



Citizen Group
CSR Report 2008



CITIZEN HOLDINGS CO., LTD.

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A Corporate Group Contributing to and Striving to be Respected by the Citizens of the World

The Citizen Group (the "Group") contributes to abundant living and a flourishing industry by leveraging its ultra-small, ultra-precise, low-power consumption Micro HumanTech ("micro human technologies") to offer diverse products, including watches and clocks, electronic devices, electronic products, and industrial machinery.

In conducting its business activities, the Group emphasizes dialog with a diversity of stakeholders as it strives to fulfill its corporate social responsibility, based on a desire to be close to the needs of the citizens of the world.



Editorial Policy

The *Citizen Group CSR Report 2008* documents the CSR-related policies and measures of Citizen Holdings Co., Ltd. (the "Company"), in line with its transition to a pure holding company system from April 1, 2007. We have surveyed the status of CSR activities at each subsidiary, seeking to report on their latest undertakings.

In the Special Feature, we have presented our efforts concerning product quality and safety—an important issue for the Group in its promotion of an array of businesses with strong ties to the general public.

Scope of Report

Economic and social data:

76 Group companies in Japan and overseas

Environmental data:

33 Group companies in Japan and overseas

Period Covered

Fiscal 2007 (April 1, 2007 to March 31, 2008)

Some data from fiscal 2008 is also included.

Guidelines Referenced

Sustainability Reporting Guidelines 2002 (GRI)

Sustainability Reporting Guidelines 2006 (GRI)


Environmental Reporting Guidelines 2007

(Ministry of the Environment, Japan)

Environmental Accounting Guidelines 2005

(Ministry of the Environment, Japan)

Supplemental Information on Website

The  symbol indicates topics for which more detailed information, not included in this CSR report due to space limitations, is available on the website.

Online CSR Report

 **Japanese:**
<http://www.citizen.co.jp/social/index.html>

 **English:**
<http://www.citizen.co.jp/english/csr/index.html>

Next Scheduled Report

June 2009

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Disclaimer

This CSR report includes future projections based on the information available when the report was written. The actual results of activities documented may differ from such future projections.

We are committed to CSR with the full participation of all employees under our management vision of being “A Company Where People Thrive.”



Management Vision: “A Company Where People Thrive”

On April 1, 2008—one year after the Group transitioned to a pure holding company system—I took hold of the management baton from former President Umehara. Since taking this position, I have instated the new management vision of being “A Company Where People Thrive” to pick up where Mr. Umehara left off with his goal of becoming a “Quality Company.”

Simply stated, a company where people thrive has the structure and culture that enable employees to fully exercise their abilities, feel that they are living up to their potential and be rewarded sufficiently for their achievements. We may also say that such a company is one whose employees feel a sense of fulfillment.

The essential goal of management is to continually

raise corporate value. Achieving this goal enables the various groups of stakeholders to be rewarded and allows for the promotion of a sustainable global society. Going forward, I think there will be great demand for management to find creative ways to harmonize this goal with stakeholders’ diverse needs.

I emphasize employees’ sense of fulfillment because I think the structural reforms carried out at many Japanese companies over the past several years have perhaps not been adequately explained to employees. Structural reforms are instituted at a company to strengthen it and enhance its corporate value, as well as to develop a solid business structure able to respond quickly to rapid changes in society. To achieve such a structure, each employee must understand and be conscious of why these structural reforms are necessary, and the company must build trustworthy relationships assuring employees that individual actions taken will be fairly evaluated.

In my management position, I will bring the focus back to the human element in the quest to be a company where people thrive. I intend to transmit in a proper manner top management’s philosophy and vision for improvement to our approximately 24,000 employees of the Group worldwide. At the same time, I would like to maintain two-way communication by remaining open to input from employees with different ideas and standpoints.

Maximizing Citizen’s Strengths, with Boosting Human Motivation as Our Goal

To bring out the best in our employees and continue to improve corporate value, we will focus on utilizing Citizen’s trademark strength in ergonomic, ultra-small, ultra-precise, low-power consumption Micro HumanTech to the greatest possible extent in the Group’s broad range of business fields. These fields include the relatively stable watches and clocks segment—from which these core technologies originate—as well as

segments more susceptible to economic fluctuations, such as electronic devices and industrial machinery.

As part of these efforts, in fiscal 2007 Citizen transitioned from a system of independent development in each business to one that hones development functions across the Group.

As we generate a steady stream of attractive technologies, products and services, we will sustain active discussion at each Group company to review our portfolio balance, including not only product development capacity but also production technology and sales capabilities. This discussion will provide us the opportunity to consider whether our technologies, products and services are competitive worldwide and whether synergies are being affected within the Group.

Rewarding Our Stakeholders

In tandem with our efforts to raise corporate value, we desire to continue giving back to the Group’s diverse array of stakeholders.

For our shareholders, we have decided to use the ratio of return to shareholders—defined as the sum of dividends paid and share buyback, divided by consolidated net income—as an indicator, with the basic policy of keeping the ratio at 30% or higher for a three- to five-year period that started in fiscal 2005. In the past two years, we have exceeded that ratio by a considerable margin.

We also seek to attain high customer satisfaction by capitalizing on the Group’s advantages in precision technologies to provide the quality products and finely tuned services for which Citizen is known. In fiscal 2007, we released a multi-function digital pedometer with a thickness of 10 millimeters—the thinnest in the industry. Moreover, in services the programming courses at which we taught customers how to get the most out of their industrial machinery were a hit.

Building good relationships with suppliers is directly connected to the ability to provide quality products, and the Group therefore actively communicates with

suppliers whenever the opportunity arises. In recent years, CSR procurement has become a significant issue for suppliers in light of their social responsibilities. As our Group includes parts manufacturers, we are well aware of the substantial impact on suppliers and understand that we must keep our own house in order in this area to gain the cooperation of our suppliers.

We will continue contributing to local communities, recognizing that we owe them our existence. The Group has bases worldwide and, although the contributions to be made at the local level vary, a common goal for all communities is to secure a certain level of employment. Once employment is maintained, we would like to consider how we can tailor our contributions to the unique characteristics of each community.

We will make the utmost efforts to cultivate a company where people thrive. Furthermore, we will create a cycle in which high employee energy enables effective performance of business activities, generating profits that are then returned to our stakeholders. To move through this cycle, we will take care to maintain open management where each member supports all others. We strive to realize this growth scenario while pursuing CSR with the participation of all employees by ensuring ongoing dialog by which management and employees see eye to eye in terms of the Company’s objectives.

I am pleased to present the completed Citizen Group CSR Report 2008. I would deeply appreciate if you could provide us with your comments and other feedback, and I look forward to your continued understanding and support of the Citizen Group.

June 2008

Mitsuyuki Kanamori
President and CEO
Citizen Holdings Co., Ltd.

We continue to offer true value based on Micro HumanTech, to bring to life people's expectations and aspirations.

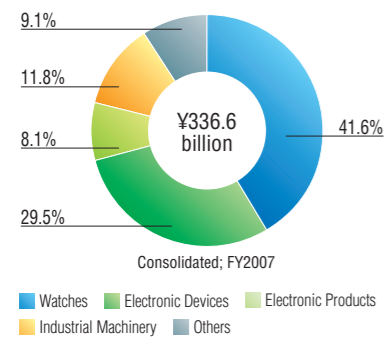
Under its business philosophy of "Contributing to and Striving to be Respected by the Citizens of the World," the Group operates an array of businesses worldwide, utilizing the ultra-small, ultra-precise and low-power-consumption technologies cultivated in its watches business.

Citizen's Micro HumanTech is alive and well in all these businesses and their products: our watches business, which creates a broad spectrum of products under the concept of integrating technology and beauty; in our electronic devices business, which supplies essential parts for personal computers and electronic equipment; in our electronic products business, which provides printers and health care equipment; and in our industrial machinery business, which supplies machines that rapidly process parts to micron precision.

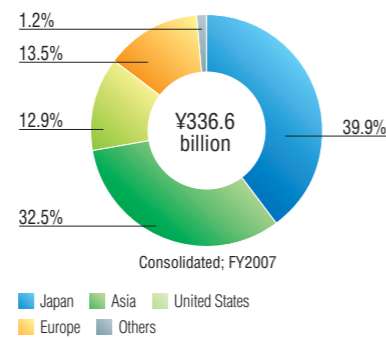
Corporate Profile

| | |
|--------------------------------|---|
| Name | Citizen Holdings Co., Ltd. |
| Establishment | May 28, 1930 |
| Location of Head Office | 6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan |
| Representative | Mitsuyuki Kanamori, President and CEO |
| Capitalization | ¥32,649 million (as of March 31, 2008) |
| Employees | 24,301 (consolidated; as of March 31, 2008) |
| Sales | ¥336.6 billion (consolidated; FY2007) |
| Listing | Tokyo Stock Exchange, 1st Section |

