

CFO Message



Through the strategic planning inherent in SMILE145, we are aiming to improve ROIC while continuously investing in growth.

Taku Yoneyama
Director, Executive Vice President
Group CFO

Review of business performance

We began our 8th Mid-Term Management Plan, “SMILE145” in 2022, with the aim of becoming “a solutions company that offers high-added-value products and services that create excitement and generate substantial profits” by 2026, the year of our 145th anniversary. To achieve that target, we adopted our “MVP Strategy” (Moving, Valuable, and Profitable), which focuses on increasing high-added-value products and services that match the goals of SMILE145.

Fiscal year 2022 was the first year of SMILE145, and all three strategic domains showed consolidated net sales and operating profit growth. Consolidated OP exceeded our initial plan due to strong performance in the EVS and SS Domains, where we increased the sales ratio of MVP products. As a result, SMILE145 got off to a good start on its way to further growth by fiscal year 2026.

Consolidated Net Sales

¥ **260.5** billion / Up **9.7** % YoY

Consolidated Gross Profit

¥ **111.7** billion / Up **12.7** % YoY

Consolidated Gross Profit Margin (GP%)

42.9 % / Up **1.1** pt YoY

Consolidated Operating Profit

¥ **11.2** billion / Up **28.1** % YoY

Consolidated Net Interest Bearing Debt

¥ **138.8** billion / Up ¥ **17.1** billion YoY

Consolidated ROIC

3.6 % / Up **0.1** pt YoY

Consolidated Management Indicators (KPI)

Our specific financial targets (KPIs) for the SMILE145 plan are as follows: By FY2026 we plan to achieve a consolidated operating profit of 18.0 to 20.0 billion yen, a consolidated gross profit margin (GP%) of +5.0 percentage points above the FY2021 level, and a consolidated ROIC (return on invested capital) of over 6.5%.

In fiscal year 2022, our consolidated gross profit margin rose 1.1 percentage points over the previous year due to the success of our MVP Strategy. In particular, in the EVS Domain’s Watches Business, sales of Global Brands (which are MVP products) increased in both the domestic and overseas

markets, while in the WAKO Business, we also saw strong demand for high-end products. As a result, the MVP ratio for the entire EVS Domain grew significantly year-on-year. The MVP ratio in the SS Domain also steadily increased due to progress in expanding our stock business and increasing diversification.

On the other hand, consolidated ROIC remained flat year-on-year, which forces us to closely examine this metric if we are to hit our target of over 6.5% by fiscal year 2026. We are looking at issues such as insufficient inventory control due to supply chain disruptions during the pandemic, and various approaches to improve global cash management.

Financial Strategy – Aiming to increase ROIC

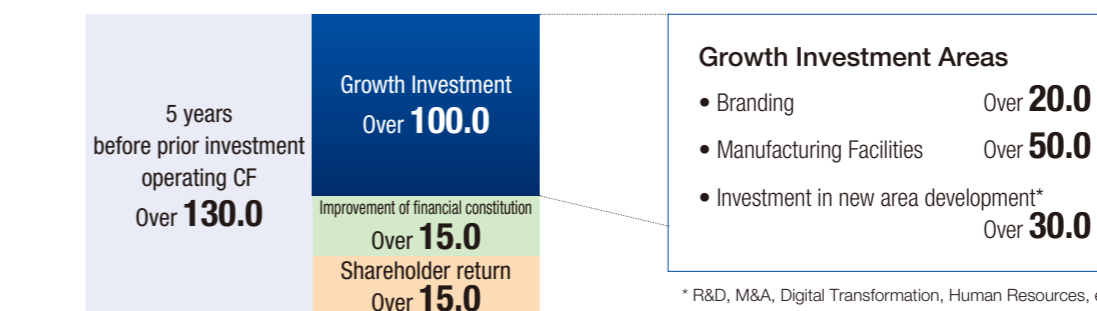
The main factor behind the lack of growth in consolidated ROIC was a year-on-year increase in interest-bearing debt. Therefore, our first priority is to reduce this debt. In order to do so, we will accumulate operating profit in each business and review each company’s balance sheet, including cash control at overseas local subsidiaries, to generate free cash flows and strengthen global cash management. We are confident that these initiatives will lead to improvements in ROIC.

While continuously striving to improve ROIC, we will also steadily invest in our global growth in accordance with the investment policy set forth in SMILE145. However, I believe that we can only select investments after re-examining both our Group’s business portfolio and the external business environment. For example, in order to increase the brand value of Grand Seiko in the Watches

Business, we will continue the global expansion of our network of boutiques, while at the same time working to optimize our manufacturing system. In the DS Domain, where the business environment is undergoing significant changes, we will identify growth areas where the Group can leverage its strengths, and pursue the selection and concentration of investments. In order to accelerate growth in the SS Domain, we must continue to expand the scale of the business, including the possibility of strategic M&A. We will also actively invest in human resources, which form the foundation of our management structure, as well as in digital transformation and the creation of new business opportunities.

Through these efforts and a revision of cash allocation, we aim to achieve a consolidated ROIC of over 6.5% by the end of FY2026.

● Financial Policy : Cash Allocation (Billions of yen)



* R&D, M&A, Digital Transformation, Human Resources, etc.

