

Environmental Initiatives

The Group has published the DAISHINKU Group Environmental Policy as a basic policy for environmental initiatives, underlining our belief in achieving both profit generation and environmental conservation concurrently. In March 2023, we reviewed our environmental policy and declared the “Scope 1+2” Carbon Neutrality Challenge in 2030 as a new initiative. This initiative reflects our commitment to achieving a sustainable society for future generations, in collaboration with all stakeholders, and to becoming a corporation trusted by the entire society.

URL: <https://www.kds.info/company/environment/>



You can access the DAISHINKU Group Environmental Policy by scanning here.

Carbon neutrality initiatives

“Scope 1+2” Carbon Neutrality Challenge in 2030

Both Scope 1 and Scope 2 represent greenhouse gas (GHG) emissions generated by corporate activities. In our case, Scope 1 refers primarily to direct emissions from fuel combustion, whereas Scope 2 mainly represents indirect emissions from electricity consumption. The Company strives to achieve carbon neutrality for Scope 1 and Scope 2 GHG emissions by 2030. To achieve this goal, we consider it essential to (i) Develop products with low environmental impact, (ii) Reevaluate our manufacturing process, (iii) Introduce renewable energy, (iv) Adopt advanced facilities with less environmental impact, and (v) Enhance other energy conservation activities. The following major initiatives are currently in progress.

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| i Develop products with low environmental impact | Development of our original Arkh series products, Development of compact CO ₂ capture modules |
| ii Reevaluate our manufacturing process | Increasing the size of crystal wafers, building of flexible production lines, and reduction in the number of days required to grow crystals |
| iii Introduce renewable energy | Procurement of environmental value-added electricity and installation of solar panels |
| iv Adopt advanced facilities with less environmental impact | Installation of industrial heat pumps |
| v Enhance other energy conservation activities | Implementation of energy-saving measures for the growing furnace and optimization of the air-conditioning equipment operation |

iii Introduce renewable energy: installation of solar panels

To achieve carbon neutrality, it is essential to expand the use of renewable energy. Renewable energy, derived from solar power, wind power, and geothermal energy, is considered an important energy source that places no burden on the global environment as it is non-depletable and emits minimal greenhouse gases.

There are two methods for introducing renewable energy into a plant or other facilities: external procurement and in-house power generation. External procurement involves the purchase of renewable energy from external sources, whereas in-house power generation entails the installation of solar panels and other equipment, specifically to consume the power they generate on-site. Both methods need promotion, with in-house power generation through solar panels being of particular importance. When electricity is sourced externally, it incurs losses as it passes through electrical wires, known as power transmission loss. The more remote the location is, the larger the power transmission loss. With in-house power generation, the loss is close to zero, leading to energy conservation and reduction of environmental impact.

We will install solar panels in stages by 2030 to increase the usage ratio as much as possible.

iv Adopt advanced facilities with less environmental impact: installation of industrial heat pumps

A heat pump employs technology that uses electricity to transfer thermal energy from air or water to produce cold or heat. As thermal energy is transferred from outside, it offers high energy-saving performance and is expected to reduce CO₂ emissions. Heat pumps have conventionally been used for cooling appliances such as refrigerators and indoor cooling systems. However, recent technological innovations have made heating applications (hot-water supply and steam) feasible for practical use, leading to the increasing utilization of heat pumps in the manufacturing industry as an alternative to industrial boilers.

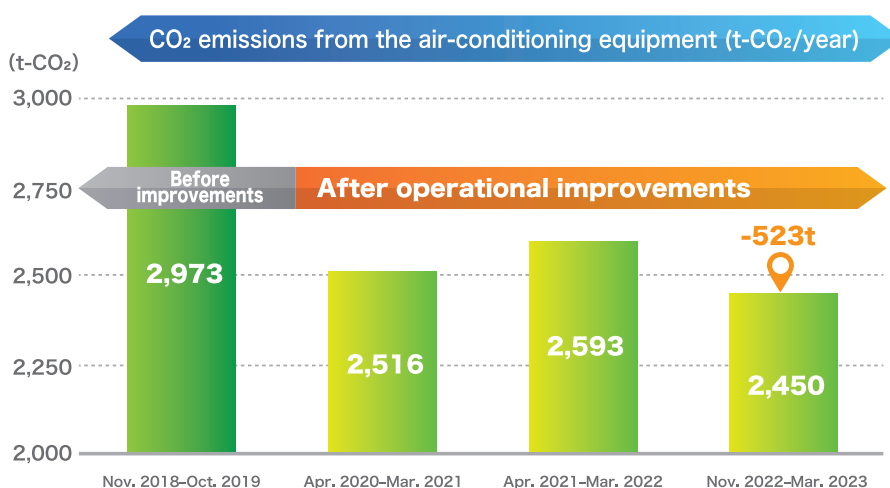
The Company is proactively leveraging new innovations such as these to achieve carbon neutrality. The Group's plants require hot water and steam for cleansing products and maintaining a clean room environment, and have been using fuel boilers for that purpose until now. The use of fuel inevitably produces CO₂. However, with the utilization of electricity sourced from renewable energy via heat pumps, it is possible to reduce these emissions to zero.

The head office plant, scheduled for completion in August 2024, will be equipped with a heat pump system, serving as a model plant for achieving carbon neutrality. After that, we intend to complete installation of the system at the other locations by 2030.

v Enhance other energy conservation activities: optimization of the air-conditioning equipment operation

We recognize that one of our challenges is to reduce CO₂ emissions. As part of our initiatives, we will present below our promotion system and energy conservation activities that enable lower electricity and fossil fuel consumption in our production processes and a reduction in CO₂ emissions.

At the Tottori Production Division, which has the largest production capacity in the Group, we implemented operational improvements on the centrifugal chiller in the existing air-conditioning system from June 2018 to March 2023. Consequently, the electricity consumption for the air-conditioning equipment decreased by approximately 17%, and the usage of fuel oil decreased by approximately 19%, resulting in an annual reduction of approximately 523 tons of CO₂ emissions.



Source: Emission factor by electric utility operator released by the Ministry of the Environment (for calculation of GHG emissions by specified emitters)
<https://ghg-santeikohyo.env.go.jp/calc/denki> (available only in Japanese)
 Conversion factor for electricity usage to CO₂ generation: 0.000441 (t-CO₂/kWh)

Comment from a person in charge of improvement

The Tottori Production Division employs a central air-conditioning system to regulate temperature and humidity. In this system, cooling/heat source equipment is installed. They deliver chilled water, hot water, and steam to each air-conditioning unit, which undergoes a heat exchange process to generate air that is adjusted for temperature and humidity.

Temperature control of the cooling/heat source equipment is critical in this system. The temperature of the centrifugal chiller, which produces chilled water, was set at approximately 10°C regardless of the season. However, Tottori is an area where temperatures differ considerably between summer and winter. So we assumed that it might be possible to find optimum temperature settings in response to outdoor temperature fluctuations, and began to investigate actual energy consumption.