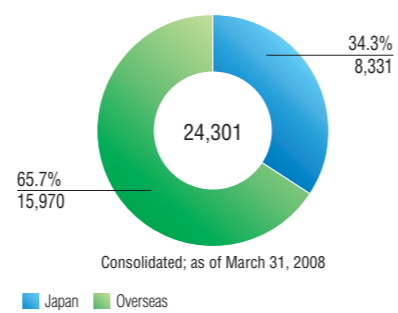
Sales by Business Category



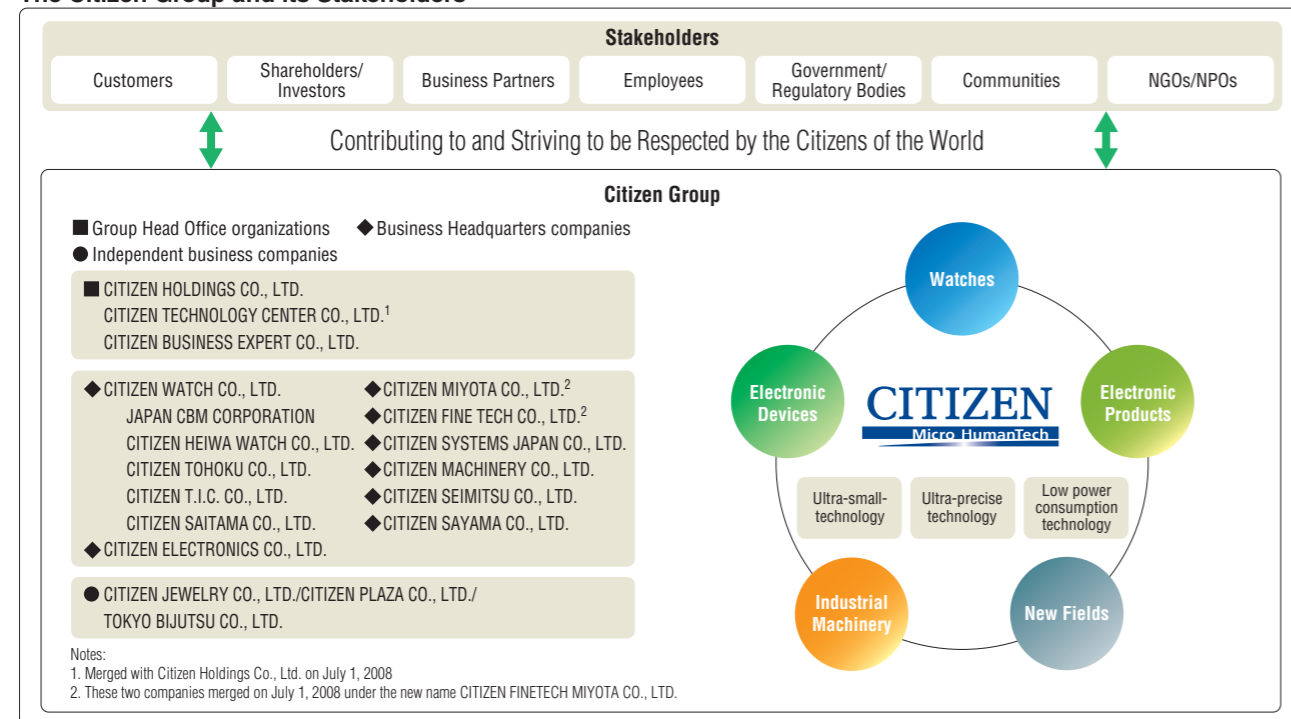
Sales by Region



Number of Employees by Region



The Citizen Group and its Stakeholders



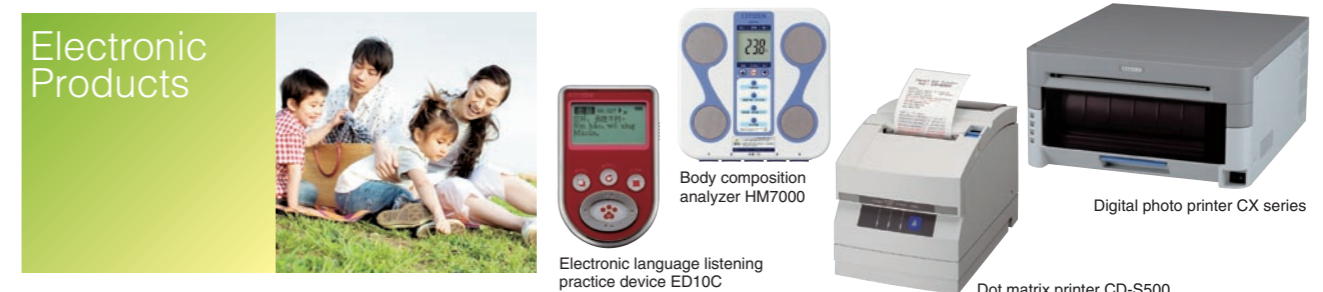
Watches



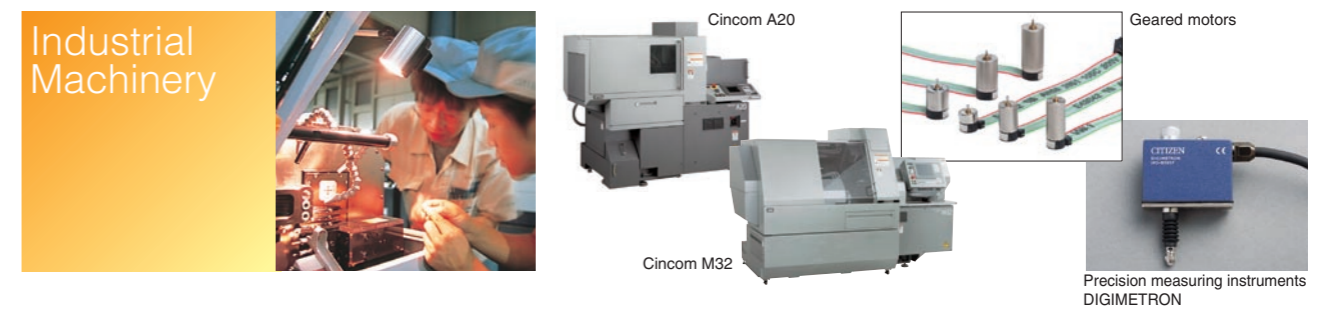
Electronic Devices



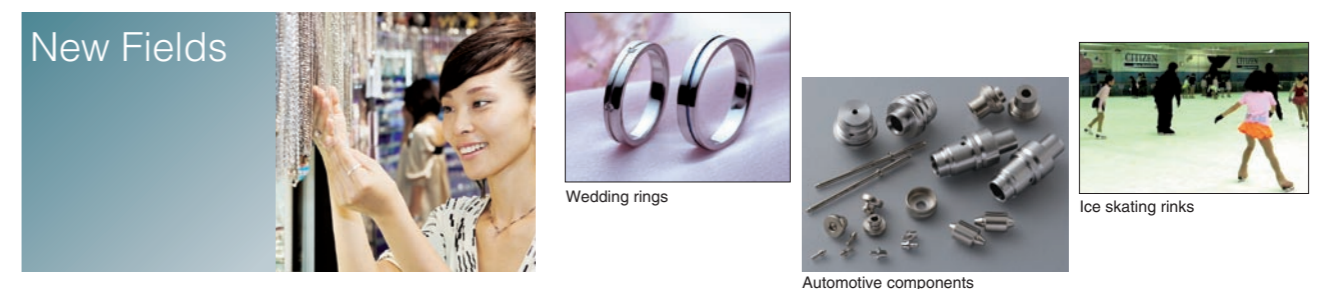
Electronic Products



Industrial Machinery



New Fields



The Businesses and Product Quality of the Citizen Group

Based on Micro HumanTech, each subsidiary of the Group—which engages in a wide variety of craftsmanship—creatively works to build quality control systems suited to its operations.

Citizen Watch Co., Ltd.

As a general watchmaker, we leverage our global quality control system to create high value-added new products.



Hisao Yamagata
 Manager of Product Engineering Section
 Production Engineering Department
 Watch Production Center

Citizen Watch is a general watchmaker that provides Citizen brand watch products to the global market—from luxury items to those at popular price points. Any brand symbolizes a promise of reliability we make to our customers. To fulfill this promise in all areas of the world, Citizen Watch is building a common global quality control system.

One element of these efforts is the Quality Meetings, held once every two months, at which concerned parties in Japan and overseas converge with the aim of correcting and preventing significant problems. Furthermore, all of our production bases are required to submit quality data every month and are subject to annual audits by specialist staff.

Based on this system, Citizen Watch works to advance the quality of its watches' movements and appearance parts. The movement is the heart of a watch, and the quality of our metal movements has earned praise from our customers. However, inexpensive (budget pleasing) disposable watches with plastic movements have become popular in recent years, underscoring the importance of enhanced production engineering capabilities that allow for high-precision, automatic assembly to accommodate both cost and quality needs. At the same time, watches are symbols of aesthetics and sensibility, so it is also important to raise the value of appearance parts through design abilities and the skill of our meisters, to create watches that appeal to the senses.

Steps being taken by Citizen Watch to meet these needs include a Watch School for refining employee skills and a Meister System to certify technicians who assemble luxury watches, as well as the Watch Production Center, newly opened in June 2007. The Watch Production Center integrates the functions necessary for launching new products—from metal and mold processing and

circuit technology to movement and exterior parts prototyping and fabrication—and serves to further strengthen coordination with the Design and Sales departments, which are gaining in importance. In other words, the purpose of the Watch Production Center is to facilitate development and procurement, share the same goals at each production stage, and to resolve problems systematically on a company-wide basis, from the unique perspective of a general producer. We also intend to swiftly tackle recent quality issues, including the



cultivation of employees with multiple skill sets and the resolution of the problem of logic short circuits in the IC portion of radio-controlled watches.

Citizen Watch will continue to share its passion for watches among all its employees and build brand trust by maintaining and elevating quality levels.

Citizen Electronics Co., Ltd.

We are enhancing "QCDE" under a business structure that rapidly responds directly to customers' quality needs.



Yoshihiro Gohta
 Director
 Senior General Manager of Applied Parts Division
 in Charge of Quality Management Division,
 1st and 3rd Electronic Devices Divisions

Citizen Electronics was established in 1970 to produce tuning-fork wristwatches that transfer the resonant vibration of tuning forks into the watch movement. However, shortly after its establishment, the company's existence was threatened as quartz watches were introduced. To overcome this challenge, Citizen Electronics moved into the development of electronic products, applying the technology it had cultivated in watch production. We started to grow as an electronic devices manufacturer and commenced mass production of chip-type LEDs first in the world in 1983. We are currently expanding our business fields, electronic devices such as chip-type LEDs, switches and sensors and application products such as backlights for LCD panels, key sheet modules and speakers, in step with growth in the market for mobile phones—where most of our products are used.

I think one reason we have earned such a high level of trust in the electronics market—which was an all-new field for us—is that we have pursued customer satisfaction by creating a system to respond to the quality demands of customers in Japan and overseas in a fast and direct manner. In recent years, the number of products for applications in vehicles, lighting and other new growth markets has increased and higher quality is being demanded, but our policy of delivering quality that exceeds customers demands remains unchanged. For example, quality standards that were formerly measured in parts per million (ppm) are now measured in parts per billion (ppb) in the automotive and lighting fields, and long-term reliability is being sought, requiring product life spans of tens of thousands of hours. To respond to these demands, Citizen Electronics has implemented upgraded failure mode and effects analysis (FMEA: a quality control procedure), in efforts to boost product quality at the design stage. We have also established accelerated test methods that enable us to ascertain product durability and reliability over the long term and verify performance and quality in a short time frame.

Moreover, we have channeled resources into compliance with the RoHS* Directive and other aspects of improving the "E" of product QCDE (Quality, Cost, Delivery and Environment)—in other words, the environmental quality of our products in terms of making sure they do not contain hazardous and prohibited substances. In line with these efforts, we have begun to implement a system of procuring only environmentally friendly materials from



environmentally conscious suppliers. Looking ahead, our environmental quality assurance system is also being verified and evaluated through the environmental audits performed by our customers. In our commitment to be an electronics parts solutions provider relied upon by our customers, we will enhance QCDE by prioritizing product quality in production and actively implementing measures to swiftly respond to market changes.

* RoHS Directive: A European Union directive restricting the use of six designated substances (lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyls (PBB) and polybrominated diphenyl ether (PBDE)) in electronic and electrical equipment

Citizen Miyota Co., Ltd.

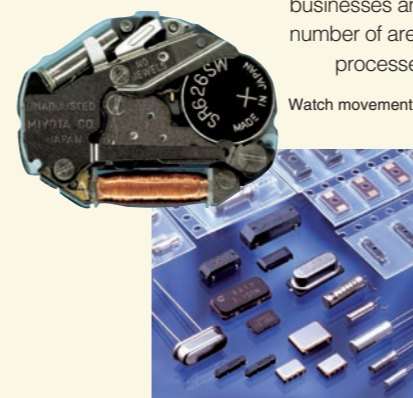
We will continue pursuing quality creation from a customer-first perspective as we respond to diverse and demanding customer requirements.



Hideo Ogihara
 Director
 General Manager of Crystal Device Department

Based around its core micro-technology cultivated in watch assembly and commercialization, Citizen Miyota has diversified its business to include palm-sized and smaller miniature precision products, including the quartz oscillators used in electronics and IT devices, and a variety of electronic products. We are proud that our business approach of putting the customer first has been learned by handling a wide array of demanding customer requirements.