Introduction of Directors & Officers

(as of August, 2023)

SEIKO GROUP CORPORATION

Director, Chairman, Group CEO, and Group CCO
Shinji Hattori

Director, Senior Executive Vice President
Takahiro Naito Devices Solutions Domain

Outside Director
Yasuko Teraura Outside Director
Noboru Saito

Outside Corporate Auditor
Masatoshi Yano Outside Corporate Auditor
Kenji Sakurai

Senior Vice President
Naoki Tajima

Director, President, and Group COO
Shuji Takahashi

Director, Senior Executive Vice President, and Group CIO
Jun Sekine Systems Solutions Domain

Outside Director
Hideki Kobori Corporate Auditor
Haruhiko Takagi

Executive Vice President
Kiyoko Niwasaki

Senior Vice President
Hiroshi Nakagawa

Director, Senior Executive Vice President, and Group General Counsel
Akio Naito Emotional Value Solutions Domain

Director, Executive Vice President, and Group CFO
Taku Yoneyama

Corporate Auditor
Takashi Nishimoto Outside Corporate Auditor
Hideki Amano

Executive Vice President
Makoto Ichimura

SEIKO WATCH CORPORATION

Director, Chairman of the Board
Shinji Hattori

Director, Senior Executive Vice President
Yoshikatsu Kawada Marketing Division I

Director, Senior Vice President
Akira Takakura Production Planning & Coordination Division

Director
Shuji Takahashi Director
Kiyoko Niwasaki

Senior Vice President
Katsuyoshi Takizawa Planning & Development Division

Senior Vice President
Takeshi Ono Production Planning & Coordination Division

President
Akio Naito

Director, Executive Vice President
Hiroshi Kanagawa Marketing Division II

Director, Senior Vice President
Naoaki Tanimura Corporate Strategy & Planning Division

Corporate Auditor
Yoshiaki Hayashi Corporate Auditor
Haruhiko Takagi

Senior Vice President
Shuichiro Seki Planning & Development Division

Representative Director, Deputy Chief Operating Officer
Minoru Ishiguro Planning & Development Division

Director, Senior Vice President
Teruyo Ishimaru Marketing Division II

Director, Senior Vice President
Munehisa Shibasaki Grand Seiko Marketing Communications Office, Public Relations Office and SDGs Planning Office

Senior Vice President
Kiyomi Tanemura Planning & Development Division

Senior Vice President
Tatsuya Asami Marketing Division I

SEIKO Time Creation Inc.

President
Shimesu Takizawa

Director, Senior Vice President
Osamu Sugita Clock Business Headquarters and Research & Technology Division

Director
Shuji Takahashi Director
Akio Naito

Senior Vice President
Kenichi Muroya SDGs Promoting

Director, Senior Vice President
Satoshi Morita Time System & FA Business Headquarters and General Administration Division

Director, Senior Vice President
Mitsunaga Yata Time System & FA Business Headquarters and Production Engineering Management Division

Director
Taku Yoneyama Director
Atsutoshi Yamamoto

Senior Vice President
Hisaya Mito Time System & FA Business Headquarters and Marketing Division and Head of Construction Management

Director, Senior Vice President
Susumu Kawanishi Clock Business Headquarters and International Marketing Division

Director, Senior Vice President
Yasunori Hagiwara Clock Business Headquarters and Domestic Marketing Division

Corporate Auditor
Kazuo Yamamura Corporate Auditor
Takashi Nishimoto

WAKO Co., Ltd.

Chairman
Shinji Hattori

Director
Kiyoko Niwasaki

Director
Shuji Takahashi Director
Akio Naito

President
Shuntaro Ishii

Director
Takeshi Endo

Corporate Auditor
Haruhiko Takagi

Senior Executive Director
Kazuhiko Sakamoto

Director
Kotaro Okajima

Seiko Instruments Inc.

President
Takahiro Naito

Director, Executive Vice President
Koji Tomitsuka General Manager, Micro-Energy Division / General Manager, Quartz Crystal Division / Electronic Components Sales head Office

Director
Taku Yoneyama Corporate Auditor
Takumi Yoshitomi

Senior Vice President
Yoshihiro Takeda General Manager, Printek Division

Director, Chief Executive Vice President
Akihiro Okuma General Manager, Corporate Strategy Division / Facility Solution Dept. / Musical Instruments Dept.

Director, Senior Vice President
Kazuhisa Onishi General Manager, Precision Mechanical Device Division / PM Quality Assurance Dept. / PM Business Administration Dept. / Motion Device Division

Corporate Auditor
Satoru Ochiai Corporate Auditor
Takashi Nishimoto

Senior Vice President
Makoto Matsuda General Manager, Print System Division

Director, Senior Executive Vice President
Satoshi Yoshino General Manager, Administration Division

Director
Hideo Hattori Director
Shuji Takahashi

Senior Vice President
Tatsuo Sagami Intellectual Property Dept. / Real Estate Management Dept.

Senior Vice President
Minoru Nakao General Manager, Accounting Dept.

SEIKO NPC CORPORATION

President
Yoichi Endo

Corporate Auditor
Haruhiko Takagi

Senior Vice President
Norio Suzuki Production Department

Director, Senior Vice President
Kimio Yomogida Production & Administration Department, Human Resources

Senior Vice President
Hideaki Tadokoro Administration & Finance Department

Director
Takahiro Naito Director
Taku Yoneyama

Senior Vice President
Toshimitsu Ogasawara Sales Department

Seiko Future Creation Inc.

President
Tetsu Kobayashi

Director
Masao Kasuga

Director
Takahiro Naito Corporate Auditor
Takashi Nishimoto

Senior Executive Director
Makoto Ichimura

Director
Fumiharu Iwasaki

Senior Executive Director
Yoshio Kobayashi

Director
Taku Yoneyama Director
Akira Takakura

SEIKO Solutions Inc.