The investigation revealed that the chilled water temperature supplied by the centrifugal chiller was too low, often resulting in an excess supply of hot water and steam for heating, especially during the winter season. We predicted significant energy savings due to a reduction in electricity consumption resulting from the adjusted cooling water temperature of the centrifugal chiller, along with a corresponding decrease in the use of fuel oil in the boiler that generates hot water and steam. However, at the Tottori Production Division, production takes place in a cleanroom with a constant temperature and humidity requirement. Therefore, the chilled water temperature needs to be adjusted to maintain this controlled environment. We thoroughly assessed the status together with internal personnel and external experts, and then made adjustments to the settings and repeatedly verified their effectiveness, confirming that no impact was generated.

Environmental Initiatives

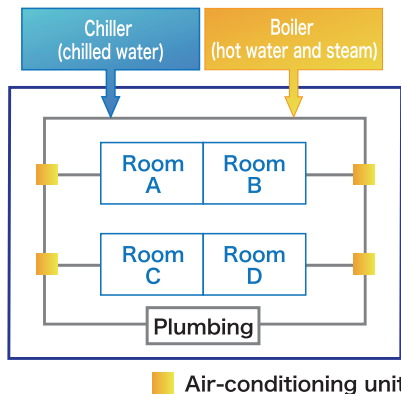
Ultimately, over the four years of improvement efforts, we effectively adjusted the chilled water temperature by approximately 4°C in winter and 1°C in summer. We were also able to implement new energy-saving measures, such as managing the discharge pressure and flow rate of chilled water, which we had not anticipated at the outset.

Energy conservation activities do not end once they prove effective. We need to pass on the expertise through management standards and training, while ensuring its ongoing effectiveness. We will keep taking on the challenge for further improvements and fostering the younger generation.

Central air-conditioning system

Main application:

Large structures such as industrial plants and tall buildings
 Large heating and cooling equipment installed to regulate temperature and humidity levels within the structure



Promotion system for energy conservation and CO₂ emissions reduction

The Company has an employee recognition system to recognize excellence in improvement for energy conservation and CO₂ emissions reduction activities. Likewise, within the operation of the environmental management system (under ISO 14001) described below, we established environmental targets for energy conservation and CO₂ emissions reduction and are promoting corresponding activities. Thanks to these promotional efforts, the Company has been certified as Class S under the Business Classification Evaluation System*, under the Act on the Rational Use of Energy (commonly known as the Energy Saving Act) every year since 2015. Going forward, we will further strengthen these activities to reduce CO₂ emissions.

* A system in which the Ministry of Economy, Trade, and Industry assesses periodic reports submitted by business operators, categorizing them into classes S, A, B, and C based on the degree of improvement in energy consumption intensity

Proper disposal of PCB waste

Waste generation is an unavoidable outcome of the Group's business operations. While we occasionally generate waste that is harmful to the environment or human health, we take full responsibility as a waste generator for ensuring the proper disposal of any waste in compliance with laws and regulations.

Regarding polychlorinated biphenyls (PCBs), whose toxicity is so high that the Act on the Regulation of Manufacture and Evaluation of Chemical Substances was enacted in 1973 to prohibit manufacturing and new use, complete disposal has not been achieved, and it is likely that a significant quantity of PCBs still remains in storage.

We conduct timely inspections of PCB waste storage and completed the disposal of high-concentration PCB waste in 2010. Low-concentration PCB waste was found in the power receiving equipment at Kanzaki Plant and Nishiwaki Plant during a survey conducted in December 2021. Therefore, we concluded a disposal consignment contract with a detoxification facility certified by the Minister of the Environment of Japan and an industrial waste management company licensed by the prefectural governor. We completed the disposal of all PCB waste in December 2022.



Low-concentration PCB waste is being transferred onto a specialized waste transport vehicle of a disposal company



Implementation of environmental management system (under ISO 14001)

ISO certification status

The Group has acquired the ISO 14001 international environmental management standard for all its production bases in Japan. This standard is designed to help organizations understand and responsibly manage the positive and negative impacts of their corporate activities on the environment. 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 on a region-by-region basis, while the management system is implemented for the entire Group as necessary in cooperation with domestic and overseas operations. We will conduct a review to ensure that the management system remains efficient and simple, all while maintaining ISO certification.

Structure of environmental management organizations

An Environmental Management Committee has been established at each of our business bases and regions to implement ISO 14001 operations. This Committee plays a pivotal role in our environmental activities. In the Group Environmental Management Committee, which oversees all operations in Japan, personnel at all levels from management to front-line employees confirms societal requirements, including laws and regulations and customer demands, as well as internal environmental performance such as energy consumption, CO₂ emissions and waste management. Following this process, it deliberates on responses to these issues.

Internal environmental audit

The Company conducts an internal environmental audit periodically to check the status of its management system. Each time we conduct internal environmental audits, we set focus points by considering any statutory or regulatory changes, issues of interest to our stakeholders and actual status of our activities, to conduct a balanced audit. The results of the audits are reported to the management, to discuss effectiveness and room for improvement, contributing to the continuous improvement of the Environmental Management System. Following such an audit, the Group Environmental Management Committee convenes to deliberate on the need to review the management system itself from a multifaceted perspective to ensure its validity and enhance its effectiveness, based on the issues and situations confirmed through an internal environmental audit.

The Group's environmental initiatives are in their early stages of development, and there is much work ahead. We anticipate encountering various obstacles, especially in our pursuit of carbon neutrality. Nevertheless, we will enhance our proactive promotion of our initiatives to achieve the "Scope 1+2" Carbon Neutrality Challenge in 2030. Our aim is not only to contribute to environmental conservation, but also to elevate corporate value through our commitment to environmental initiatives, which stands as one of our material issues.

Corporate governance

Our basic approach to corporate governance

“We aim for decision-making that is prompt and accurate enough to respond to changes in the business environment, execution of business that is lawful and reasonable, and internationally competitive management that is fair and transparent for stakeholders.”

The Company exerts efforts to enhance corporate value to protect and augment the interests of all stakeholders supporting its corporate activities and to maximize shareholder value in a long-term and consistent manner. At the same time, the Company believes it is essential to reinforce its corporate governance to become a company that earns trust from society. The Company’s management structure basically comprises the Board of Directors, which makes decisions on basic management policies and other important matters and supervises the execution of duties by the Representative Director and the Audit and Supervisory Committee, which supervises the execution of duties by the Directors who are not Audit and Supervisory Committee Members. The Board of Directors includes multiple Outside Directors. We ensure consistent performance supervision through the attendance of the full-time Audit and Supervisory Committee Member at important meetings. Furthermore, we facilitate communication with the Accounting Auditor to promptly incorporate professional and objective suggestions primarily revealed during accounting audits into our management practices.

To clarify our corporate governance structure and realize effective corporate governance, we have established the DAISHINKU Corporate Governance Guidelines.

URL : <https://www.kds.info/investors/management-policy/corporate-guideline/>
(available only in Japanese)



You can access the DAISHINKU Corporate Governance Guidelines by scanning here.