For example, production line management has a substantial impact on quality in Citizen Miyota's daily production of more than 500,000 movements for watches. We have therefore implemented statistical quality control techniques, including thorough management for the detection of statistical aberrations, which enables the early discovery of subtle signs that can lead to defects. All our business locations are ISO 9001 certified and undergo regular audits, as well as audits from customers covering individual



Quartz devices

businesses and products. Such audits turn up a number of areas requiring improvement. However, processes toward early discovery, as well as the handling and resolution of problems are part of Citizen Miyota's business expertise. We will continue in this way with the understanding that a level of quality control that satisfies our customers' audits is a prerequisite for beating our competitors.

One of Citizen Miyota's businesses is the commercialization of Citizen

Watch's low-end Q&Q brand priced at the popular level, entailing global delivery of more than one million finished products per month. In this business as well, we give top priority to quality in our coordination with Citizen Watch, based on a policy that considers high quality a means of differentiating low-price products from those of our competitors.

The excitement and sense of responsibility that goes with creating end products is a valuable experience difficult for companies engaged in product assembly and commercialization to attain, and we feel our many years in business have given us a keener awareness of and sense of responsibility for quality. I am pleased to say that Citizen Miyota's product lines currently hold the top global share in their respective markets. Without resting on our laurels, we remain committed to refining product quality through the participation of all employees, while learning from our customers, the market and our small daily mistakes.

Citizen Fine Tech Co., Ltd.

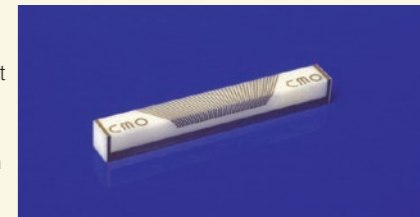
We continually strive to improve quality, based on our sense of responsibility and pride in creating "parts within parts" that utilize sub-micron precision processing technology.



Yasuteru Kakegawa
 Director
 General Manager
 Quality Management Division
 in Charge of R&D Division

Citizen Fine Tech got its start as a producer of jewels for use inside bearing jewels for watches and expanded its operations by taking advantage of precision processing technology at the sub-micron level. The company currently produces and sells liquid crystal application products and optics and ceramics products. Our products are employed in the lifestyles of many citizens as important components in products made by electronic device manufacturers. Recognizing this fact, Citizen Fine Tech considers quality improvement a significant management priority.

Our quality control system is based on ISO 9001 and employs unique innovations to accommodate the specialized requests of our customers. One example is our flagship quartz oscillator chips, which are important components that dramatically affect the properties of quartz oscillators used in mobile phones, digital cameras, personal computers and other electronic products. In prototyping for these important components, we begin by gaining an understanding of the backend processes carried out by customers and the performance they require from the end products. Then by more closely coordinating and sharing all manner of information with customers, we meet their demands through technical capabilities that enable micron-level cutting, grinding and polishing. Citizen Fine Tech also continually advances



Submount

The Businesses and Product Quality of the Citizen Group

its expertise accumulated working at the production stage with over 150 million product units per month, as well as its quality control methods and other management techniques, passing them down from senior to junior employees.

In fiscal 2007, under the theme of striving for higher product quality and customer satisfaction, Citizen Fine Tech successfully worked to boost the quality built into its products and raise its level of service to customers. Still, there is no end to our pursuit of quality. We will continue to set quality goals every year and keep the PDCA cycle turning.

Citizen Systems Japan Co., Ltd.

We strive to create “attractive quality” that is both user-friendly and distinctive, based on a craftsmanship system that fully ensures reliability and safety.



Arata Kimoto
Director
General Manager of Engineering Division and Quality Assurance Department

Citizen Systems Japan provide products that support lifestyles and business operations, through its three core businesses consisting of digital blood pressure monitors, digital bathroom scales and other health care equipment; electronic dictionaries, calculators and other electronic products; and information equipment, focusing on office printers. In developing these products, we have implemented quality management based around the design review (DR) process.

The DR process is a mechanism for ensuring product reliability and safety by assessing and improving quality at each stage—from design to delivery—while advancing to the next process. Citizen Systems Japan incorporates this process into its approval system with five steps: transfer to prototyping, transfer to metal molding, transfer to preliminary mass production, transfer to mass production, and delivery approval. The system also includes product safety checklists with 68 items that must be cleared before delivery.

Looking ahead, it will be essential to improve the companywide structure and take steps to enhance quality for each product. For instance, in health care equipment Citizen Systems Japan ensures the accuracy of data through international management standards related to the equipment's quality and safety, as well as risk management methods, and has established its own reliability standards, including those for removal of risks foreseen in a variety of usage environments, and safety evaluations of



TW600 pedometers

product construction and materials used. Citizen Systems Japan remains committed to creating products that make customers happy with quality they can trust, under the motto of “Leading Technology for Humanity.”

Citizen Machinery Co., Ltd.

Using our No. 1 global share position in miniature precision CNC automatic lathe we are devoted to building trust relationships with customers, from the design stage to after-sales services.



Shigeo Yanagidaira
General Manager of Development Department

Citizen Machinery offers machine tools to process high-precision parts for industrial products in a broad range of areas, including precision, medical, automotive, home appliance, office automation, and communications. Machine tools are known as “mother machines,” because they are indispensable in craftsmanship, and even a momentary interruption in their operation would result in tremendous inconvenience for customers. In particular, Citizen Machinery's miniature precision CNC automatic screw machines hold the top share position worldwide, and we see our obligation to maintain quality as commensurate with this global status.

Based on this awareness, Citizen Machinery has obtained ISO 9001 certification and is working to provide stable levels of quality by standardizing design for major parts and increasing processing precision for each part. Such efforts have enabled us to ensure high precision in assembly processes without relying on special skills. On the other hand, to implement the philosophy that “quality is people,” Citizen Machinery incorporates various processes to encourage the handing down of master skills.

The company's quality responsibility does not end with the production and sale of machines. We can only say we have fulfilled our responsibilities when we succeed in the stable production of high-precision parts and our customers use the products we supply with safety and peace of mind. To achieve this, we have introduced safety standards that comply with the Electronic Commerce (EC) Directive, and—to combat illegal exporting—we have included as standard on all models a function that locks the machine when it is moved inappropriately. We have made creative improvements in consideration of all manner of risks customers face.

Moreover, to ensure that we can respond immediately in the event of a malfunction, we work to ensure accurate and speedy



Cincom K16



Instruction in an automatic lathe course

response by using the Internet to ascertain the operational status of machines, distribute support programs, and conduct repairs after preparing the required replacement parts.

We will continue to reach toward higher levels of quality under a consciousness of each of our employees working to protect and develop the Citizen brand, as we strive to carry out our obligations to customers in a wide range of industries.

Citizen Seimitsu Co., Ltd.

We leverage our veritable “department store” of diverse technologies to provide quality that exceeds customers' expectations.



Misuo Horiuchi
Director
General Manager of Technology Center in charge of Corporate Planning Department

Citizen Seimitsu got its start in the watches and clocks business and has developed multiple business lines in response to customer requests that we “create things that no one else can.” The company's business content has now expanded to cover movements for wristwatches, automotive parts and glass substrates for compact hard disk drives. Its extensive array of unique technologies and its many product lines with top market shares worldwide have prompted Citizen Seimitsu's customers to refer to the company as a “department store of technologies.”

In this way, our product quality has evolved as we have spread throughout the company the experiences and expertise we have gleaned in responding to the challenging demands of customers in the Citizen Group and others in a variety of industries. For example, to accommodate stringent quality standards regarding safety and environmental performance in our automotive parts business—where we currently produce ABS components and other products

that contribute to safety and energy efficiency—we have obtained certification for ISO/TS 16949, in addition to ISO 9001. Citizen Seimitsu is also reinforcing its design management and process management functions to design forms that assure quality in the finished product, and is applying this expertise in other departments. Furthermore, in 2003 we

introduced a facility management system, which checks for aberrations in the quality of products coming off the production line, analyses cause-and-effect relationships with the equipment in case of abnormalities, and evolves the equipment to prevent recurrence. Recognizing the success of this system, Citizen Seimitsu implemented it in all the company's business departments from 2005. We have also established a system for immediate investigation into the cause of urgent and special complaints lodged in the event of a serious quality problem, allowing Citizen Seimitsu's officers and president

to respond directly to the issue.

Underpinning such activities are steady efforts that include operational training under the theme of “consistently doing what you know you should,” and a development program for handing down and improving core skills, which includes courses on automatic lathe, metal molding, watch faces and printers. We are producing videos and other materials for our bases overseas to transmit these activities in like fashion at those sites.

Striving to have its customers rely upon and turn to it as their best partner, Citizen Seimitsu remains committed to provide quality exceeding customer expectations by bringing together core technologies while incorporating new quality control methods.

Citizen Sayama Co., Ltd.

We are leveraging our parent technologies in watch part processing to refine our high technical development and quality control capabilities in response to exacting demands in cutting-edge fields.



Hiroshi Oshima
General Manager of Environmental Quality Control Department

Citizen Sayama produces and sells a broad range of products, including wristwatch parts, geared motors used in the drives of automated teller machines, surveillance cameras, robots and other mechatronics products, and precision press molds and plastic forming machines. Although most of our products are small and inconspicuous, we are advancing our high technical expertise, development capacity and quality control capabilities to respond to exacting demands in leading-edge fields, under the management principle of “small but leading technologies.”

Concerning quality control, Citizen Sayama and the three companies of the Sayama Group—Citizen Yubari Co., Ltd., Comatech Co., Ltd., and Citizen Chiba Precision Co., Ltd.—have each obtained ISO 9001 certification.

In product development, based on our quality policy of earning customer satisfaction by providing quality products and services that exceed customer expectations, we build specifications and quality into our products from the design to development stages, while listening to customer input.

Citizen Sayama will continue developing new products and enhancing its quality control systems, while adhering to its proud role as a powerful player working behind the scenes to support state-of-the-art technologies.



Coreless motors

Basic Policy and Framework

We endeavor to realize the ideals expressed in the Citizen Group Code of Conduct, which spells out the aims of the Group's common business philosophy of "Contributing to and Striving to be Respected by the Citizens of the World."

Establishing the Citizen Group Code of Conduct

Under its common business philosophy of contributing to and striving to be respected by the citizens of the world, the Group has respected the unique business, geographical, historical and cultural aspects of each of its companies, and has advanced CSR activities under each company's authority. With the transition to a pure holding company system in April 2007, we established the Citizen Group Code of Conduct to further fulfill our CSR obligations by ensuring that the officers and employees

of each Group company carry out their duties with a common consciousness toward stakeholders.

In the spirit of the United Nations Global Compact, we have compiled the Citizen Group Code of Conduct Guidelines for Implementation as specific guidance on following the code, adding provisions concerning respect for basic human rights, prohibition of child labor and forced labor, and prohibition of inappropriate gifts and favors for foreign civil servants.



Citizen Group Code of Conduct Card

CITIZEN GROUP CODE OF CONDUCT

WE WILL OBSERVE ALL LAWS AND COMPANY REGULATIONS AND WILL ACT ACCORDING TO THE CODE OF CONDUCT.