President
Jun Sekine

Director, Executive Vice President
Takeshi Ichikawa IoT Solutions Business Unit

Corporate Auditor
Hiroaki Onishi Corporate Auditor
Haruhiko Takagi

Executive Vice President
Toshimasa Ike Mobile Solutions Business Unit

Senior Vice President
Tomoyuki Nakayama

Director, Senior Executive Vice President
Yoshio Kobayashi Strategic Business Unit

Director
Shuji Takahashi Director
Makoto Ichimura

Corporate Auditor
Tsutomu Konomura

Executive Vice President
Nobuchika Matsuoka Digital Transformation Solutions Business Unit

Senior Vice President
Tsutomu Shinkawa Food Service Solutions Business Unit, Data Service Business Unit

Director, Senior Executive Vice President
Yoshiyuki Hashimoto CFO

Director
Naoki Tajima Director
Hideo Hattori

Executive Vice President
Hirofumi Watanabe

Executive Vice President
Hirofumi Sakamoto Value Creation Business Unit, Strategic Network Business Unit

Corporate Governance

Basic Principle of Corporate Governance

Based on the principle “being a company that is trusted by society”, Seiko Group Corporation considers “compliance with relevant laws and regulations”, “implementation of management transparency and fairness”, and “honoring social ethics” as core

business goals. In order to achieve these goals, the Company will strengthen and promote its corporate governance framework and strive to achieve the Group’s sustainable growth and increase corporate value.

Basic Policy

(1) Securing the Rights and Equal Treatment of Shareholders

The Company strives to develop a necessary environment that effectively ensures the rights of shareholders including voting rights at the general meeting of shareholders, and provides them with the necessary information accurately so that they can exercise their rights appropriately. The Company is also committed to securing equality among shareholders, such as minority shareholders and foreign shareholders.

(2) Appropriate Cooperation with Stakeholders other than Shareholders

The Company recognize that its social responsibility is to contribute to the realization of a sustainable society through implementation of the Group’s basic principle “being a company that is trusted by society”. Under such recognition, the Company strives to cooperate appropriately with its various stakeholders, including its shareholders, customers, business partners, members of local communities and employees.

(3) Ensuring Appropriate Information Disclosure and Transparency

In order to obtain appropriate evaluation from its various stakeholders including its shareholders, and to engage in a constructive dialogue with shareholders, the Company strives

not only to disclose appropriate information in compliance with relevant laws and regulations, but also to disclose other information in a timely and appropriate manner so that such information would be clear and useful for the people who use it.

(4) Responsibilities of the Board of Directors

The Board of Directors will engage in free and constructive discussions and exchanges of opinions, and will appropriately fulfill its roles and responsibilities for the sustainable growth of company and the enhancement of corporate value over the medium to long-term, including making decisions on important management matters such as business strategies, establishing an environment that supports swift and decisive decision-making by the senior management, and enhancing management supervision.

(5) Dialogue with Shareholders

The Company will promote constructive dialogue with its shareholders to contribute sustainable growth and enhancement of corporate value over the medium to long-term based on “Basic Policy on Constructive Dialogue with Shareholders”.

 **Basic Policy on Constructive Dialogue with Shareholders**
<https://www.seiko.co.jp/en/ir/management/governance/system.html>

Initiatives to Strengthen Corporate Governance

	(~2015)	2016~	2019~	2022~
Mid-Term Management Plan		6th	7th	8th
Trends in corporate governance		<ul style="list-style-type: none"> Formulation of Stewardship Code (2014) ... • Revision (2017) • Revision (2020) Establishment of Corporate Governance Code (2015) ... • Revision (2018) • Revision (2021) 		
Institutional design, nomination, compensation, etc.		<ul style="list-style-type: none"> Inauguration of Corporate Governance Committee Introduction of performance-linked compensation system Formulation of successor development plan Start of evaluation of the effectiveness of the Board of Directors 	<ul style="list-style-type: none"> Expansion of performance-linked compensation system to some subsidiaries Establishment of group risk management system 	<ul style="list-style-type: none"> Independent Outside Directors account for one-third of all Directors Introduction of the System of Executive Officer (Senior Vice President) Revision of the calculation method for performance-linked compensation (Performance-linked ratio raised, non-financial indicators added to KPIs) Review of Group risk management operations
Information transmission		<ul style="list-style-type: none"> Disclosure of notice of general meeting of shareholders (full text) in English 	<ul style="list-style-type: none"> Issuance of Value Report 	<ul style="list-style-type: none"> Implementation of a hybrid virtual general meeting of shareholders (live streaming) Disclosure of Annual Securities Report (full text) in English

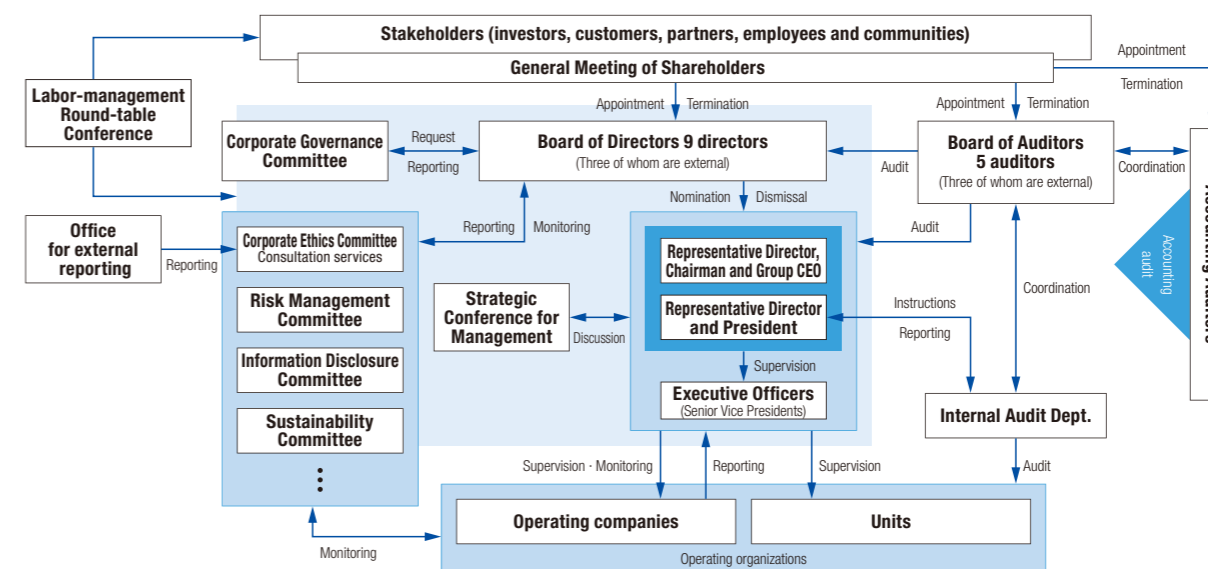
Corporate Governance Structure

As the holding company, the Company clarifies the management responsibilities in each business and develops an organizational structure for accelerating management decision-making, enhancing the function of business execution and strengthening the management oversight function.