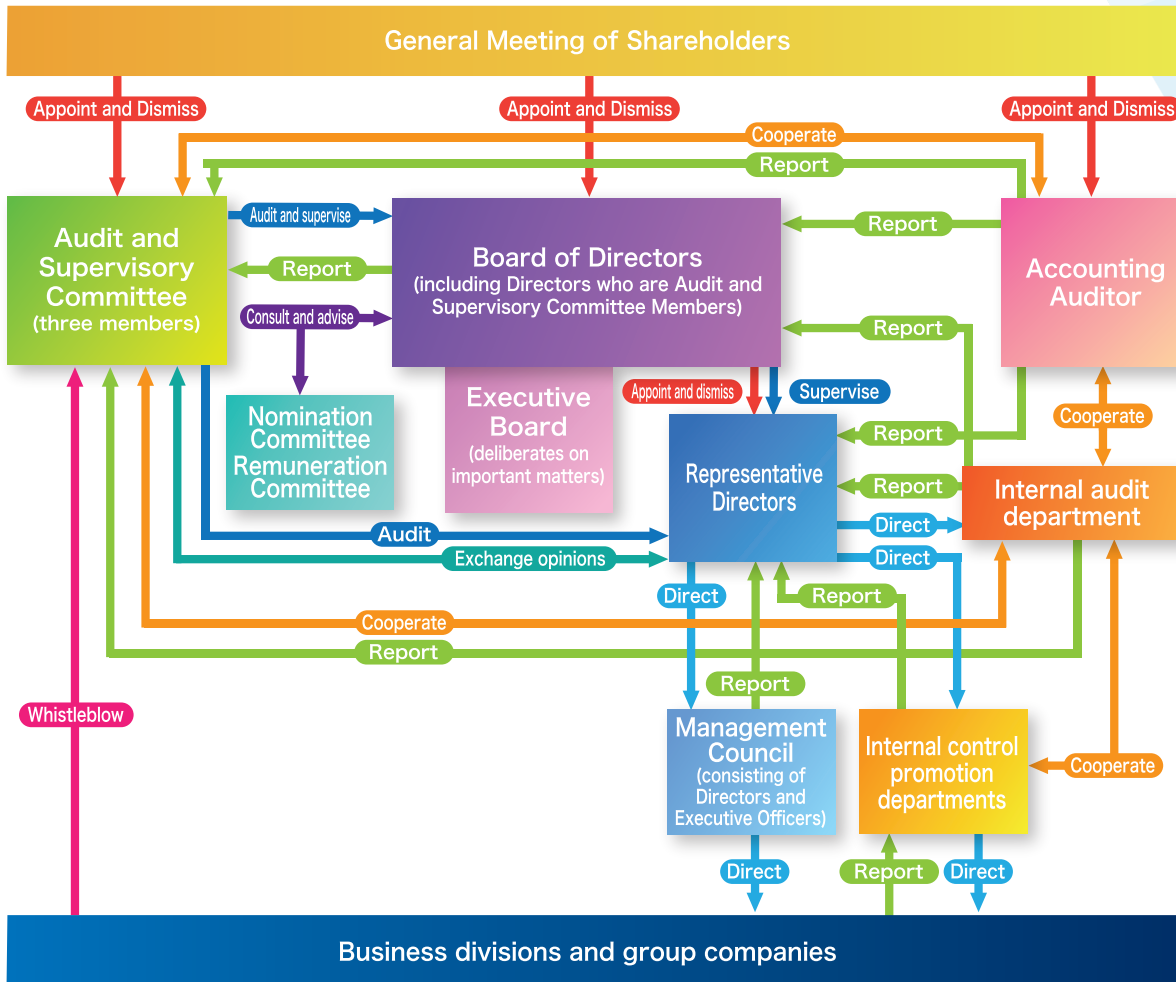
Corporate governance structure

The Company has appointed four Outside Directors to enhance the supervisory function of management. Each of the Outside Directors is independent of the Company and possesses expertise in finance and accounting, or corporate legal affairs.

The Board of Directors convenes regularly and when necessary to ensure agile and flexible management. In addition, the Executive Board holds preliminary discussions on important matters related to management policies and strategies. Following these deliberations, the Board of Director makes decisions on their implementation. The Management Council, consisting of Directors and Executive Officers, meets to discuss specific management issues from a practical perspective.

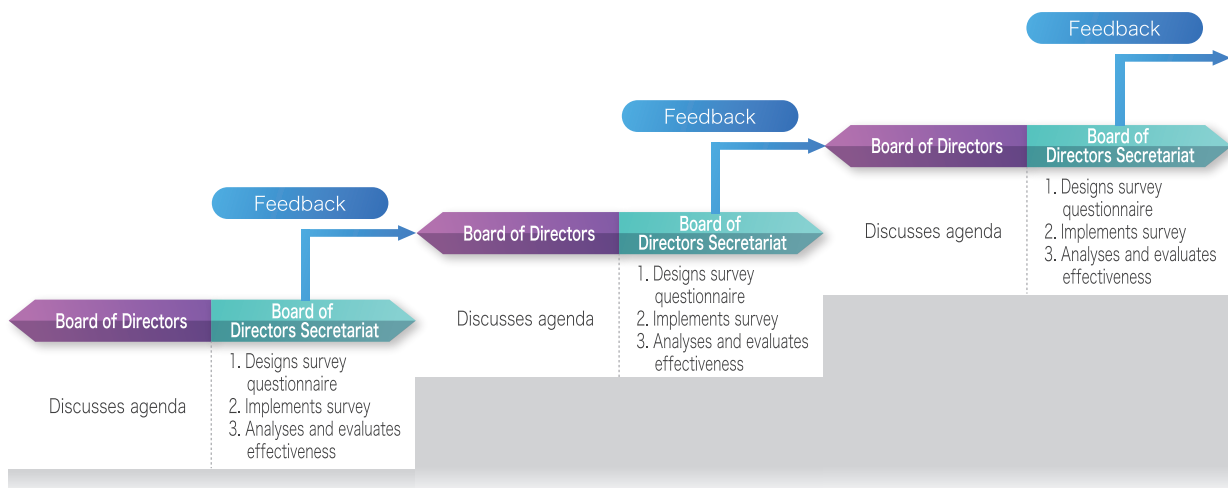
The Company has appointed two Outside Audit and Supervisory Committee Members to have them provide appropriate opinions regarding the Directors' performance of their duties from an independent and neutral viewpoint, thereby enhancing management supervision and monitoring. The Audit and Supervisory Committee holds regular meetings to enhance its supervision and auditing functions, while flexibly incorporating objective opinions and views from Outside Audit and Supervisory Committee Members.

Additionally, the Company established the Nomination Committee and the Remuneration Committee on November 11, 2022 to strengthen the supervisory function over the Board of Directors and further enhance the corporate governance structure by ensuring fairness, transparency and objectivity in the evaluation and decision-making process regarding the nomination and remuneration of Directors. Each committee consists of at least three Directors selected by a resolution of the Board of Directors, with the majority of committee members being independent Outside Directors. The chairs of the committees are selected through a resolution passed within each committee from among their members who are independent Outside Directors.



Evaluation of the Board effectiveness and training efforts

The Company believes it is important to regularly verify the overall functionality of the Board of Directors and implement ongoing improvements based on the results of such verification. To that end, the Company conducts a questionnaire survey to evaluate the Board effectiveness. The Board of Directors Secretariat aggregates questionnaire surveys, provides feedback to all Directors, and ensures they reflect this input on the management of the Board of Directors meetings, thereby enhancing the functions of the Board of Directors.