In keeping with a corporate philosophy stating that Citizen contributes to and strives to be respected by the citizens of the world, we will:

1. Provide our customers with products and services that demonstrate our concern for safety, quality, and the environment.
2. Engage in fair, transparent and open competition in business transactions, and maintain healthy relationships with our suppliers and government regulatory authorities.
3. Work to communicate with the general public, taking the initiative in making corporate information openly available, while at the same time practicing responsible data management.
4. Recognize that environmental issues are a common concern of mankind and a crucial issue for management in terms of the survival and activities of the company, and engage these issues in a voluntary, proactive manner.
5. Value symbiosis with local communities, and strive to contribute to society as a good corporate citizen.
6. Ensure a safe and pleasant working environment and encourage the development of our employees' abilities and energies while respecting their characters, individuality, and diversity.
7. Respond to anti-social behavior by individuals and organizations in a decisive manner.
8. Value and respect the different cultures and customs of foreign countries, and contribute to the development of local communities.
9. The top management of the Citizen group recognize that implementing this Code of Conduct is their personal responsibility, and that they must take the lead not only in enforcing it within the company, but in conveying it to our business partners and suppliers. In addition, they must always be conversant with opinion within the company and outside it, develop an effective internal system for compliance with the Code of Conduct, and work to ensure a thorough adherence to corporate ethics.

The company and its employees will make untiring efforts to observe this Code of Conduct. If a situation that contravenes this Code of Conduct arises, the company will strive to resolve it and prevent its recurrence, and make an appropriate public report. The company will also take strict disciplinary measures upon determining the responsibility and authority of those involved.

Effective April 6, 2007
Enacted by the Corporate Strategy Committee of the Citizen Group

Participating in the U.N. Global Compact

The Group announced its participation in the United Nations Global Compact in April 2005, and we have channeled resources groupwide into supporting, respecting and carrying out the Ten Principles.

As with the Citizen Group Code of Conduct, we value the Ten Principles as another important code of conduct in Japan and at our overseas bases. The Group conducts surveys on the implementation status of the U.N. Global Compact at all its overseas bases and works to ensure its business partners and suppliers understand the spirit of the U.N. Global Compact.

The Ten Principles of the U.N. Global Compact

- **Human Rights**
 - Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
 - Principle 2:** make sure that they are not complicit in human rights abuses.
- **Labour Standards**
 - Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 - Principle 4:** the elimination of all forms of forced and compulsory labour;
 - Principle 5:** the effective abolition of child labour; and
 - Principle 6:** the elimination of discrimination in respect of employment and occupation.
- **Environment**
 - Principle 7:** Businesses should support a precautionary approach to environmental challenges;
 - Principle 8:** undertake initiatives to promote greater environmental responsibility; and
 - Principle 9:** encourage the development and diffusion of environmentally friendly technologies
- **Anti-Corruption**
 - Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

Citizen Group CSR Promotion System

The Group's CSR activities are carried out under the ultimate authority of the president of Citizen Holdings. As a department devoted exclusively to CSR under the direct control of the president, the CSR Department functions as secretariat of the CSR Committee, which formulates and recommends CSR-related policies and measures for the Group. The CSR Committee consists of representative members from Citizen Holdings,

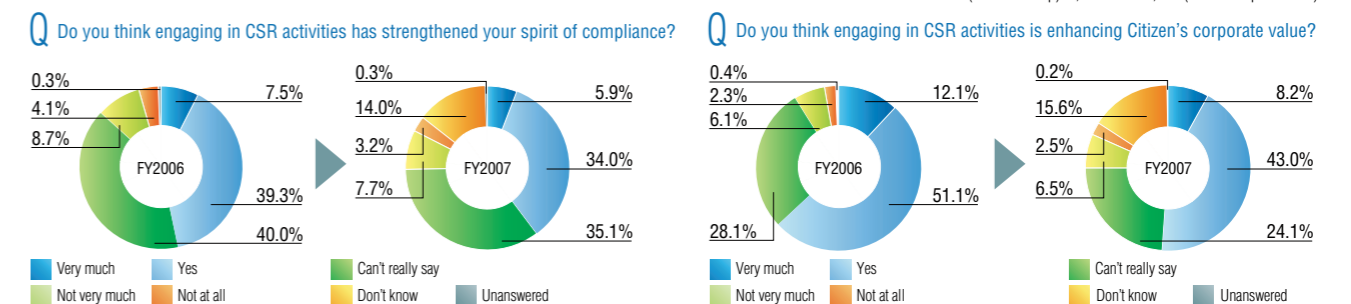
Citizen Technology Center and Citizen Business Expert. To advance CSR activities as a united Group effort, we have established CSR committees at each subsidiary and a Citizen Group CSR Promotion Committee consisting of chief personnel in charge of CSR selected from each company.

Moreover, we have established various special committees—in which each Group company participates—to formulate and execute measures regarding security trade control, environmental management, construction of internal control systems, and other important themes for the Group.

CSR Promotion Framework



Changes in the Results of CSR Awareness Surveys (FY2006 only covers Citizen Watch)



Voice Carrying out CSR with the Participation of All Employees

Citizen Holdings establishes policies for and promotes CSR activities to meet the expectations of all its stakeholders, with the understanding that CSR is the essence of management. We focus on orienting these policies toward enabling the individual employees—who are the ones who actually implement CSR—to carry out their duties under the guidance of the Citizen Group Code of Conduct, and with understanding and sympathy

for the spirit of the code. We advance CSR with the participation of all employees, based on the belief that such an approach will raise our business value, lead to customer satisfaction and revitalize the Company.

Seichi Tomizawa
General Manager of CSR Department
Citizen Holdings Co., Ltd.



Corporate Governance

We are working to enhance corporate governance to ensure management transparency and achieve the optimal allocation of management resources in our multi-faceted business activities.

Basic Approach to Corporate Governance

The Citizen Group endeavors to improve business value and contribute to society through sustained corporate activities in harmony with the local community and the global environment, under the business philosophy of "Contributing to and Striving to be Respected by the Citizens of the World." In the continued pursuit of this business philosophy, the Group works to strengthen corporate governance toward ensuring management transparency and achieving the optimal allocation of management resources in its multi-faceted businesses.

Based on the transition to a pure holding company system in April 2007, Citizen Holdings adopted a basic policy on the construction of new internal control systems at its Board of Directors' meeting in March 2008, pursuant to the Companies Act.

Roles of the Pure Holding Company and the Subsidiaries

The Group has clarified the scope of responsibility and authority of Citizen Holdings and each of the subsidiaries.

Citizen Holdings formulates management policy and makes investment decisions from the perspective of optimizing groupwide management, and oversees and supervises subsidiaries by monitoring whether their business activities adhere to the management policy and whether their management is transparent.

At the same time, each of the watches and clocks, industrial machinery, electronic devices, and electronics products businesses are governed by their own business controlling companies, which are operated independently in light of the unique features of their respective industries for more expedient management and enhanced profitability.

Furthermore, Group strategy meetings covering such areas as human resources, finance, R&D, intellectual property management, brand management, and risk management have been set up within Citizen Holdings to harmonize groupwide strategies with the policies of the business controlling companies.

Roles of the Directors and the Board of Directors

The Board of Directors of Citizen Holdings consists of 10 members, including 2 independent outside directors.

The Board of Directors determines management policies and other important items for Citizen Holdings and the Citizen Group, and supervises execution of directors' duties. Presidents of important subsidiaries from among the business controlling companies are also appointed as part-time directors, enabling decision-making from a comprehensive perspective in consideration of the views of the business controlling companies.

In addition, the management of the Group reflects the opinions of outside directors with abundant business experience in corporate management and related areas. We have also established the Nomination Committee and Remuneration Committee—consisting of outside directors and the president—to provide advisory support.

Roles of the Auditors and the Board of Auditors

The Board of Auditors of Citizen Holdings consists of 4 members, including 2 outside auditors.

Each auditor checks whether the Company is growing in a healthy and sustained manner, whether internal controls are functioning to uphold the trust of the public and whether laws and corporate rules are being followed. They also check execution of the general duties of directors by looking through important financial statements, examining operations and financial status and attending the Board of Directors and various other meetings.

Another important role of the auditors of Citizen Holdings is checking the execution of directors' duties at each business controlling company. To achieve this, the Group Board of Auditors—consisting of full-time auditors of Citizen Holdings and auditors of each business controlling company—meets to share groupwide audit policies to enable consistent auditing functions through cooperation among Citizen Holdings and the business controlling companies.

Internal Control System

To comply with the Financial Products Exchange Law (J-SOX), Citizen Holdings launched a project in November 2006 to construct an internal control system.

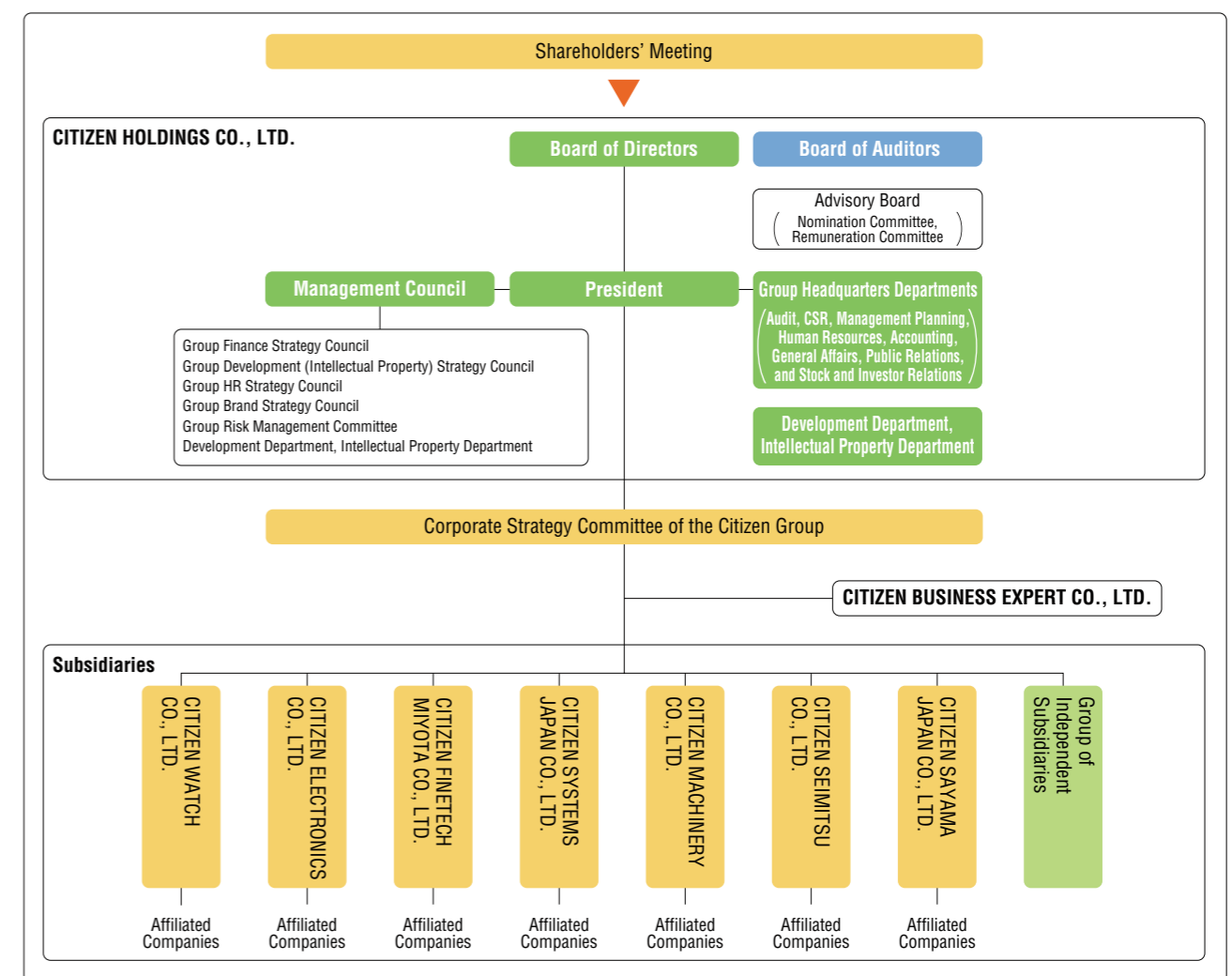
These activities are currently being expanded from Citizen Holding to the Group's consolidated subsidiaries, and each company has conducted efficacy assessments as of March 31, 2008. Also, to ensure legally required submission of reports on internal controls in the fiscal year ending March 31, 2009, we have been conducting internal audits of each company's internal control development and operational status since April 2008, as part of continuing efforts to enhance internal controls.