The Board of Directors continually ascertains the circumstances of the operating companies and receives explanations when

necessary, as well as carries out quick and appropriate decision-making. The Company holds a Strategic Conference for Management comprising full-time Directors and Executive Officers (Senior Vice Presidents) of the Company for the purpose of working to share the management policy and management information of the Group and discussing medium-to long-term business strategies.

Corporate Governance Structure



Board of Directors

The Board of Directors is composed of nine (9) Directors (including one (1) female director), of whom three (3) are Outside Directors. The Board of Directors, pursuant to the Regulations of the Board of Directors, is engaged in decision-making concerning fundamental management matters and important business execution, in addition to matters set forth in laws and regulations and the Articles of Incorporation, as well as the monitoring of business execution. The Company has introduced the system of executive officer (senior vice president) for the purpose of strengthening supervisory functions of the Board of Directors and accelerating the execution of business, by separating management decision-making and supervision from the execution of business. There are three (3) Outside Directors who have broad experience and considerable insight in business management and in respective fields of specialization. With their independent positions, they contribute to improvement of monitoring functions of the management.

Board of Auditors

The Board of Auditors is composed of two (2) Corporate Auditors and three (3) Outside Corporate Auditors. Its role is to make decisions and discussion on important matters relating to the audit. Corporate Auditors audit the compliance and validity of the Directors’ business execution by participating in the Board of Directors meetings and other important meetings. Outside Corporate Auditors offer necessary advice, suggestions and opinions, making use of their broad experience and insight in business management and in respective fields of specialization.

Corporate Governance Committee

In order to enhance the objectivity and transparency of management, the Company establishes the Corporate Governance Committee where Independent Outside Officers account for the majority of members, as an advisory body for the Board of Directors. The Committee deliberates on matters relating to compensation for officers, nomination of officer candidates including successor development plan, appointment and dismissal of the senior management such as Representative Directors, and other matters regarding corporate governance from an objective and fair perspective, and reports to the Board of Directors.

 **Corporate Ethics Committee - Risk Management Committee**
<https://www.seiko.co.jp/en/ir/management/governance/system.html>

 **Sustainability Committee**
https://www.seiko.co.jp/en/csr/sustainability_policy/organization/

● List of Directors and Corporate Auditors

Name	Positions	Length of service	Gender	Status of appointments to the Corporate Governance Committee	Skills and experience						
					Corporate management	Brand culture	Marketing	Technology	Finance & Accounting	Legal & Risk management	Global
Shinji Hattori	Chairman & Group CEO Group CCO	16	Male	Member	●	●	●				●
Shuji Takahashi	President	10	Male	Chairperson	●		●	●			●
Akio Naito	Director, Senior Executive Vice President	1	Male	—	●		●			●	●
Takahiro Naito	Director, Senior Executive Vice President	1	Male	—	●			●			●
Jun Sekine	Director, Senior Executive Vice President	2	Male	—	●		●	●			
Taku Yoneyama	Director, Executive Vice President	Newly appointed	Male	—			●	●	●	●	
Yasuko Teraura	Outside Director	4	Female	Member						●	●
Noboru Saito	Outside Director	1	Male	Member	●		●	●			●
Hideki Kobori	Outside Director	Newly appointed	Male	Member	●	●	●			●	
Haruhiko Takagi	Standing Corporate Auditor	7	Male	—					●		●
Takashi Nishimoto	Standing Corporate Auditor	3	Male	—					●	●	
Hideki Amano	Outside Corporate Auditor	4	Male	Member					●	●	●
Masatoshi Yano	Outside Corporate Auditor	4	Male	Member	●					●	
Kenji Sakurai	Outside Corporate Auditor	1	Male	Member	●		●				●

● Specific Deliberations by the Board of Directors

In fiscal year 2022, the Board of Directors focused on discussing initiatives for each strategic domain, core strategies centered on non-financial factors such as human capital and sustainability, new business strategies for future business expansion, and changes in institutional design aimed at further strengthening governance based on the 8th Mid-Term Management Plan (SMILE145) announced in May 2022.

● Specific deliberations of the Corporate Governance Committee

In fiscal year 2022, the Corporate Governance Committee focused on discussing the selection of candidates for positions including Directors, and the details of revisions to the compensation system for officers.

● Matters to be Considered by the Board of Auditors

In fiscal year 2022, the Board of Auditors mainly discussed the formulation of the audit policy and audit plan, and audit of the development and operational status of the internal control system, consent for the accounting auditor's compensation, evaluation of the accounting auditor, audit of business reports, financial statements, etc., preparation of audit reports, and discussion on Key Audit Matters (KAM), and preliminary agreements related to the non-assurance services provided by the auditing firm.

● Attendance rate of each meeting body

Board of Directors	100%
Board of Auditors	98%
Corporate Governance Committee	100%

Note: Attendance rate in fiscal year 2022

Evaluation of the Effectiveness of the Board of Directors

As part of efforts to strengthen the corporate governance system, the Company evaluates the effectiveness of the Board of Directors each year.