In light of the summary of the questionnaire surveys, the Company has concluded that the Board of Directors functioned effectively, as each director thoroughly examined the agenda in advance and participated in open, vigorous, and constructive discussions and exchanges opinions during the Board of Directors meetings.

Further, external instructors are regularly invited to conduct study sessions for management including executive officers, which cover topics such as the cost of capital and corporate value enhancement. Directors also participate in external training programs and other activities to enhance their insights and competencies, which include gaining essential knowledge and deeper understanding of their positions, with the goal of fulfilling their required roles and responsibilities.

Compliance / Risk Management

Internal control

Regarding the status of the Internal Control System, we have established the Code of Conduct on CSR to ensure that Directors and employees comply with laws and regulations, as well as the Articles of Incorporation, and respect ethical principles in their actions. In addition, we promote the establishment, maintenance and improvement of the Internal Control System, while concurrently operating a whistleblowing system that allows Directors and employees to report any suspicious compliance violations to the Company through a whistleblowing contact.

As for the status of internal audits and audits by the Audit and Supervisory Committee, we have established the internal audit department with the function of monitoring internal control. The department conducts audits not only of our internal operations but also of subsidiaries and associates from a Group management perspective. The Audit and Supervisory Committee maintains a close collaborative relationship with the internal audit department. In the execution of its auditing duties, which include examining the Company's operations and assets, the Committee receives reports on audit plans and results from the internal audit department. Directors who are not Audit and Supervisory Committee Members, along with the general affairs and finance departments responsible for internal control functions, submit reports on the status of the Internal Control System. These reports are effectively utilized in the auditing process of the Audit and Supervisory Committee to ensure efficient audits.

URL: <https://www.kds.info/company/csr/>



You can access the DAISHINKU CSR Code of Conduct by scanning here.

Risk management

Concerning the status of the risk management system, the Company has established the Risk Management Regulations to identify, understand and comprehensively manage various risks surrounding the Company. If an unexpected event occurs, the Company will set up a task force to take appropriate measures and develop a crisis management system appropriate to the information age as a global group of enterprises.

Compliance

“Thorough compliance meeting society’s expectations and requirements”

At the Group, in addition to the observance of all applicable laws and regulations and internal rules, we ensure that our corporate activities meet society's requirements. Moreover, we endeavor to be a corporation whose each and every employee engages in business activities in a fair and sincere manner, maintaining 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>

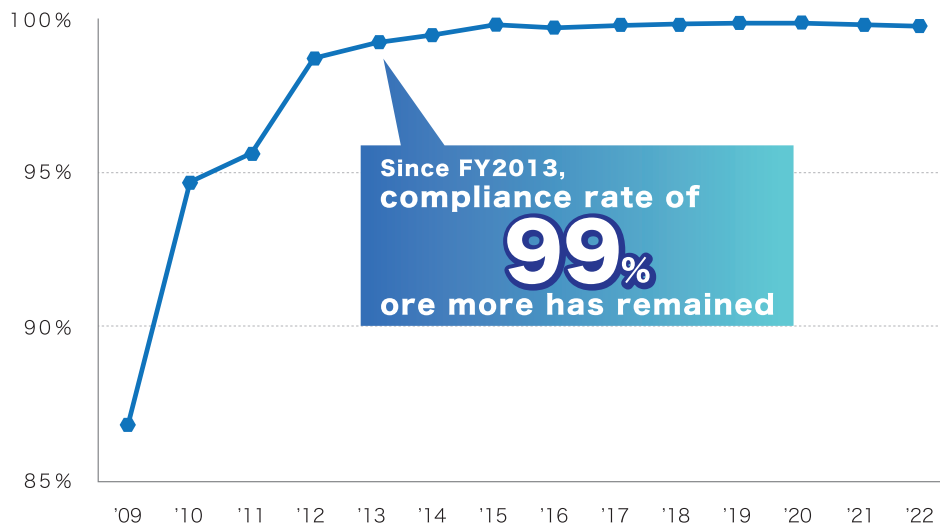
Information security is one of the most important conditions that must be fulfilled to conduct business normally and smoothly. Societal need for information security is expected to grow even more strongly in the future. To remain a trusted company, the Group has established the “Information Security 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. The Company intends to continually strengthen its technological measures against ever-evolving malware*. In fiscal 2022, the Company worked to enhance client information security.

In the meantime, 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. Furthermore, in fiscal 2022, we conducted a hands-on email security training to enhance our employees' ability to combat malware by improving their response to suspicious emails. The training involved sending pseudo-targeted attack emails to all employees on an irregular basis. As a result, it was found insufficient in some instances. Therefore, our challenges include raising information security awareness and ensuring all employees are well-prepared to address cybersecurity issues.

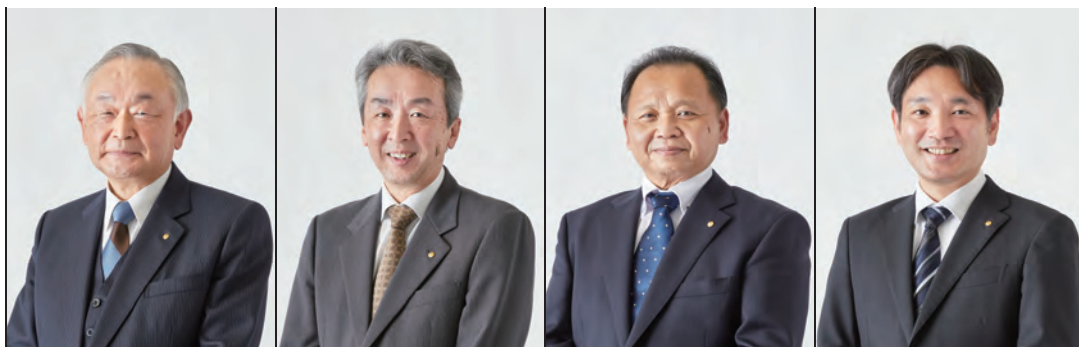
We will continue to develop rules focused on early detection and effective responses to cyberattacks, while reinforcing personal measures through employee education.