To win trust in our financial statements, which is the main intent of the law, we will continue to conduct internal control activities not only based in management but as a concerted effort of all concerned parties within the Group.

Corporate Governance Quotient by ISS

Institutional Shareholder Services, Inc. (ISS), which evaluates functions related to corporate governance at over 7,500 companies around the world and provides the results to institutional investors and others, has ranked Citizen's Corporate Governance Quotient (CGQ) in the top 3.6% of Japanese companies as of April 1, 2008.

The Citizen Group Corporate Governance Structure (as of July 1, 2008)



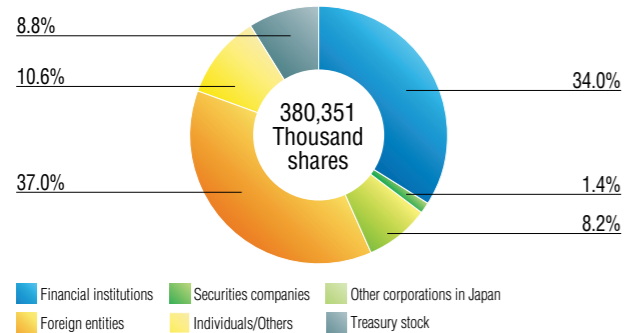
Dialog with Shareholders and Investors

We strive to actively communicate with shareholders and investors and provide them with timely, accurate and appropriate information to steadily fulfill the trust and expectations they have placed in us.

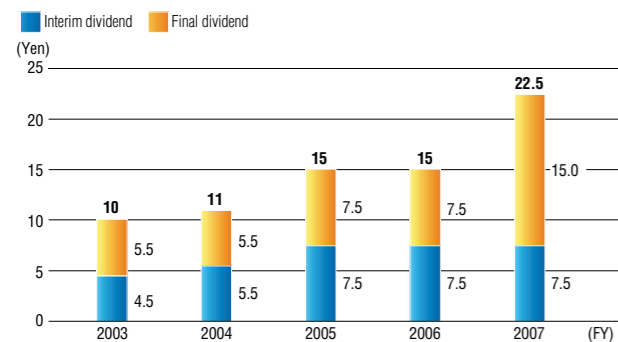
Dividend Policy

Citizen Holdings has decided to use the total amount of dividends and share buyback divided by consolidated net income as the "ratio of return to shareholders" and to make the average of the ratio over any given three- to five-year period at least 30%, starting from fiscal 2005. Under this policy, dividend amounts are decided by considering how to strike a balance between reflecting consolidated business performance and maintaining stable dividends. Furthermore, we aim to employ share buyback to return profits to shareholders through increases in earnings per share, as well as to improve capital efficiency.

Composition of Shareholders by Category (as of March 31, 2008)



Trend in Dividends per Share



Information Disclosure and Investor Relations Activities

Investors
<http://www.citizen.co.jp/english/ir/index.html>

Citizen Holdings believes that daily communication with shareholders and investors leads to a more broad-based shareholder composition and a share price more suited to the Company's business value. We therefore work to disclose highly reliable information required for shareholder and investor decision-making in a timely, fair and appropriate manner.

In its investor relations activities, the Group focuses on ascertaining the information needs of its shareholders and investors and engaging in dialog to meet those needs. We are

providing more opportunities for communication, including earnings announcements and conference calls conducted four times a year, one-on-one meetings, factory tours, and participation in investor relations events and conferences held by securities companies. We are also improving and adding to the Company's website and presentation materials to encourage more accurate understanding of the Group and enable more appropriate explanations in response to inquiries. In fiscal 2007, with the transition to a pure holding company system, we strove to provide shareholders and investors with an accurate understanding of the goals of the new system and our future business strategy.

Open Shareholders' Meetings

To allow more shareholders to attend, Citizen Holdings chooses to hold its annual shareholders' meetings in large-capacity locations with easy access, avoiding days on which other major companies hold their meetings.

The June 2007 shareholders' meeting was attended by 312 shareholders—153 more than in the previous year. Moreover, for easier exercise of voting rights, starting with the 2007 shareholders' meeting we have maintained a platform to enable institutional investors to exercise their voting rights electronically. To encourage closer understanding of the Group, we have also added product introduction panels and a venue for direct dialog.

We remain committed to creating a structure in our shareholders' meetings that enables many shareholders to participate, voice opinions and ask questions and that otherwise ensures smooth operation of the meetings.



Shareholders' meeting

Assessments from Outside Organizations

Since fiscal 2004, Citizen Holdings has been selected for four consecutive years for inclusion in the Ethibel Sustainability Index by the Socially Responsible Investment (SRI) assessment company Ethibel, of Belgium.

Moreover, as of March 2008, the financial status of Citizen Holdings was rated "A2" by Moody's Investors Service, a rating that deems the Company to have a high degree of trust and extremely low risk of default on debts.



Compliance

As a priority of its CSR activities, the Group advances compliance-related risk management in a variety of ways.

Compliance Promotion Structure and Education

● Compliance and Risk Management Activities

As a priority of its CSR activities, the Group advances compliance-related risk management based on the Citizen Group Code of Conduct.

In conducting its activities, the Group emphasizes educational training and dialog with the central aims of raising awareness and improving the understanding of management and employees. We approach these efforts from socioeconomic aspects and ethical and aesthetic ones, striving to foster a corporate culture that enables lively debate and free discussion on compliance.



Code of Conduct poster

● Considering Clarification of Standards for Handling Compliance Violations

As in the event of accidents or disasters, any compliance violations must be reported to the CSR Department at Citizen Holdings. We plan to clarify standards to enable consistent handling of violations at each Group company and to create a mechanism for compliance auditing.

There were no major compliance violations at any of the Group companies in fiscal 2007.

Efforts at Each Group Company

● Utilizing CSR Activity Checklists

In fiscal 2007, Citizen Watch began checking compliance status by using CSR checklists. The items checked are reported and confirmed at the CSR Promotion Committee, which is managed by the CSR Promotion Department. From fiscal 2008, the items will be reflected in the audit plan for internal auditing purposes.

● Setting Up a Dedicated Webpage on the Corporate Intranet

In fiscal 2007, Citizen Electronics set up and launched a webpage dedicated to CSR compliance on the Citizen Electronics Group's corporate Intranet. We intend to establish a full-time organization aimed at planning the implementation of regular education and building an educational system.

Internal Reporting System

● Establishing Internal and External Hotlines

The Group has established an internal reporting system to forestall the eventualities of legal violations and misconduct based on dishonesty and to quickly identify cases in which a violation could occur to reduce all manner of risks.

The Internal Reporting System Rules specify that whistleblowers' privacy be fully protected and that such employees not be treated unfairly. The rules also require fair and equitable investigations, opportunities for persons reported to refute the claims and reporting of the results of investigations back to the whistleblowers.

In cases where employees find it difficult to consult their superiors—who are their normal reporting contacts—they may instead report violations to the hotlines at their respective company and at Citizen Holdings. In April 2008, we also set up an external hotline in light of the results of CSR awareness surveys and other research. We have worked to make an easier climate for reporting violations, such as by enabling anonymous reporting.

To disseminate the internal reporting system within the Group, we provide contact information and precautions for reporting on the Group's Intranet. The intent and significance of the system is also explained in detail at training sessions for new recruits and newly appointed management staff.

Acceptance of Appropriate External Labor

In taking in external labor, Citizen Holdings transmits to each Group company the approach to compliance to keep in mind when hiring temporary employees and outsourcing, to ensure proper operations in line with employment contracts. The Company also monitors each Group company once a year to ascertain the status of temporary labor and outsourcing and encourages self-checks on the appropriateness of using external labor.

Risk Management

Citizen has established groupwide committees for each important business theme, including security trade control, subcontracting and information security.

Risk Management Structure

● Establishing Groupwide Committees for Each Important Business Theme

In response to the various risks in its business activities, the Citizen Group has constructed internal control systems and has established groupwide committees for each important business theme, including security trade control, subcontracting and information security. We will consider forming additional new committees to accommodate changing circumstances.

● Security Trade Control Committee

The Citizen Group Security Trade Control Committee is responsible for revising and abolishing rules concerning security trade control, disseminating basic policies and advancing measures at each Group company and rectifying and auditing when problems occur. As a subordinate organization with members from 17 Group companies, we have established the Export Control Company Coordinating Committee to request and manage the implementation of Group's security trade control rules at each Group company.

● Citizen Group Committee on Appropriate Subcontracting

The Citizen Group Committee on Appropriate Subcontracting is a controlling body that promotes Group compliance activities pertaining to subcontracting laws. The committee was established in fiscal 2005 and makes decisions on policy related to compliance with subcontracting law for the Group.

Continuing its auditing activities from fiscal 2006, the committee audited 19 Group companies in fiscal 2007. These audits verifiably resulted in improved compliance structure and manuals at each company, a greater number of companies performing their own internal audits and an otherwise steady improvement in compliance levels.

To enhance the systems for compliance with subcontracting laws, in fiscal 2008 the committee will continue to visit all the Group companies to conduct training sessions and increase the number of Group companies subject to an audit. In fiscal 2008, the committee will continue to visit all the Group companies to provide training sessions, increase the number of Group companies subject to audit and work to enhance systems for compliance with subcontracting laws.



An audit

● Information Security Committee

To manage all kinds of information in an appropriate and safe manner, and to protect such information from threats from within and outside the Company, in January 2008 the Group established the Information Security Committee, which formulates and manages policies and measures regarding information security. We plan to radiate the committee's activities steadily outward to permeate and take root throughout the Group.

Formulating a BCP to Reduce Disaster Risks

The Group has for some time maintained disaster prevention committees at all of its companies, each with disaster plans in the event of a calamity. However, a string of major earthquakes, as well as typhoons and other wind and rain disasters, have inflicted serious damage in recent years, underscoring the urgency of formulating a groupwide business continuity plan (BCP).