● Analysis and Evaluation Methods

All Directors and Corporate Auditors were asked to fill out a questionnaire regarding the effectiveness of the Board of Directors, and replies were collected from all of them. The questionnaire was prepared based on initiatives and discussions on the Company's corporate governance to date, and the evaluation items ① to ⑤ on the right were set.

- ① The status of deliberations and operation of the Board of Directors
- ② The composition and roles of the Board of Directors
- ③ The support system for Outside Directors
- ④ The Corporate Governance Committee
- ⑤ Relationships with investors and shareholders

The Board of Directors conducted an analysis and evaluation of its effectiveness based on the replies to the questionnaire. According to the results of the evaluation above, it was confirmed that the Board of Directors of the Company was functioning properly and its effectiveness had mostly been assured. As for the issues raised in the previous fiscal year, due to taking the following measures, improvements to issues and were confirmed.

Issues for FY2022	Status of Measures
(1) Enhance information sharing regarding the capital market's evaluation of the Company	<ul style="list-style-type: none"> ● Reporting the status of IR activities, including communication with investors, to the Board of Directors, and discussing future IR measures, etc. ● Sharing analyst reports issued after financial results announcements with outside officers on a quarterly basis
(2) Improvement of the Board's discussion on non-financial items such as human capital and sustainability	<ul style="list-style-type: none"> ● Reporting and discussing the progress of the Mid-Term Management Plan on human capital and sustainability to the Board of Directors

As a future issue, it was confirmed that further enriching discussions at the Board of Directors for strengthening IR measures is necessary. In addition, in light of opinions observed that call for the enhancement of the understanding of the Company and communication of outside officers, the Company has decided to set these as new issues to be addressed in the future.

● Issues Raised so far

FY2019	FY2020	FY2021	FY2022	FY2023
<ul style="list-style-type: none"> ● Discussions of medium- and long-term issues by the Board of Directors ● Further enhancing discussions at the Corporate Governance Committee 	<ul style="list-style-type: none"> ● Discussions of medium- and long-term issues by the Board of Directors ● Enhancing communication and information sharing among outside officers 	<ul style="list-style-type: none"> ● Discussions of medium- and long-term issues by the Board of Directors ● Composition of the Board of Directors as a whole ● Feedback by investors on the Company's evaluation etc. 	<ul style="list-style-type: none"> ● Enhance information sharing regarding the capital market's evaluation of the Company ● Improvement of the Board's discussion on non-financial items such as human capital and sustainability 	<ul style="list-style-type: none"> ● Enhancing discussions at the Board of Directors for further strengthening IR measures ● Enhancing the understanding of the Company and communication of outside officers

Support system for Directors and Corporate Auditors

The Company provides, mediates, and provides monetary support for the necessary opportunities, such as seminars conducted by outside organizations, to Directors and Corporate Auditors, at their appointment and continuously after their appointment, in order for them to acquire the knowledge and information needed to fulfill their roles and responsibilities. As part of providing

information to Outside Directors and Corporate Auditors, the Company invites them to inspection tours of an exhibition of watches which proposes collection of new products and example of merchandise display at stores to customer watch retailers, as well as its business locations and stores, and holds gatherings for Directors and Corporate Auditors.

Compensation for Officers

● Basic Policy of the Compensation for Officers

For determining compensation for officers of the Company, the basic policy is as follows:

- To ensure transparency and objectivity of compensation as well as to set the compensation level appropriate for their roles and responsibilities.
- To encourage the execution of duties in line with the management philosophy and the management strategy, and to motivate the achievement of management objectives, in order to achieve sustainable growth of the Company and the Group and to enhance corporate value in the mid to long term.

The level of compensation for officers is determined based on results of the survey on compensation for officers by third parties targeting similar companies in terms of business contents and scale, etc.

● Compensation System for Officers

Compensation for Directors who execute business duties consists of “basic compensation” which is a fixed compensation, and “bonuses” (short-term incentive compensation) and “stock compensation” (mid- to long-term compensation), which are performance-linked compensation.

Performance indicators related to performance-linked compensation shall consist of the significant management indicators set forth in the 8th Mid-Term Management Plan (SMILE145) for the five (5) years from fiscal year 2022 to fiscal year 2026.

Type of compensation, etc.	Policy for determining the contents and amounts of compensation, etc.	Performance indicators
Basic compensation	Fixed compensation Basic compensation shall be monthly fixed compensation. The amount shall be determined by taking into account comprehensive factors, while considering the level of peer companies and the length of service, etc., according to their roles and responsibilities.	—
Performance-linked compensation, etc.	Bonuses For bonuses, a standard payment shall be the amount obtained by multiplying the basic compensation by a coefficient determined for each position. The individual payments for Chairman and President shall be determined by multiplying the standard payment by the payment ratio according to the performance achievement ratio. The individual payments for Executive Directors other than Chairman and President and Executive Officers (Senior Vice Presidents) shall be determined by adding the amounts obtained by multiplying the standard payments by the payment ratio according to the performance achievement ratio, to the amounts obtained by multiplying the standard payments by the payment ratio based on qualitative evaluations. Bonuses shall fluctuate in the range of 0 to 200% depending on the degree of achievement of the target values.	1) Consolidated operating profit 2) Consolidated gross profit margin 3) Evaluation of individuals
	Stock compensation For stock compensation, points obtained by converting the individual benefits into the number of shares shall be granted each fiscal year. The individual benefits shall be the amounts determined by adding the standard benefits (fixed portion) obtained by multiplying the basic compensation by a coefficient determined for each position, to the amount obtained by multiplying the standard benefits by the payment ratio based on financial and non-financial (ESG) evaluations (performance-linked portion). The performance-linked portion of the stock compensation shall fluctuate in the range of 0 to 200% depending on the degree of achievement of the target values. The guideline for the ratio of the fixed portion and the performance-linked portion shall be 50%, respectively (when the performance achievement ratio is 100%).	1) Consolidated operating profit 2) Consolidated gross profit margin 3) Consolidated ROIC 4) Evaluation of ESG: CO ₂ emissions reduction rate (SCOPE 1 and 2), etc.