* Malicious programs and software designed to harm users

Information security self-Inspection check compliance rate



Directors and Officers



Name	Sohei Hasegawa	Minoru Iizuka	Masashi Kawasaki	Shimpei Hasegawa
Position	Chairman	President	Managing Director	Director
Major career history	<p>Apr. 1977 Joined the Company</p> <p>Apr. 1989 General Manager of Computer & Telecommunication Division</p> <p>June 1989 Director, General Manager of Computer & Telecommunication Division</p> <p>June 1991 Managing Director, Manager of Sales Department and Manager of Computer & Telecommunication Department</p> <p>July 1992 Representative Senior Managing Director, General Manager of Sales Management Division and Manager of Computer & Telecommunication Department</p> <p>June 1994 General Manager of Sales Management Division</p> <p>Nov. 2000 President</p> <p>Oct. 2019 General Manager of Marketing & Sales Division</p> <p>July 2021 Chairman (current position)</p>	<p>Apr. 1985 Joined the Company</p> <p>Feb. 2004 Manager of Research Laboratory I, Central Laboratory</p> <p>June 2014 Director</p> <p>July 2014 Deputy Director of Central Laboratory</p> <p>Apr. 2015 Deputy Manager of Production Division</p> <p>Jan. 2017 General Manager of Product Division</p> <p>Apr. 2017 Managing Director</p> <p>July 2018 In charge of business management</p> <p>Apr. 2019 Senior Managing Director</p> <p>Oct. 2019 Director and Senior Vice President, Manager of Fundamental Technological Development Department</p> <p>July 2021 President (current position)</p>	<p>Mar. 1978 Joined the Company</p> <p>Nov. 1990 Manager of Engineering Department, Tottori Plant II</p> <p>Apr. 2002 Manager of Production Engineering Department</p> <p>July 2004 Director of Tokushima Production Division</p> <p>July 2008 President of Tairjin KDS Corp.</p> <p>Apr. 2015 Director of Kanazaki Plant</p> <p>Apr. 2016 Manager of Material Business Development Department</p> <p>July 2018 Executive Officer, General Manager of Material Business Development Division</p> <p>June 2020 Director</p> <p>July 2021 Managing Director (current position)</p> <p>Jan. 2023 General Manager of Administrative Division and General Manager of Material Business Development Division (current position)</p>	<p>Jan. 2006 Joined the Company</p> <p>Jan. 2017 Manager of Research Department</p> <p>July 2018 Executive Officer, Deputy General Manager of Marketing & Sales Division</p> <p>July 2018 Manager of Sales Strategy Department</p> <p>Apr. 2019 Deputy in charge of business management</p> <p>Apr. 2020 Deputy General Manager of Marketing & Sales Division</p> <p>June 2020 Director (current position)</p> <p>Apr. 2022 Managing Executive Officer, General Manager of Office of the President</p> <p>Jan. 2023 Senior Managing Executive Officer, General Manager of Marketing & Sales Division (current position)</p>
Reason for appointment	<p>After serving as the executive manager of the Computer & Telecommunication and Sales divisions of the Company, he was appointed President in November 2000, and Chairman in July 2021. With his extensive experience and broad knowledge as a member of the management, he represents our Group, and focuses on further improving our corporate value by executing duties resolved by the General Meeting of Shareholders or the Board of Directors.</p>	<p>After serving as the executive manager of the Development & Technology and Production divisions of the Company, he was appointed Director and Senior Vice President in October 2019, and President in July 2021. With his extensive experience and broad knowledge, he represents our Group, and focuses on further improving our corporate value by executing duties resolved by the General Meeting of Shareholders or the Board of Directors.</p>	<p>He has a wealth of experience and broad knowledge with many years of service as the manager of the Development & Technology and Production divisions of the Company. He was appointed Managing Director of the Company in July 2021. He assists and advises Representative Directors with his extensive experience and broad knowledge, and discusses important matters related to overall management.</p>	<p>He has been in charge of Sales and Marketing divisions at the Company for many years, has a wealth of experience and broad knowledge, and participates in the formulation of basic management policies.</p>
Attendance at Board of Directors meetings in FY2022	12/12	12/12	12/12	12/12
Committee membership				
Nomination Committee		●		
Remuneration Committee	●			
Skill matrix				
Management strategy	●	●	●	●
Finance & accounting				
Law & governance	●	●	●	
Global business	●	●	●	●
DX & technology	●	●	●	
Sustainability & diversity	●	●		
HR development	●	●	●	●


* The above list does not necessarily represent all the experience and expertise of each officer.

Criteria for assessing each director's skills

Management strategy	Experience as a (representative) director or an executive director with special title in a listed company or equivalent Experience as an outside director in a listed company or equivalent
Finance & accounting	Experience as an in-charge officer, general manager or manager of an accounting department; a manager responsible for accounting operations; or a practitioner qualified as certified public accountant or certified public tax accountant
Law & governance	Experience as a chief legal or compliance officer; an in-charge officer, general manager or manager of a legal department; a manager responsible for legal affairs; or a practitioner as judge, prosecutor or attorney at law
Global business	Experience as a manager in charge of overseas business, a president of overseas subsidiaries or equivalent
DX & technology	Experience as an in-charge officer, general manager or department manager of a systems department, or a practitioner responsible for technical operations
Sustainability & diversity	Experience as a chief sustainability officer, an in-charge officer, general manager or manager of a sustainability-related department; or a practitioner responsible for sustainability-related operations; or a practitioner in charge of diversity management
HR development	Experience as a chief HR officer, an in-charge official, general manager or manager of an HR-related department; or a practitioner responsible for HR-related operations

Executive Officers

Senior Managing Executive Officer	General Manager of Marketing & Sales Division	Shimpei Hasegawa	Executive Officers	General Manager of Production Engineering Division	Ichiro Okuda
Managing Executive Officer	Deputy General Manager of Marketing & Sales Division	Hirofumi Okahara	Executive Officers	Deputy General Manager of Administrative Division	Osamu Kazuuma
Managing Executive Officer	General Manager of Production Division	Toshiro Hiroshima	Executive Officers	General Manager of Quality Assurance Division	Tatsuya Murakami
Senior Executive Officer	General Manager of Finance & Accounting Division	Kuniharu Hayashi	Executive Officers	General Manager of Engineering Division	Takashi Shirai
Senior Executive Officer	General Manager of Alliance Promotion Division	Kohei Hasegawa	Executive Officers	Deputy General Manager of Engineering Division	Takuya Kojo
Senior Executive Officer	General Manager of Marketing (R&D) Division	Katsuyuki Nakamura	Executive Officers	Deputy General Manager of Marketing & Sales Division	Jun Mizui
Senior Executive Officer	General Manager of Management Planning Division	Taiku Kawashima			