In fiscal 2007, Citizen Business Expert established the BCP Committee and began creating a BCP. In fiscal 2008, we plan to compile manuals that include coverage of management structure and to provide related information to each Group company going forward.



Disaster drill

Efforts at Group Companies

● Strengthening Disaster Drills

Every year, our Tokyo and Tokorozawa offices conduct disaster drills building by building or block by block at member Group companies. In fiscal 2007, 13 of these drills we carried out in Tokyo and nine in Tokorozawa. In addition, the offices had private fire brigades conduct monthly fire engine inspections in Tokyo, and had employees practice operating fire extinguishers and hydrants.

● Including Relocation Detection Devices as a Standard Feature

In light of its business characteristics as a producer and seller of tooling machines, Citizen Machinery considers security trade control a substantial area of business risk. As part of measures to combat related risks, in 2001 the company started installing relocation detection devices in its tooling machines for customers in Asia—an industry first. These devices lock machinery when they detect that it has been moved inappropriately, and since April 2007 have been included in all models and products shipped by Citizen Machinery.

Dialog with Customers and Raising Customer Satisfaction

We are committed to utilizing customer input in all our businesses, to further improve customer satisfaction.

Efforts at Citizen Watch

● Basic Approach to Customer Satisfaction

Citizen Watch Co., Ltd., carries out an array of activities that take advantage of customer input under the banner of actively striving to expand operations by leveraging increased customer satisfaction.

● Ensuring Customers Use Our Products Correctly

To ensure that customers use our products safely and correctly, we pay special attention to the writing style, fonts and text sizes we use in compiling instruction manuals, under the themes of visual clarity and readability. We have also been placing operational guidance videos on our website since 2005. We will consider having such documentation evaluated by third parties to aid in improvement.

In fiscal 2007, we distributed 50,000 new "quick manuals" to help owners of Eco-Drive and radio-controlled watches accurately understand product information. We also worked to popularize band cleaning fluids to help customers keep the metal bands on their watches clean.

Showing Watch Hand Movement through Videos

It can be difficult for product owners to interpret the watch hand movements shown in the instruction manuals when operating the crown or buttons. We have therefore placed videos on our website showing the movement of watch hands identical to that of actual products. The videos can be viewed by clicking on a button in the watch illustration on the product page. The videos currently cover the multi-function watches released in Japan in fiscal 2007, with plans to expand coverage going forward.

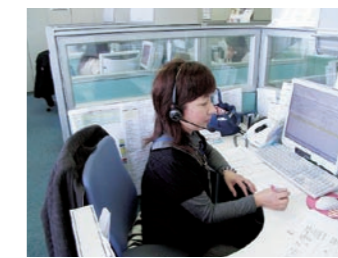
In the U.S. market, we include instructions within our own product catalogs and distribute CDs with video to customers requesting them.



Website screen showing how to set the time

● Enhancing Technical Knowledge and Systems for Searching Information

At the Customer Help Desk, we respond to all manner of customer inquiries, including questions and requests for advice on product performance and material quality before purchase, and questions about product operation after purchase. To raise customer satisfaction through quality response to inquiries, we make daily efforts to keep employees up to date on technical information related to highly functional and high-performance products, and to enhance systems for searching relevant information.

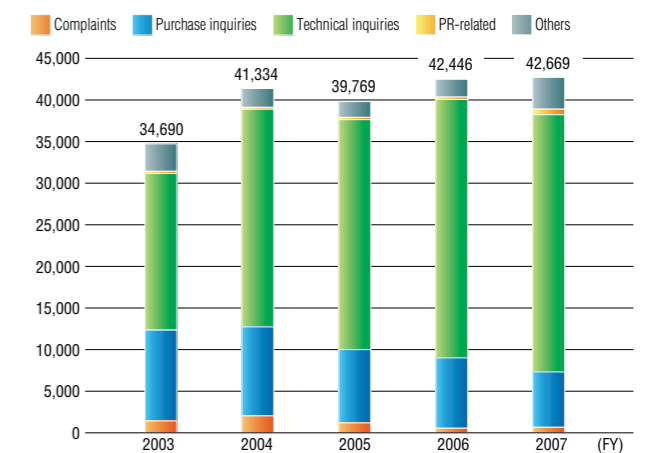


Customer support at the Customer Help Desk

● Surveys on Customers' Satisfaction with Our Responses to Their Inquiries

In May 2007, the Customer Service Desk introduced a system enabling customers to rate their level of satisfaction with e-mail consultation on a five-point scale. We conduct detailed analyses on the results and utilize the findings to improve daily work processes.

Inquiries to the Customer Service Desk



Dialog with Customers and Raising Customer Satisfaction

● Support Services in Japan and Overseas

Citizen Watch provides all manner of information to customers at its support service centers in Sapporo, Sendai, Tokyo, Nagoya, Osaka and Fukuoka. For repairs, rather than having customers bring products back to the store of purchase, the support service centers receive such items directly, for more appropriate and speedy response. Information on defects is shared periodically among Repair, Development, Production and other departments, which utilize this information in product development and enhancement of specifications.

Overseas, we provide repair services at approximately 190 service centers around the world, which are listed in our International Warranty. At 15 of these service centers under the direct management of Citizen Watch, we conduct ongoing activities to promote the maintenance and improvement of service standards.

● Measures to Prevent Counterfeiting

Citizen Watch is strengthening measures to prevent damage from counterfeit products. However, a glut of sophisticated imitations difficult to distinguish from the official products has prompted Citizen Watch and three other Japanese watchmakers to work together on countermeasures.

As part of this coordination, in fiscal 2007 we held training sessions to help customs officials in Thailand, China and other countries distinguish counterfeit products from the genuine articles. We also introduced methods of detecting imitation calculators at the training sessions, which led to the discovery of more than 110,000 fakes—including copies of other companies' brands—in the three days following the session. Overall, the sessions were a major success.

The Group will continue to step up measures against counterfeit products for all loyal customers of the Citizen brand.



Training session in Thailand

Activities at Each Group Company

● Customer Satisfaction Surveys

Citizen Electronics Co., Ltd., carries out customer satisfaction surveys every February. People in charge of purchasing, quality and distribution ask customers detailed questions in each area through questionnaires. Based on the results, any items requiring improvement are reflected in the items to be executed in policy management for the following year, leading to concrete improvements.

● Considering Ways to Prevent Recurrence of Complaints at Quality Improvement Meetings

Citizen Fine Tech Co., Ltd., has established Customer Complaint Handling Guidelines* to respond to customers' consultation needs, requests and complaints. Citizen Fine Tech considers steps to prevent recurrence of complaints at Quality Improvement Meetings, and thoroughly implements other countermeasures by giving guidance to people in charge at the departments concerned.

* These guidelines specify how to identify root causes using "5-way analysis," verify corrective measures and follow up after improvements have been made.

● Maintaining Electronic Manuals in Seven Languages

Citizen Machinery Co., Ltd., strives for "the world's highest level of customer satisfaction" by ensuring that customers use its products correctly and safely.

For example, Citizen Machinery appoints industrial designers for all products in efforts to ensure safety from an ergonomic standpoint. Another example is the use of color schemes friendly to customers with incomplete color vision in operational displays for machinery. The company also focuses on compiling instruction manuals from the user's perspective.

From fiscal 2007, Citizen Machinery has maintained electronic manuals that use PDF files. For the benefit of the company's many overseas customers, manuals are published in Japan in Japanese, English and Chinese. German, French, Spanish and Korean editions are published in the corresponding countries to cover an even broader range of language needs.

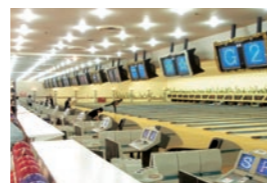


Manuals covering a wide array of languages

● Measures to Ensure Barrier-Free Environments

Citizen Plaza Co., Ltd., works to eliminate barriers at the bowling alleys, restaurants, ice skating rinks and other facilities under its operation where the general public gathers, such as by installing slopes for staircases.

To prevent underage drinking and smoking, Citizen Plaza also requires employee education at tenant restaurants and conducts independent patrols within the complexes it operates.



Bowling alley

● Offering Programming Courses

Citizen Machinery holds programming courses for approximately 500 customers each year, to ensure that customers use its products safely and correctly and get the most out of its machine tools. The courses have been a hit with customers, with some companies incorporating the courses into their internal training programs. Citizen Machinery intends to continue enriching the educational software and other aspects of these courses.



Programming course

Voice Reflecting Customer Input in Product Development and Sales Activities

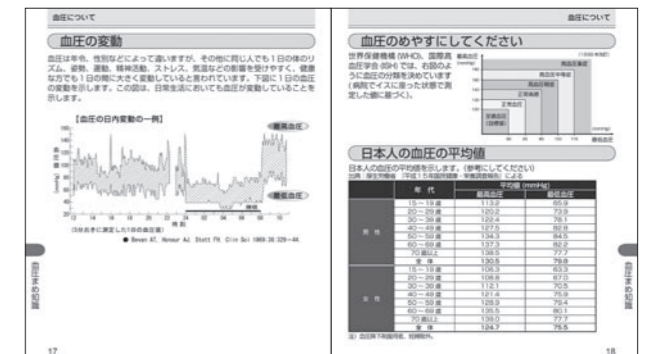
Citizen Systems Japan Co., Ltd., develops and sells electronic products, health care equipment and other devices. Health care equipment is particularly relevant to people, and the company cannot create new products without paying attention to the input of its customers. To ensure that everyone can use its products with a sense of security, Citizen Systems employs universal design for its digital blood pressure monitors, electronic thermometers, pedometers, bathroom scales and body fat scales, in concert with its efforts to enhance the safety of the products themselves. Furthermore, based on the Pharmaceutical Affairs Act and the Measurement Act, the company is devoting creative resources to ensure products are used correctly, such as including many illustrations and improving fonts and text sizes on packaging and in instruction

manuals. At its customer help desk, Citizen Systems responds to customers seeking consultation, support, answers to questions and clarification, as well as taking suggestions and handling complaints. The company records information gleaned from its customer interactions in a database, aiming to swiftly put customer input to use in product development and improvement, based on giving sincere attention to the views of each customer. Promoting so-called "visual control" in this way, the information is utilized in deliberations on measures for improvement at meetings of concerned departments carried out at the end of every month.

Hideki Shimizu
General Manager
Customer Help Desk at CS Center
Citizen Systems Japan Co., Ltd.



An instruction manual emphasizing ease of comprehension and readability (CH433B digital blood pressure monitor)



Improving Relationships with Business Partners

To achieve co-existence and co-prosperity with its suppliers, Citizen maintains dialog with these business partners toward realizing fair and transparent transactions and forging mutual trust-based relationships.

Basic Approach to Purchasing

● Striving to Build Trust-Based Relationships for Continued Business Operation and Growth with Business Partners

The Citizen Group aims to achieve coexistence and co-prosperity with business partners.

Based on its business philosophy of "Contributing to and Striving to be Respected by the Citizens of the World," Citizen goes about procuring materials and services in line with relevant legal statutes and the Citizen Group Code of Conduct (page 11), and reinforces its compliance activities with respect to the subcontracting law to increase the fairness and transparency of transactions with suppliers and build mutual trust relationships.