● Compensation Ratio of Each Type

With regard to the compensation ratio of each type for Executive Directors and Executive Officers (Senior Vice Presidents), the level of peer companies shall be considered so that it will be an appropriate ratio as an incentive to contribute to the enhancement of the corporate value of the Company. After being deliberated on by the Corporate Governance Committee, a majority of the members of which are independent outside officers, as an advisory body for the Board of Directors, the said policy shall be determined at the Board of Directors based on the deliberations. The guideline for the compensation ratio of each type shall be shown on the right (when the performance

achievement ratio and the payment ratio based on qualitative evaluations are 100%):



Representative Directors



Directors who execute business duties other than Representative Directors and Executive Officers (Senior Vice Presidents)



Appointment and Dismissal of Senior Management and Nomination of Candidates for Directors and Corporate Auditors

The Company believes that it is essential that candidates for senior management, Directors and Corporate Auditors have the character and knowledge suitable for their respective duties. Based on this concept, in the appointment of senior management and the nomination of candidates for internal Directors, comprehensive consideration is given from the standpoint of appointing the right person for the right position, so that talent is appointed in a well-balanced manner to cover functions of the Company as a holding company as well as the Group's business fields, while ensuring accurate and timely decision-making. In the nomination of candidates for internal Corporate Auditors, comprehensive consideration is given from the standpoint of whether the candidate possesses knowledge of the Group's businesses as well as insight regarding finance, accounting and legal affairs, and whether the candidate can contribute to ensuring the soundness of management. In the nomination of candidates for Outside Directors, comprehensive consideration is given from the standpoint of whether the candidate possesses abundant experience and high degree of knowledge of

corporate management and specific fields. In the nomination of candidates for Outside Corporate Auditors, comprehensive consideration is given from the standpoint of whether the candidate possesses insight regarding finance, accounting and legal affairs, as well as abundant experience and high degree of knowledge of specific fields. Based on the above policy, the Board of Directors determines the candidates proposed by the representative directors, upon deliberation by the Corporate Governance Committee, the majority of which comprises independent outside officers. In addition, with regard to the dismissal of senior management, in situations in which dismissal standards determined by the Board of Directors apply, such as when senior management is not fully fulfilling his or her function in light of evaluations including the Company's performance, the Corporate Governance Committee conducts deliberations in a timely manner, and the Board of Directors, based on the results of such deliberations, determines the dismissal of senior management.

Appointment of Advisors, etc.

The Company, in accordance with internal rules, may appoint the former Representative Director and President, etc. as an Advisor, etc. The term of office of Advisors, etc. is one (1) year. The election/dismissal, (including reappointments), duties, compensation, and other treatments

are determined by the Board of Directors upon deliberations by the Corporate Governance Committee, the majority of the members of which comprise outside officers. Advisors, etc. are not involved in the management decision-making of the Company.

Cross-Shareholdings

From the perspective of improving the corporate value of the Group in the mid- to long-term, the Company has a policy to reduce shares that are deemed not to have a significance of holding them, taking comprehensively into consideration the Company's management strategy, business relationships with clients, and the benefits and risks, etc., associated with holding in view of its capital cost. The Company's Board of Directors verifies each year the rationale for the holding of all listed shares held in cross-shareholding by the Group through examination of the importance of the issuer as a business partner and benefits and risks of shareholding in light of capital costs and other factors. Most recently, an individual verification was conducted at the meeting of the Board of Directors held in August 2023. With regard to certain shares, which were determined to be lacking in significance or rationale for continued holding, the Company proceeds with discussions toward their disposal. Based on the above policy on cross-shareholdings, the Company sold one stock among the shares held by its subsidiaries in the fiscal year 2022.

● Standards for Exercising Voting Rights on Cross-Shareholdings

With regard to the exercise of voting rights on cross-shareholdings, the Company exercises its voting rights, upon fully respecting management policies and strategies, etc. of the issuing company, by comprehensively determining on whether the proposal contributes to the sustained growth and the mid-to long-term enhancement of corporate value of the issuing company, and whether or not it undermines shareholder value, among other factors. In addition, in making such decisions for particularly important proposals, the Company holds dialogue with the issuing company, as necessary. The proposals deemed important by the Company are as follows.

- Proposals on appointment of Directors and Corporate Auditors
- Proposals on reorganization of corporate structure including mergers
- Proposals on takeover defense measures
- In addition to the above, proposals that may undermine shareholder value

Internal Control System

The Company, in accordance with its basic policy on the internal control system, has established a Group-wide internal control system, including the Group's business management, corporate ethics, compliance

with laws and regulations, risk management and internal audits. Furthermore, the Company monitors the operation status of internal controls and periodically reports the results to the Board of Directors.

Risk Management

Group Risk Management Structure

In order to perform centralized management of risks that could greatly influence the Group’s business, the Seiko Group is engaged in the development and strengthening of the risk management structure for the entire Group as well as responses to risks that must be addressed in a cross-organizational manner, led by the Risk Management Committee, with the president of the Company as chairperson. In addition, each operating company independently promotes risk management, while the Company’s Risk Management Committee supports the risk management at each company through collecting risk information and managing the status of responses to the risks. Furthermore, for the aim of smooth promotion of the group risk management in close cooperation and coordination among the Group, the Group Risk Management Committee, made up of the presidents of each operating company, has been established to verify and share information on the risks facing the Group.

