higher elementary grade and middle school students, we make a surprise visit to their classrooms during classes, and employees dressed as Santa Claus hand a present to each student. This event has become a tradition not only for the Tokushima Production Division but also for Kamojima School for Special Needs Education. We will continue with this event with a sense of mission and hand down this opportunity to meet with local people to the next generation.



Tokushima Production Div.
Kenji Oda

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