				
Toshiaki Kotera	Keiko Iijima	Hiroshi Maeda	Keita Ushijima	Toshiaki Hanasaki
Outside Director	Outside Director	Director Audit and Supervisory Committee Member	Outside Director Audit and Supervisory Committee Member	Outside Director Audit and Supervisory Committee Member
Apr. 1992 Joined Kotera Accounting Office Sep. 1992 Qualified as Certified Public Tax Accountant June 2007 Outside Corporate Auditor of the Company June 2015 Outside Director (current position)	Apr. 1995 Appointed as Judge (In Sapporo, Chiba, Osaka, Matsue and Kyoto) Mar. 2009 Retired June 2009 Registered as a practicing attorney (current position) June 2016 Outside Director of the Company (current position) June 2022 Outside Corporate Auditor of Keifuku Electric Railroad Co., Ltd. (current position)	Apr. 1982 Joined the Company Apr. 2009 Manager of Management Planning Division June 2012 Director July 2014 Managing Director, Manager of Management Planning Division and Manager of Sales Production Control Division Apr. 2015 Manager of Management Planning Division and General Manager of Administration Division July 2016 General Manager of Administration Division July 2018 In charge of administration management Apr. 2019 General Manager of Finance Division June 2020 Full-time Corporate Auditor June 2022 Director (Full-time Audit and Supervisory Committee Member) (current position)	Apr. 1979 Employed by Osaka Regional Taxation Bureau July 2007 District Director of Mikai Tax Office July 2008 Director of Transfer Pricing Division, First Large Enterprise Examination Department, Osaka Regional Taxation Bureau July 2010 Director of Review Division (Large Enterprise Examination), First Large Enterprise Examination Department, Osaka Regional Taxation Bureau July 2011 Director of Management Division (Large Enterprise Examination), First Large Enterprise Examination Department, Osaka Regional Taxation Bureau July 2012 Deputy Assistant Regional Commissioner (Management and Coordination) July 2013 District Director of Sakai Tax Office Apr. 2014 Representative of Keita Ushijima Tax Accountant Office (current position) June 2015 Outside Corporate Auditor of the Company June 2022 Outside Director (Audit and Supervisory Committee Member) (current position)	Apr. 1977 Employed by Osaka Regional Taxation Bureau July 2006 District Director of Kabara Tax Office July 2007 Director of Co-ordinated Examination and Information Management Division, First Large Enterprise Examination Department, Osaka Regional Taxation Bureau July 2009 Director of Co-ordination Division (Large Enterprise Examination), First Large Enterprise Examination Department, Osaka Regional Taxation Bureau July 2010 District Director of Tondabayashi Tax Office July 2011 District Director of Utagawa, First Taxation Department, Osaka Regional Taxation Bureau July 2012 District Director of Hiraiji Tax Office Aug. 2013 Representative of Hanasaki Tax Accountant Office (current position) June 2016 Outside Corporate Auditor of the Company June 2022 Outside Director (Audit and Supervisory Committee Member) (current position)
Although he has no experience of being directly involved in corporate management other than as an outside officer, as a certified public tax accountant he is familiar with corporate management through his tax practices, and properly performs his duties from an objective and neutral standpoint.	Although she has no experience of being directly involved in corporate management other than as an outside officer, as a practicing attorney she is familiar with corporate management through her practice of corporate legal affairs, and properly performs her duties from an objective and neutral standpoint. The Company has an advisory contract with Park Sogo Law Office, to which Keiko Iijima belongs, but the amount of remuneration is minimal.	After serving as the executive manager of the Management Planning division of the Company for many years, he has been discussing important matters concerning the overall management of the Company as Managing Director since July 2014. Based on his business experience, he is familiar with internal control, risk management, and compliance promotion, and has knowledge to conduct appropriate audits of management decision-making and business execution.	Although he has no experience of being directly involved in corporate management other than as an outside officer, as a certified public tax accountant he is familiar with corporate management through his tax practices, and properly performs his duties from an objective and neutral standpoint.	Although he has no experience of being directly involved in corporate management other than as an outside officer, as a certified public tax accountant he is familiar with corporate management through his tax practices, and properly performs his duties from an objective and neutral standpoint.
12/12	12/12	12/12	12/12	12/12
●	●			
●	●	●	●	●
●	●	●	●	●
	●	●		
		●		
		●		
		●		

Overview of each body

Body	Constituent members	Activities
Board of Directors	Director	Determining basic management policies and important matters, and supervising the operational execution of Representative Directors
Management Council	Executive Directors and Executive Officers	Discussing individual management issues from a practical perspective
Nomination Committee	President and Outside Directors who are not Audit and Supervisory Committee Members	Enhancing the independence, objectivity, and accountability of the Board of Directors' functions in selecting and dismissing senior management (Representative Directors and Executive Directors) and nominating candidates for the Board of Directors
Remuneration Committee	Chairman and Outside Directors who are Audit and Supervisory Committee Members	Enhancing the independence, objectivity and accountability of the Board of Directors' functions associated with senior management (Representative Directors and Executive Directors) and Directors' remuneration

Remuneration for Directors

Directors (eight persons excluding Audit and Supervisory Committee Members)	123,909 thousand yen
Of which Outside Directors (two persons)	11,700 thousand yen
Directors (three persons who are Audit and Supervisory Committee Members)	14,580 thousand yen
Of which Outside Directors (two persons)	6,480 thousand yen
Corporate Auditors (four persons)	7,380 thousand yen
Of which Outside Corporate Auditors (two persons)	1,680 thousand yen

As of the end of the reporting period, there were six Directors (excluding Directors who are Audit and Supervisory Committee Members) and three Directors who are Audit and Supervisory Committee Members. The number of Directors and Corporate Auditors differs from that in the table above. This is because two Directors and four Corporate Auditors all of whom retired at the conclusion of the 59th Annual General Meeting of Shareholders held on June 29, 2022, are included in the number of persons in the table. (Of those four Corporate Auditors, three were elected as Directors who are Audit and Supervisory Committee Members and assumed office at that General Meeting of Shareholders.) The Company transitioned from a company with a Board of Corporate Auditors to a company with an Audit and Supervisory Committee on June 29, 2022.

Director (Outside)
Member of the Nomination Committee

Keiko Iijima



Message from an Outside Director

Governance Structure of DAISHINKU

The Group is a comprehensive manufacturer of timing devices, primarily synthetic quartz crystals. The devices it manufactures are integrated into and used for a broad range of applications including smartphones and medical equipment, which have become essential to people's lives with the sophistication of digital technologies across society; self-driving automobiles, which are increasingly put on the market; and industrial robots.

The demand for these devices are expected to further grow in the future. We believe the growth and corporate value of the Company, from the perspective of business execution, depend on how we can deliver superior products at the right price by adapting to changes in the market environment. Looking at this from the perspective of the Board of Directors' monitoring function, we have recognized it is important that, in making decisions on matters such as management policy and strategy as well as important transactions, independent Outside Directors actively participate in discussions drawing on their expertise, and point out problems without being bound by the Company's traditional practices.

For Outside Directors to serve in these roles, it is important that they are provided with sufficient information; a reasonable number of Outside Directors have been

appointed; the experience, expertise, and diversity of Outside Directors are well balanced, for instance. The Company distributes the Board meeting materials, including PowerPoint materials that are easy to understand for Outside Directors, before the Board of Directors' meetings. In addition, Outside Directors are able to obtain more specific information, such as what issues are taking place at offices and plants and how they can solve them, by attending a meeting of the management council held the day before the board of directors' meeting. I also made site visits to the Tottori Production Division, Nishiwaki Plant, and Tokushima Production Division, where I entered a clean room to see production lines, and came across a moment when a synthetic quartz crystal weighing as much as 800 kg was taken out of a growing furnace after several months of cultivation. Further, at the Board of Directors meetings, half of which is composed of independent Outside Directors who are certified public tax accountants or attorneys at law, each member including a female member like me can feel free to express frank opinions. Some members also give detailed advice on matters that require attention from a legal perspective, although such advice may not affect the conclusion of the agenda. Responses to our proposals are also quick. When we proposed to conduct a drill against

cyberattacks, the Company immediately planned and held the drill. This way, the Company's Board of Directors has developed an atmosphere where the free and frank exchange of opinions are respected. I therefore believe the Board has functioned quite effectively.

Through my 28 years of experience as a judge and a practicing attorney at law, I have been involved in almost all kinds of litigation and dispute-resolution cases, including civil litigation, damage lawsuits against governments, lawsuits against local governments, bankruptcy cases, labor disputes, and criminal litigation.