The Company has also established the Crisis

Management Manual in preparation for when crises occur, and in normal times, has set out a system capable of responding to crises, such as prompt collection of the necessary information. In addition, for more detailed analysis of climate-related risks, the Sustainability Committee conducts scenario analysis to identify, assess, and resolve particularly impactful climate change risks for Group companies, and is implementing measures to address these risks with each Group company.

● Group Risk Management Structure



Business Risks

Risks that may seriously affect the operating results and/or financial position of the Group are outlined below. The Group considers brand-impairment risks and risks that affect the safety and health of employees and others to be critical risks. Both are medium-term risks, apart from the risks that have a significant impact on the business results in short term.

- | | |
|---|--|
| (1) Economic trends | (7) Quality issues and production liability |
| (2) High dependence on procurement from specific supplier | (8) Intellectual property rights |
| (3) Market environment of the DS Business | (9) Currency exchange rate fluctuations |
| (4) Country risks on manufacturing bases overseas | (10) Interest rate fluctuations |
| (5) Dependence on sales to major customers | (11) Market price fluctuations |
| (6) Shortage and increase in price of resources | (12) Environmental issues |
| | (13) Information securities |
| | (14) Natural disasters and influences of infectious diseases |
| | (15) Compliance risks |

Information Security

Given the increasing threat of cyberattacks such as targeted email attacks and malware due to changes in the ICT usage environment, the Group is working on strengthening ongoing measures and improving employee awareness about information security by coordinating control across Group companies.

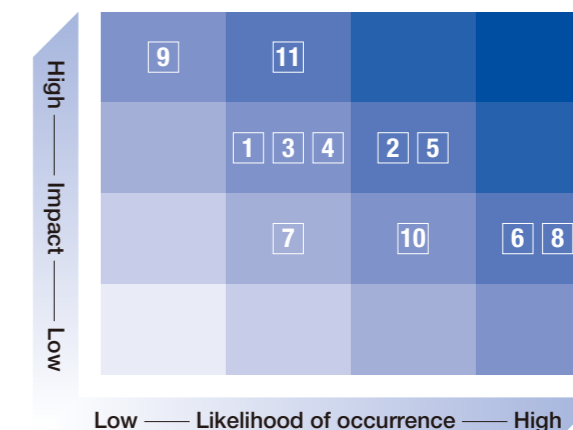
In addition, in the environment for utilizing information systems, we aim to provide a safe and stable environment by consolidating into data centers equipped with information security and disaster countermeasures, and also strive to improve server efficiency and redundancy through virtualization.

For details, please refer to our Annual Securities Report.
<https://www.seiko.co.jp/en/ir/library/securities.html>

Initiatives to Address Significant Risks

The Group defines risks that could cause tremendous loss to the management of each Group company as Significant Risks. The Risk Management Committee of each Group company selects the Significant Risks each fiscal year and addresses them led by the departments responsible for the risks. In addition, Significant Risks that must be addressed in a cross-organizational manner are defined as Group Significant Risks, and the Company takes a central role in responding to such risks. The Company’s Risk Management Committee and the Group Risk Management Committee monitor and share information on responses to Significant Risks and Group Significant Risks. The Group Risk Management Liaison Committee comprising risk management personnel from each Group company supports the promotion of measures against the Significant Risks of each company through inter-Group collaboration and cooperation.

● Risk map of Group Significant Risks



● Group Significant Risks in FY2023


Category	Risk details
Brand-impairment risks	1 Compliance risk (including conduct risk)
	2 IT problems (such as cyberattacks) and operational risks due to significant IT infrastructure issues
	3 Significant legal violations, quality issues, etc. in the supply chain
	4 Delays in and increased costs of decarbonization initiatives
	5 Insufficient response to customer diversity, indirect human rights risks for the Group’s B2B products
Business and financial risks	6 Rising component and material costs, including energy costs
	7 Impact on business activities due to worsening the U.S.-China relations
	8 Impact on business activities due to conflicts including the Taiwan issue (including the situation in Russia and Ukraine)
	9 Dependence on specific suppliers
	10 Difficulties in securing human resources (development and recruitment)
	11 Delays in innovating the business model

Corporate Ethics / Compliance

Basic Principles of Corporate Ethics

Seiko Group Corporation fulfills its corporate social responsibility by complying with statutes, respecting social ethics, and setting up healthy and sensible corporate ethics. Based on this approach, Seiko Group Corporation has established as its Basic Principles of Corporate Ethics. Seiko Group Corporation believes that it is vital for each and

every one of our executives and staff to adopt the basic stance stipulated in our Fundamental Philosophy on Corporate Ethics and to establish and put into practice ethical standards that are widely accepted by society. In order to put this approach into practice, we have established Corporate Ethics Action Guidelines for our executives and staff:

 **Basic Principles of Corporate Ethics / Corporate Ethics Action Guidelines**
<https://www.seiko.co.jp/en/group/philosophy/ethics.html>

Structure for the Promotion of Corporate Ethics and Compliance

In accordance with the Basic Principles of Corporate Ethics, the Company has established the Corporate Ethics Committee and Action Guidelines for Corporate Ethics, and consistently promotes education and enlightenment, consultation and reporting, auditing, and evaluation, etc. to all its officers and employees. Each operating company of the Group has established its own system of corporate ethics and action guidelines in accordance

with characteristics of its business, relevant laws, regulations, and rules. Accordingly, when an incident involving corporate ethics occurs at an operating company, the operating company is responsible for resolving the issue. When requested by an operating company, the Company provides full cooperation and support toward resolving issues.