With Citizen's transition to a pure holding company system in fiscal 2007, the Group has constructed closer working relationships with its business partners, including enhancements to the procurement functions of each of its subsidiaries possessing sales and production sites, and more active communication with suppliers. At the same time, information exchange meetings attended by the purchasing departments of each Group company are held to encourage coordination within the Group.

Advancing CSR Procurement

● "Environmental Protection" and "Respect for Human Rights" Added to Assessment Standards

The Group seeks to form solid partnerships with suppliers that understand the 10 principles of the United Nations Global Compact, including regulatory compliance and respect for the environment and human rights, and that actively carry out their corporate social responsibilities.

Toward this end, in fiscal 2006 we started formulating supplier assessment standards, which incorporate provisions for environmental protection, respect for human rights, and

service and technology into the management, quality, cost and delivery (MQCD) standards for suppliers. We are capitalizing on Citizen's transition to a pure holding company system to create Groupwide standards in this area.

In fiscal 2008, we will augment the assessment content and develop Group guidelines for CSR procurement based on the efforts made so far.

Activities at Each Group Company

● Starting to Amend the Purchasing Management Rules from a CSR Perspective

Citizen Electronics holds meetings at appropriate times to build better relationships with its suppliers in Japan and overseas.

In fiscal 2007, the company exchanged information on market trends, prices, product quality, delivery, environmental management and other topics with its suppliers. Citizen Electronics also advances its own CSR procurement and plans to amend its Purchasing Management Rules from a CSR perspective.

● Conducting Yearly Audits

Based on its Purchasing Management Rules, Citizen Miyota Co., Ltd., selects suppliers at which to conduct yearly audits, according to documented procedures prepared by its Purchasing and Logistics Department. The company then requests and verifies improvements in deficient areas. Citizen Miyota also holds routine meetings, and at its fiscal 2007 meetings it exchanged views with its business partners on market trends for purchased materials, prices, VE* proposals, lead times, environmental initiatives and other matters.

Moreover, Citizen Miyota began formulating its CSR Procurement Policy in the second half of fiscal 2007.

* Value engineering (VE) is a method for raising the value of products and services by understanding the relationship between the functions the products or services are to serve and the costs required to implement such functions.

Voice From the Procurement Support Department



Masashi Ozaki
General Manager
Procurement Support
Department
Citizen Business
Expert Co., Ltd.

The increasingly diverse roles assigned to purchasing departments include reducing raw materials costs, responding to the need to save resources, procuring high-quality materials and just-in-time procurement. Amid this trend, the Procurement Support Department at Citizen Business Expert Co., Ltd., routinely communicates with its suppliers, especially by exchanging information on market conditions. The department also coordinates factory visits by people in charge of purchasing at each Group company, supports technology seminars and visiting exhibitions put on by suppliers, and performs other activities to enhance mutual understanding and relationships with business partners.



Visiting exhibition

Working with Our Employees for Their Benefit

By respecting individuals and their diversity, Citizen strives to create work environments where all employees can work comfortably, with peace of mind.

Respecting Diversity

● Group Policy

The Group considers it a corporate obligation to respect individuals and their diversity, and to create work environments where all employees can work comfortably, with peace of mind.

● Continually Carrying out Well-Planned Recruitment Activities

The Group continually conducts well-planned recruitment activities to accommodate a variety of needs, including regular hiring of new graduates from a long-term perspective, mid-career recruitment as needed and the securing of contracted and temporary employees for particular tasks. In employment, we emphasize individual competence, aptitude and drive in efforts to ensure equal opportunities and diversity.

● Working to Expand Occupational Categories for Women

The Group's basic policy on the utilization of female employees is to carry out management according to conditions in each department to enable all employees to realize their full potential, regardless of gender.

Although recruitment and assignment decisions are left to the discretion of each Group company, certain subsidiaries lag in terms of utilization and advancement of female employees. We believe this situation will require each Group company to start creating long-term plans and implementing concrete measures in light of their respective workplace conditions.

● Promoting Employment of People with Disabilities

Citizen works actively to employ people with disabilities, based on the basic policy of "working together." The employment rate for people with disabilities in fiscal 2007 fell below that of the previous fiscal year according to legally mandated reporting (as of June 1). However, as of March 31, 2008, subsequent recruitment activities had brought the employment rate back up to the level of the prior year.

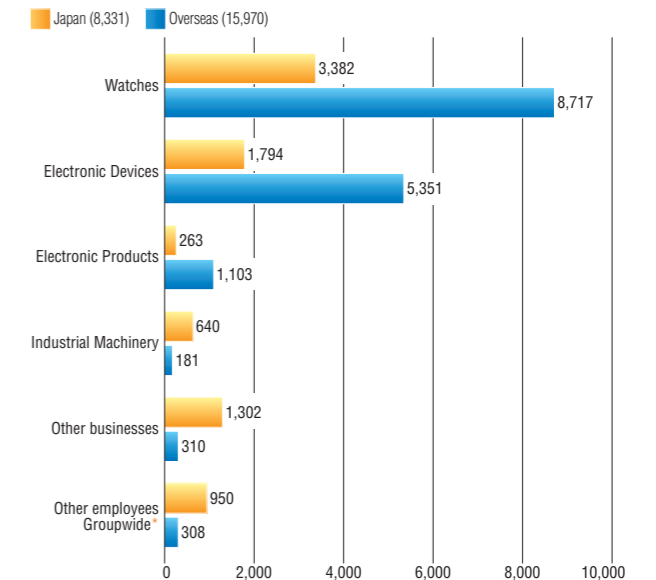
We remain committed to employing more people with disabilities and expanding occupational categories for them.

● Continuing Employment of the Elderly

In response to the amended Elderly Employment Stability Act, which went into effect in April 2006, the Group has introduced the "Elderly Partner Program," which allows for re-hiring contracts with employees who wish to continue working after retirement age, based on certain conditions.

We will continue our efforts to secure employment for the elderly to the extent possible. At the same time, extended employment tends to raise the average employee age. In the interest of sustaining corporate vigor, so Citizen seeks to carry out its operations in line with the intent of the law, by maintaining a balance in the breakdown of ages in the workplace and formulating new personnel policies.

Number of Employees by Business Segment (as of March 31, 2008)



* Refers to employees in management departments not classifiable into specific segments

Recruitment at 19 Major Group Companies

| | New graduates | | Mid-career recruits | |
|--------|---------------|--------|---------------------|--------|
| | FY2007 | FY2007 | FY2007 | FY2007 |
| Male | 122 | 52 | 52 | 52 |
| Female | 41 | 35 | 35 | 35 |
| Total | 163 | 87 | 87 | 87 |

Employment of People with Disabilities at 19 Major Group Companies

| | FY2006 | FY2007 |
|-----------------|--------|--------|
| Employment rate | 1.67% | 1.64% |

Note: Tabulated from reports (as of June 1) by each company to the Public Employment Security Office

Working with Our Employees for Their Benefit

Cultivating Human Resources

● **Group Policy**

The Group strives to cultivate human resources suited to the unique features of each subsidiary, as well as personnel able to adapt to handle a variety of tasks, from the perspective of Groupwide optimization. In addition to the human resource cultivation programs independently developed at each Group company, Citizen Holdings Co., Ltd., plans to improve the overall education environment, including further enrichment of opportunities for all types of employee training across the entire Group.

● **Introducing a Groupwide Education Program for Occupational Advancement**

From a Groupwide perspective, Citizen Holdings is advancing a plan to provide a common Group education program targeting each occupational level, irrespective of job category.

From fiscal 2007, we systematized the Education Program for Occupational Advancement as "Citizen University"—an educational system for training new employees, employees reaching age 30 and newly appointed management.

We intend to continue enhancing the content of this Group employee education infrastructure, in line with employee needs.



Training for new Group employees

● **Constructing a Skill Development System in the Watches and Clocks Business**

Citizen Watch has taken advantage of the Group's transition to a pure holding company system from April 2007 to create a new Skill Development System with the aim of revitalizing the company internally and motivating each employee to higher levels of achievement and improving their skills.

This system consists of four courses: Legal Mind Training, Human Training, General Technical Training and Watch Technical Training (Watch School), each of which are divided into elementary, intermediate and advanced levels. For example, the elementary level of the General Technical Training course includes a curriculum that enables all employees to acquire simple watch assembly skills.

We are currently working to further enrich the curriculums of each course, while also rolling out such courses at Group companies related to watches with the aim of bolstering the Watches and Clocks Business itself.

Work-Life Balance

● **Group Policy**

The Group is building systems to encourage a balance between work and lifestyle that enables all employees to work comfortably.

● **Flexibly Operating a Variety of Leave Programs**

The Group fosters an atmosphere that allows employees to easily take advantage of various leave programs, such as by using a pooled time off system for saving up lapsed annual paid holidays, and flexibly managing forms of employment suited to conditions at the workplace.

In fiscal 2007, in light of the enactment of the Law for Measures to Support the Development of the Next Generation, we placed particular emphasis on supporting a balance between work and home life for employees raising children. Such efforts include popular programs at Citizen Watch and other companies that let employees take pooled time off in two-hour units.

Employee utilization of child care and nursing care leave programs in fiscal 2007 is shown in the following tables.

Employee Usage of Child Care Leave Opportunities at 19 Major Group Companies

| | FY2006 | FY2007 |
|--------|--------|--------|
| Male | 0 | 0 |
| Female | 42 | 50 |
| Total | 42 | 50 |

Employee Usage of Nursing Care Leave Opportunities at 19 Major Group Companies

| | FY2006 | FY2007 |
|--------|--------|--------|
| Male | 0 | 0 |
| Female | 2 | 2 |
| Total | 2 | 2 |

Creating Healthy, Safe, Comfortable Work Environments

● **Group Policy**

To protect employee safety and health at three Group offices in Tokyo, Tokorozawa and Nakano, we are advancing activities under the banner of "Healthy Management" by creating clear goals and specific plans of action relating to occupational health and safety. We will strive to create pleasant working environments through closer coordination within the Group to propagate forward-thinking examples of working environments among the Group companies.

● **Initiatives to Prevent Sexual Harassment and Abuse of Authority**

In April 2004, we created guidelines to prevent sexual harassment and have implemented them at all Group companies. We will work to create similar guidelines to prevent harassment through abuse of authority and implement them at all Group companies.

● **Holding Regular Group Safety and Health Management Activity Debriefings**

The most important goal of our safety and health management is to completely eliminate accidents resulting in lost work time. Based on the idea that prevention of small accidents helps in prevention of more substantial ones, the Group implements Rodosho-Style Training (RST: training method of Japan's Ministry of Labor), Kiken Yochi Training (KYT: training for danger prediction) and other safety and health education according to the yearly activity plan. The Safety and Health Committee investigates past accidents to prevent recurrence. We also maintain an emergency communication system and implement emergency response training envisaging actual disaster situations.

Group Safety and Health Activity Debriefings are also held periodically to verify progress toward elimination of accidents at each Group company and to upgrade activities by sharing information on safety and health education, fire and disaster prevention, measures to maintain employees' mental health, and business continuation plans (BCPs).