Also, as an attorney at law for companies and local governments, I am routinely engaged in consultation and legal checkup, and have served as a member of deliberation councils of government agencies and as director and other important posts at public interest incorporated foundations. From these experiences, I have learned that many of disputes and discord cause great damage to companies, and therefore, believe it is important that they place emphasis on developing an organizational culture that facilitates day-to-day communication, and I have actually focused my attention on this point. In fact, I feel that each and every

employee of the Company has a heightened awareness that they need to pursue the following three types of trust: trusted people, trusted products, and trusted company, which we can see from their words and behaviors at various opportunities, including the Board of Directors' meetings and the management council's meetings.

The Company is able to grow and achieve its goals only when each employee respects its values and fully taps their potential in the direction they should take. Therefore, I believe that our corporate governance has functioned fairly well in our corporate culture, where our employees act in accordance with the "total optimization" approach to generate profits and are motivated to work diligently. As noted above, while the Company has operated business with due consideration to corporate governance, it has recently focused on developing employees as its stakeholders. To this end, the Company has conducted a survey on the strengths of each work place and provided young employees with opportunities to make presentations. I hope that you take interest in our products which are close and essential to your living, although they are small in size, and appreciate your continued patronage.

My impression of DAISHINKU

- Group-wide pursuit to achieve the following three types of trust: trusted people, trusted products, and trusted company
 - Quick response to proposals from Outside Directors
 - Corporate governance-conscious business management

Director
Full-time Audit and
Supervisory Committee Member

Hiroshi Maeda



Message from the Chair of the Audit and Supervisory Committee

Changes in the Institutional Design

The Company has sought to enhance its corporate governance in a bid to achieve its continued growth and improve its corporate value over the medium to long term. We are now urged to further enhance our corporate governance as Japan's Corporate Governance Code was revised in June 2021, while the business environment surrounding the Company has been changing dramatically. Under these circumstances, we have transitioned from a company with a Board of Corporate Auditors to a company with an Audit and Supervisory Committee, with the aim to speed up management decision-making and further strengthen the supervisory function of the Board of Directors. The transition was resolved at the General Meeting of Shareholders held in June 2022.

In addition, at its 60th anniversary in November 2019, the Company announced its first 10-year long-term business plan "OCEAN+2 Strategy" covering the period up to the fiscal year ending March 31, 2030. Then, next year, the Company made clear the details of the "OCEAN+2 Strategy" including a numerical target to achieve an operating profit of 10 billion yen.

Then, in May 2021, the Company released the 1st Medium-term Plan "Developing a Foundation" (covering fiscal

2021 to fiscal 2023), and also made clear that it aimed to achieve ROIC of 6% or more and ROE of 10% or more. To implement these business plans and improve corporate value, we believe the transition to a company with an Audit and Supervisory Committee was appropriate. While aiming for an even better monitoring model, we will continue efforts to maintain its effectiveness.

In general, each corporate auditor performs their duties under the independent appointment system under which each member of a Board of Corporate Auditors can exercise their own authority independently, while an Audit and Supervisory Committee is said to conduct what is called an organizational audit. Therefore, the Audit and Supervisory Committee is expected to conduct audits based on the evaluation and verification that a solid internal control system is in place and functioning properly. Whether an Audit and Supervisory Committee functions properly depends largely on how well the internal audit departments serve in its roles. We believe that the internal audit departments of the Company is expected to adequately fulfill its roles as it had collaborated with the Board of Corporate Auditors before the transition. In addition, by electing Audit and Supervisory Committee Members, the Audit and Supervisory Committee

is allowed to perform activities with the authority equivalent to that of corporate auditors under the independent appointment system. The Committee can therefore make use of the skills and auditing methods developed through the activities of the Board of Corporate Auditors. In terms of the content of audit, we consider taking the following measures to strengthen the supervisory function of the Board of Directors, one of the objectives of the transition this time.

As the Audit and Supervisory Committee needs to form a consensus for the appointment, remuneration, etc. of Directors who are not Audit and Supervisory Committee Members, the Committee audits the content of discussions, etc. made through the process until such Directors are appointed and their remuneration is determined. Further, the Committee needs to raise the proportion of its audit on executive officers and other key personnel, including how they have executed key measures set out in our medium- to long-term business plans, its appropriateness, and how they have addressed ESG.

To enhance the effectiveness of audits, etc. by the newly established Audit and Supervisory Committee, the Company decided to elect one full-time Audit and Supervisory Committee Member as in the case of the election of a full-time Corporate Auditor which is mandatory for a company with a Board of Corporate Auditors. I myself have been elected as the full-time Audit and Supervisory Committee Member. The full-time Audit and Supervisory

Committee Member attends important meetings, requests reports from business execution departments as needed to gather information about the status of business execution of the Company as well as the Group companies. The full-time Audit and Supervisory Committee Member also receives reports on audit plans and audit results of the internal audit departments and proactively exchange opinions and information about internal control audit.

Part-time Audit and Supervisory Committee Members are updated on the status of these audits at the Audit and Supervisory Committee meetings, and exchange opinions with the management as needed, and express necessary opinions from professional, objective, and multifaceted viewpoints. Further, the Audit and Supervisory Committee Members periodically hold debrief meetings with the Accounting Auditor to discuss audit plans, quarterly reviews, and year-end audits to ensure good communication with the Accounting Auditor through the exchange of opinions and information.

In closing, I would like to note that I feel both excited and humbled by the huge responsibility in my new role as Chair of the Audit and Supervisory Committee following the change in the institutional design. For the Company to live up to the expectations of all its stakeholders, as a company with an Audit and Supervisory Committee, I will make every effort to contribute to sustainable growth of the Company and enhancement of its corporate value over the medium to long term, while fulfilling the role of my own.

	All members (persons)	Full-time members (persons)	Inside Directors (persons)	Outside Directors (persons)	Chair
Audit and Supervisory Committee	3	1	1	2	Inside Director



Digital Transformation (DX) Initiatives

Overhaul of Core System

Currently, the Company is moving forward with the overhaul of its core system as part of its operational reform initiatives. The Company's core system, which is based on a general-purpose system introduced more than 20 years ago, underwent repeated migration to open system platforms and hardware replacement. Subsequently, the core systems for plant, purchasing, logistics and other operations have been developed/strengthened using open system platforms. This way, as the Company's core system is built on a combination of several development languages and system platforms, it has a problem with real-time information reference. As a result, indirect departments are forced to perform many tasks to make up for shortcomings of the current system. This has also posed a problem to information system departments in terms of development, operation, and management.

As such, the Company is moving forward with a project to overhaul its core system, which was launched in 2019. In doing so, we have set two basic policies: To eliminate the situation where certain tasks are dependent on skills and experience of particular employees by standardizing operations globally, including at overseas subsidiaries; and to improve operational efficiency by centralizing data. To streamline and standardize operations, we are introducing packaged systems and capitalizing on our strengths nurtured through our founding business to eliminate redundancies. Also, we have shifted our system platform to a data center to enhance the robustness and security of our core system, and have implemented BCP measures, while assuming its operation using the cloud computing in the future. Currently, we are introducing packaged systems to domestic offices and production bases including the subsidiaries, and plan to put them into operation in fiscal 2023. We are going to roll out the frameworks standardized in Japan to overseas subsidiaries in phases.