Compliance Promotion Activities

Corporate ethics seminars

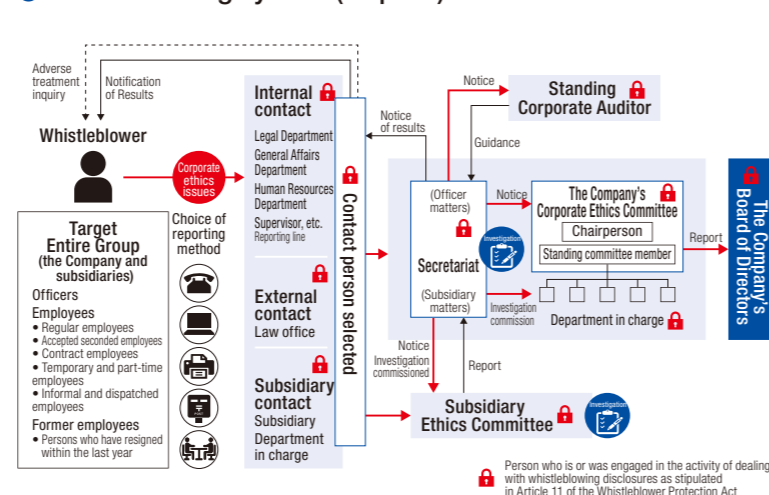
As an effort to strengthen corporate governance and compliance systems, which is defined in its materiality, the Company continually conducts corporate ethics training for officers and employees. In fiscal year 2022, seminars focusing on revised Whistleblower Protection Act and internal reporting regulations were held in the first half of the year for employees of the

Company, and seminars on effective whistleblowing systems were held in the second half for group executives and employees. In fiscal year 2023, to enhance education and awareness among management in particular, the Company is conducting participatory workshops on harassment targeted at managerial staff at its domestic Group companies, and it is working to strengthen the compliance systems of the Group.

Internal Reporting System

The Company has established a "Corporate Ethics Helpline" as a contact point to receive consultations and reporting from employees regarding corporate ethics and compliance. In addition to the internal contact point, the Company has set up an external contact point at a law firm and provides an environment that facilitates consultation and reporting for the user. The Company accepts consultations and reports on compliance more broadly than the scope defined by this system and work to resolve issues. To ensure that whistleblowers are not treated unfavorably due to consulting or reporting, the Company strictly manages information concerning whistleblowers and the content of consultation and reports.

Whistleblowing system (helpline) framework



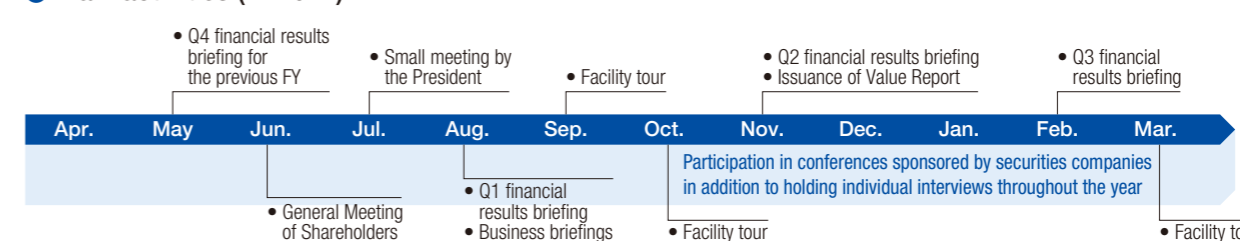
Dialogue with Shareholders and Investors

Approach to dialogue with shareholders and investors

The Group is committed to engaging in dialogue with our shareholders and investors to contribute to sustainable growth and mid- to long-term corporate value improvement. In addition to disclosing information in a timely and appropriate manner, we also strive daily to improve the usefulness of this disclosed

information for everyone who uses it, keeping in mind honest and transparent communication. Going forward, we will continue to build a strong trust relationship through dialogue with shareholders and investors.

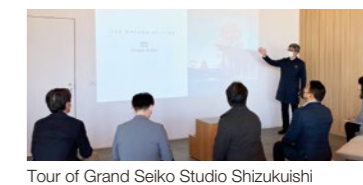
Main activities (FY2022)



Target	Activities	Achievements	Responsible person	Holding method, theme, etc.
Shareholders	General Meeting of Shareholders	June 2022	—	Implementation of a hybrid virtual general meeting of shareholders (live streaming)
Institutional investors / Analysts (Japan and overseas)	Financial results briefings	4 times	CEO, President, Senior Executive Vice President in charge of each domain, officer in charge of IR	<ul style="list-style-type: none"> Held online Briefing materials and summary of Q&A are disclosed on the Company's website (Japanese and English)
	Small meeting by the President	1 time	President	(Theme) SMILE145
	Business briefings	1 time	President of an operating company	(Theme) Growth Strategy of SS Domain in SMILE145
	Individual Interviews	145 times	Officer in charge of IR	Online or face-to-face dialogue
	Conferences sponsored by securities companies	3 times	Officer in charge of IR	Every year, we participate in conferences held by securities companies in order to create opportunities for dialogue with new investors
	Facility visits	3 times	Facility manager	Various facility tours held to promote understanding of the Group (Track record) Grand Seiko Studio Shizukuishi, Seiko Museum Ginza

Efforts to improve the effectiveness of dialogue and enhance information disclosure


- Increasing the number of facility tours held in response to requests from investors and analysts
- Reviewing the annual cycle for various IR activities aimed at constructive dialogue with investors and analysts
- Enhancing information provision through notices of the general meeting of shareholders, financial results briefing materials, value reports, etc.



Feedback to management and response on dialogue with shareholders and investors

We share the content of questions and comments from individual interviews with investors and analysts with our managements and related departments on a monthly basis, and also share analyst reports issued by securities companies. Furthermore, IR activities are reported to the Board of Directors once a year.

Under the ongoing SMILE145, we have also considered the opinions of investors and analysts in setting the new disclosure of cash allocation and ROIC as a KPI, and we have worked to expand the disclosed information in financial results briefing materials and enhance the content in value reports.

 IR information is posted on our Investor Relations website.
<https://www.seiko.co.jp/en/ir/>