

CSR Committee Activities

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

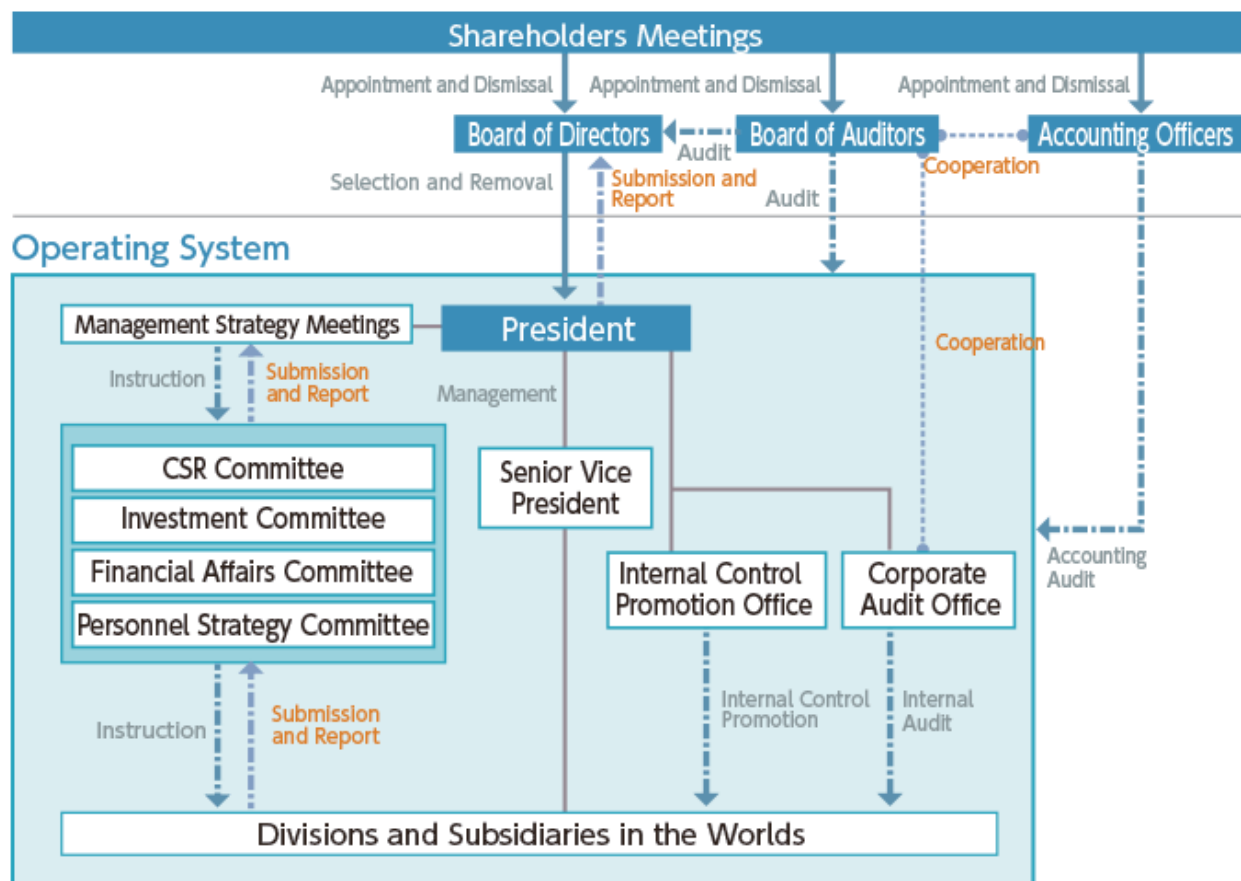
It discusses and decides important issues and matters that are derived from the promotion of CSR activities, including compliance and risk management, and reports their performance to senior management on a regular basis.

Corporate Governance

Basic Corporate Governance Policies

To live up to the trust of our stakeholders, it is important for us to build and soundly manage a structure that copes with changes in the global environment promptly, and which consists of an efficient system that strengthens our corporate competitiveness as well as a rational and transparent system for performing business operations.

We focus on transparency and fairness in our management as an important business priority and strive to enrich our corporate governance to improve our corporate value.



Internal Control System

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

Compliance

SII Compliance System

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

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

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

Compliance Consultation Services

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

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

Cases reported to the SII helpline and processed by the consultation service in FY 2015 were four.

Risk Management

Group-Wide Risk Management Efforts

At SII, the CSR Committee takes the central role in promoting the across-the-board risk management. The Committee evaluates risks and sorts them by their severity and frequency, and facilitates developing a system that mitigates risk impacts needed to be addressed intensively.

The Committee also identifies and shares a wide range of risks through decisions made on risk management activities, and verifies actions taken against key risks on a quarterly basis. Based on the "Basic Principles of Risk Management" and through reports at management meetings and regular reviews carried out by the senior management, we assure the implementation of PDCA (Plan-Do-Check-Act) for risk management in full coordination with management.

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

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

Risk Management in Continuing Business

At SII production facilities, we manage risks to prevent production interruption, aiming to continuously offer products even in an emergency situation.

The examples of our wide-ranging risk management are operational improvements at the local-working level and radical

improvement which requires equipment investment.

Information Security

Our Concepts

SII began using information and communications technology (ICT) to further enhance the technologies of "SYO"ism that it has developed over the years. We also run many information systems to grapple with the rapidly-changing business environment.

As ICT has become deeply rooted in corporate activities, the threats associated with ICT, including information leakage, destruction, and falsification, have also extended to a broad range of the activities.

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

Intellectual Property Initiatives

Basic Policy and Management of Our Intellectual Property

Regarding intellectual property as essential resource in business activities, we proactively engage in obtaining and utilizing our development results as intellectual assets. Based on the mid- to long-term policy "Develop a Business Culture that Respects Intellectual Property," we enhance our intellectual property framework, working with Intellectual Property, R&D, and other divisions.

Status of patent applications and patent grants

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

In FY 2015, the number of our patent applications within Japan was 340, and the number of patent applications outside Japan was 404. For patent assessments in Japan, we improved the patent assessment rate from FY 2008, acquired rights, and greatly increased the number of patents held. The number of patents dropped temporarily, but recovered from FY 2013 and reached 2296 in FY 2015. The largest number of granted patents is also increasing which was 3,285 as for FY 2015.

Because the maintenance of rights is reviewed periodically each year, unnecessary patents are not maintained, and newly registered items are increasing.

System for Invention for Employee: From Indemnification to Incentive

To encourage inventions and enhance SII's technological competitiveness, we established an indemnification and award system for inventions in FY 1965. In April 2005, this system was revised in line with the amended Japanese Patent Law Article 35. This attractive system motivates individual inventors to obtain upper-level patents.

The revision of patent law in April 2016 provides the option of originally ascribing the rights to a patent from the inventor to the employer. In accordance with this revision, SII shifted the rights to employer, and additionally modified the conventional encouragement system to the incentive system. Meanwhile, the incentive amount for application and performance results were both increased to encourage further inventions. The invention management guidelines are currently being altered accordingly.