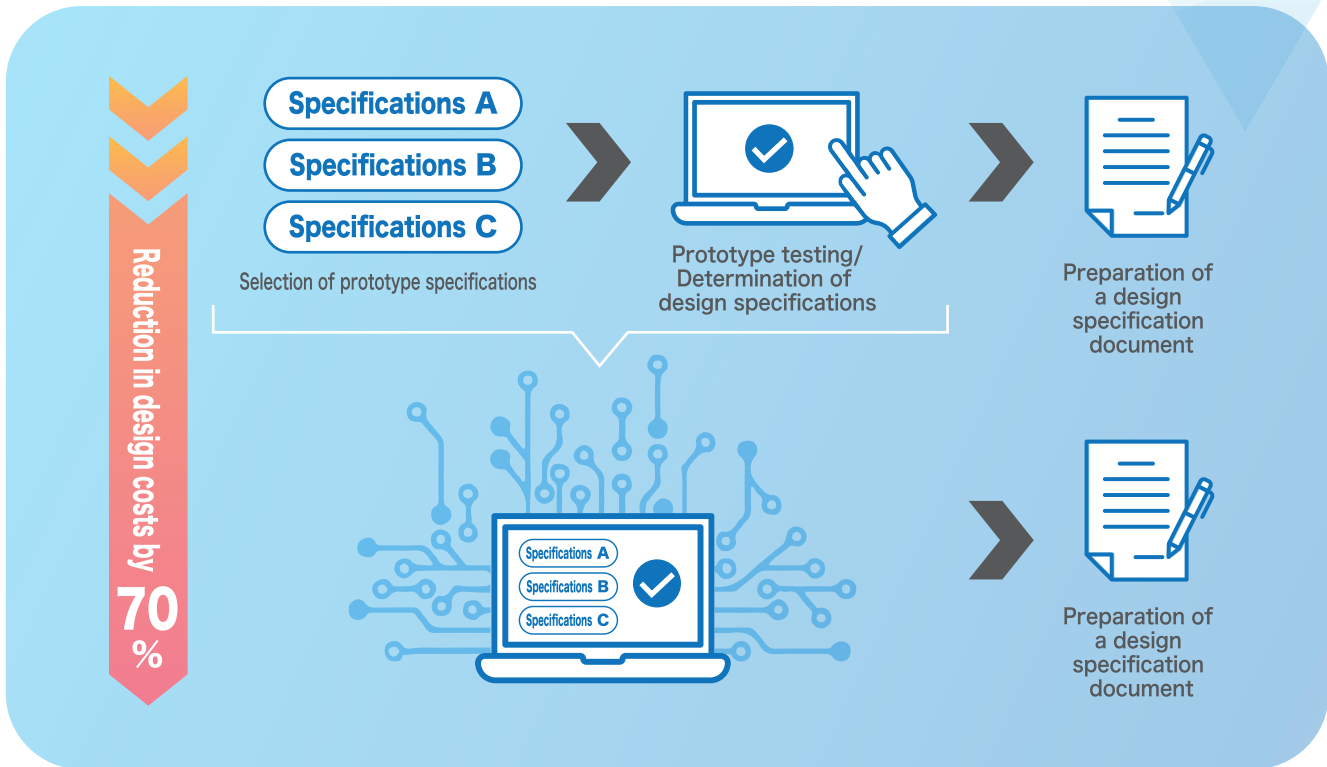


On top of the above, we have been working on a range of initiatives, including turning our plants into smart factories, introducing customer management and sales support tools, and automating manual administrative tasks using the RPA tools, to cover operations that cannot be complemented with the core system alone. In addition, as part of our work style reform initiatives, we have worked to build infrastructure that allows our employees to choose where they work from a variety of choices, including working from home, provides them with the work environments where they feel comfortable working, and helps respond quickly to customers.

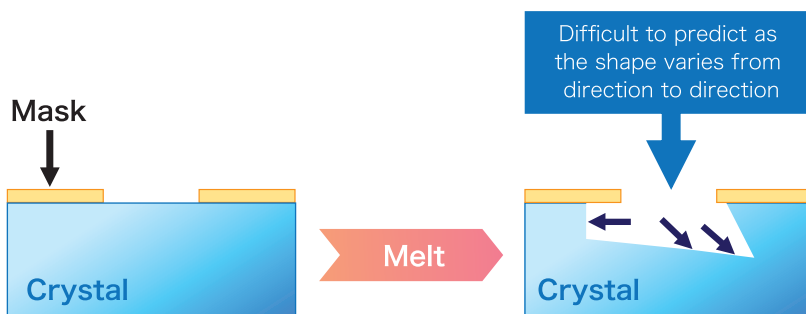
Toward automating design work

Design work for crystal devices, our mainstay products, depends heavily on the experience and skills of engineers, which has posed a challenge for us to automate design work. As such, the Company has worked on a digital transformation (DX) of its design work using simulations since a few years ago. Through the DX, we aim to reduce design costs by 70% or more from the current level through initiatives for improving and stabilizing operational efficiency, such as reducing the work load on engineers, eliminating its dependency on the experience and skills of engineers, shortening the lead time to mass production, and building a database.

Until recently, engineers selected prototype specifications based on their experience and then determined design specifications through testing with prototypes before preparing design specification documents. As the first step of DX, we have worked to digitalize the processes from the selection of prototype specifications to the determination of design specifications using simulations. We are thinking of ultimately building a system that fully automates the entire processes from the receipt of an order sheet with all the specifications described on it to the preparation of a design specification document.



At present, however, we have not yet reached a level where we can leave everything to the system without human intervention because the simulation results contain errors from time to time. The fact that the simulation results may contain some errors implies that the calculations are not fully accurate. One of the main causes of such errors lies with the anisotropy of crystals. Anisotropy refers to the structural property of non-uniformity in different directions. This anisotropic nature makes it difficult to predict the shape of a quartz crystal produced through the photolithography process, making errors greater in the simulation of the vibration characteristics of a quartz crystal based on its shape. We believe that resolving such errors and improving the accuracy of simulations are one of our important challenges.



For everyone to easily perform simulations, we need to design a system that helps automate complex calculation procedures and processes. We believe, however, speeding up calculations by increasing the efficiency of such automatic processing is also essential to resolving the issue. In fact, we have made an approach to this issue from both hardware and software perspectives.

While we are faced with diverse challenges, we have accumulated experiences for more than 10 years in the simulation of the vibration characteristics (setting various conditions for generating specified vibrations) of crystal devices, and have achieved meaningful outcomes. We perform more than 10 simulations on average annually, thereby contributing to improving the efficiency of design work by reducing the number of prototypes and resolving issues by analyzing vibration mechanisms. Recently, we consider performing a simulation to predict the shape of a crystal plate, which depends on the anisotropic nature; and have worked to build a system that facilitates automatic processing, aiming to automate a range of procedures and processes in five years' time.