Group Safety and Health Activity Debriefings

Accidents Occurring at 19 Major Group Companies

| | FY2006 | FY2007 |
|--|--------|--------|
| No. of fatal accidents | 0 | 0 |
| No. of accidents resulting in lost work time | 7 | 6 |

● **Health Guidance and Comprehensive Support after Medical Examination**

The Group carries out a broad range of activities to enable employees to maintain physical and mental health at work and allow employees with illnesses to work with peace of mind.

We offer health guidance and follow-up assistance to those employees who require it, based on the results of health examinations. We also support health promotion activities for our employees, such as helping them quit smoking and holding walking events. These efforts have resulted in improved health data reflected in the health examinations and a reduction in the number of employees who smoke at work.

● **Reinforcing Mental Health Activities**

At three Group offices in Tokyo, Tokorozawa and Nakano, we have formed Mental Health Committees and are carrying out a variety of training activities, as well as stress checks, workplace stress assessments and interviews with employees who frequently work overtime. Training sessions are divided into courses tailored to new employees, senior employees and management. In fiscal 2006, we started implementing more practical systems to supplement these efforts, including inspection tours of each work site.

From fiscal 2007, we have had heads of all departments at which workplace stress assessments have been performed explain the results of the assessments to their employees.

● **Regular Transmission of Risk Information to Ensure Safety Overseas**

The Personnel Division of Citizen Watch operates as a contact point to ensure work safety overseas, conducting on-site investigations as appropriate, publishing regular information on safety issues overseas and providing other information on health risks to each Group company. In addition, outside experts are invited to give seminars and consultations as part of educational initiatives.

Human Rights and Labor Relations


● **Establishing Sound Labor and Management Relationships**
Each company of the Group holds regular negotiations and discussions on management policy and working conditions with a labor union representing the employees. Stable relationships between labor and management are forged through mutual respect for each other's thinking on such matters. The Group companies overseas also negotiate with labor unions and employee representatives based on each country's laws and regulations.

We will continue holding discussions themed around Group operation systems and business restructuring with the aim of raising business value and customer satisfaction at each Group company.

Working with Local Communities

Citizen advances a variety of social contribution activities in harmony with local communities and the international community, based on its business philosophy of “Contributing to and Striving to be Respected by the Citizens of the World.”

Social Contribution Activities

 Working with Local Communities
<http://www.citizen.co.jp/english/csr/region/area/index.html>

The CSR Department at Citizen Holdings leads the Group's social contribution activities based on Article 5 of the Citizen Group Code of Conduct, established in April 2007.

Basic Policy regarding Social Contribution Activities (Article 5 of the Citizen Group Code of Conduct)

Value symbiosis with local communities, and strive to contribute to society as a good corporate citizen

- (1) As a member of society, we conduct business activities beneficial to society and fulfill our role as a “good corporate citizen,” advancing hand in hand with society.
- (2) We emphasize relationships with local communities. We vigorously participate in local events and support efforts to contribute to local communities through exchanges with people in the local communities.
- (3) We aim to cultivate a flexible and creative corporate culture by deepening our relationships with society through corporate citizenship activities.
- (4) We partner with NPOs, NGOs, volunteer groups and local communities to carry out a variety of socially beneficial activities.

Effective April 6, 2007

Enacted by the Corporate Strategy Committee of the Citizen Group

Selection of Fiscal 2007 Citizen of the Year

Citizen Holdings established the Citizen of the Year award (the “Citizen Award”) in 1990 on the 60th anniversary of the Company's establishment. Reflecting the Company's name, the award aims to commend citizens from a broad perspective in this age where citizens are considered the main players in society. Award recipients are chosen each year from among Japanese nationals or citizens of other countries residing in Japan, in recognition of the impressions they have made on other citizens and their contributions to the development, happiness and beautification of communities.

Recipients of the 18th Citizen of the Year award in fiscal 2007 are as follows.

● Isao Nishitani
 (Nakama City, Fukuoka Prefecture)

Isao Nishitani has donated to and sent letters of encouragement to the night school at Arakawa 9th Junior High School in Tokyo every month for more than 50 years.



● Shiga Junior High School alumni volunteers
 (Fukuoka City, Fukuoka Prefecture)

Volunteers from among the alumni of Shiga Junior High School have assisted with community beautification through such activities as picking up trash in train cars after finishing high school every day and whenever they use the trains.



● Yuzo Tanigaki
 (Tessaoua City, Republic of Niger)
 In Niger, West Africa—which suffers from a chronic lack of surgeons—Yuzo Tanigaki has participated in medical activities for more than 25 years, using his own funds to build a hospital and otherwise working to improve the health care environment.



Award ceremony for the Fiscal 2007 Citizen of the Year

Cosponsoring the Iwate Ginga 100km Challenge Marathon

Citizen Tohoku Co., Ltd., cosponsors the Iwate Ginga 100km Challenge Marathon held every year in Iwate Prefecture. We cosponsored this event in fiscal 2007 as part of the celebration of the 150th anniversary of Baron Shimpei Goto, who gave Citizen its company name. Citizen employees also helped with event operations at the finish line as volunteer staff.



At the starting line

Learning through Work Experience and Internships

Each company of the Citizen Group actively provides opportunities for learning through work experiences and internships for junior high school students. In taking on these students, the companies focus on showing visiting students and interns the value of work and enhancing their occupational knowledge and awareness under the theme of cultivating a view of career and work.

In fiscal 2007, Citizen Holdings and Citizen Watch welcomed students from nearby junior high schools to attend Watch School and experience working at a watch distribution center. Since fiscal 2006, we have also held two-day parent-child study sessions every summer vacation. More than 100 elementary school students and their parents participated in the fiscal 2007 event, which included a tour of our watch and clock archives and a sundial creation project.



Student work experience

Participating in the Plant One Million Trees Campaign

Citizen Electronics participates in the Plant One Million Trees campaign held by Yamanashi Prefecture and the Yamanashi Prefectural Afforestation Promotion Organization.

In fiscal 2007, 23 employees at the company—including new recruits—helped plant Japanese cypresses as part of tree-planting activities in the forests of Oshino Village.



Plant One Million Trees campaign

Holding Table Tennis Courses

In the more than 40 years since its founding, the table tennis club at Citizen Holdings has held table tennis courses and training sessions all across Japan, from Hokkaido to Okinawa. In fiscal 2007, the club held a total of 14 sessions for 1,990 participants in eight prefectures. The club members also communicate with the people of the community through an array of activities, including appearances on local radio stations and West Tokyo F.M. Broadcasting.



Table tennis course

Holding Events To Convey Our Desire to Protect the Environment

Citizen Watch (China) Co., Ltd., is holding discussions among its employees, asking what everyday citizens can do to protect the environment and encouraging them to walk whenever possible instead of using cars. In July 2007, the company also held an event in which employee volunteers walked around Beijing, in hopes that such a healthy practice would become a grassroots movement involving many people. While walking around the city, the volunteers passed out pamphlets explaining the Group business philosophy, product creation policy and thoughts on environmental protection to spread interest in this movement.



Beijing walking event

Cosponsoring a Speech Contest in Moscow

The Moscow resident office of Citizen Watch has cosponsored awards for participants and winners of the CIS Student Japanese Speech Contest held by the Japanese Embassy and the CIS Japanese Language Teachers Association every year since 2005 in Moscow for Russian students studying Japanese.



Speech contest in Moscow

The Citizen Group's Environmental Management

The Group formulated Citizen's Vision for the Environment and Society in 2025 to clarify its stance on environmental preservation—one of its social responsibilities.

Citizen's Vision for the Environment and Society, and Its Long-Term Environmental Plan

Citizen's Vision for the Environment and Society in 2025 specifies the orientation of the Group's activities to achieve a sustainable society and protect the global environment for many years to come.

Under its business philosophy of "Contributing to and Striving to be Respected by the Citizens of the World," the Group continues its efforts to provide products that are always close to people's hearts—useful, ergonomic, and respectful of nature. Similarly, in our environmental preservation activities we are always looking toward an abundant future as we implement the measures required for a sustainable society in which people can enjoy life with a sense of security and fulfillment.

We believe that the culmination of our efforts will be our Citizen's Vision for the Environment and Society in 2025. We are therefore pursuing the four pillars of environmental management, Citizen environmental products, environmental management at factories, ecological awareness, and sustainable lifestyles, with the Citizen Long-Term Environmental Plan 2010 showing us where we need to go.

Based on these ideals, we will fulfill our social responsibilities as a member of a recycling-based society by ensuring that all Group products are Citizen environmental products and by reducing CO₂ emissions at our production centers and eventually eliminating waste.

Citizen's Vision for the Environment and Society in 2025

Based on our philosophy of "contributing to and striving to be respected by the citizens of the world," we contribute to a citizen-based sustainable society in which people can enjoy life with a sense of security and fulfillment.

Citizen offers products that are always close at hand and are good for people and the world.

Enacted July 20, 2004
Revised April 1, 2007

Citizen Long-Term Environmental Plan 2010

Promotion of Environmental Management

- Proactively respond to global environmental laws and regulations and trends.
- Communicate with stakeholders, and incorporate results into management practices.
- Develop environment management throughout the Group.

Promotion of Citizen Environmental Products

- Reduce the product's environmental footprint
 - During planning and development
 - Promote smaller products
 - Enhance commonality of components and uniformity of materials
 - Develop long-lasting products
 - Promote Life Cycle Assessment (LCA)
 - During use
 - Promote development of products that use low energy
 - Promote development of products that do not require battery change
 - At time of disposal
 - Promote recycling
 - At time of packaging
 - Promote reuse of packaging materials
 - Promote material recycling of packaging waste
 - Reduce the amount of packaging
- Publish information about product's environmental footprint

Promotion of Environmental Management at Factories

- Make effective use of resources
 - Use resources efficiently
 - Promote zero waste
 - Enhance efforts to reduce chemical emissions
- Reduce CO₂ emissions
 - Reduce CO₂ emissions (to 90% of FY2000 levels)
 - Implement high-efficiency energy systems
- Strengthen green procurement
 - Strengthen the management system of chemical substances contained in the products in cooperation with suppliers
- Promote environmental technologies
 - Promote technologies to meet global environmental regulations

Promote Ecologically Aware, Ecologically Sustainable Lifestyles (Contribute to a Sustainable Society)

- Disseminate and publicize Citizen Environmental Products
- Cultivate human resources
 - Implement employee training systems
- Promote communication with local societies
 - Promote communication with local authorities and societies

Enacted July 20, 2004
Revised April 1, 2007

Environmental Targets and Results for Fiscal 2007 and Targets for Fiscal 2008

○Achieved △Nearly achieved ×Not achieved

| Targets for FY2007 | Results for FY2007 | Self-evaluation | Targets for FY2008 | References |
|--|--|-----------------|--|------------|
| 1. Enhancing Citizen environmental products | | | 1. Enhancing Citizen environmental products | |
| Increase the ratio of Citizen environmental products among new models to 80% (targeting 100% for FY2008) | Achieved in three product lines, but not in another line (88%) | △ | Increase the ratio of Citizen environmental products among new models to 100% | P33 |
| Utilize LCA | Expanded applications of LCA basic technologies to a variety of products | ○ | Develop Citizen super environmental products | |
| Disclose information on environmental impacts | Disclosed LCA data on hydrogen gas sensor | ○ | Utilize LCA | |
| 2. Achieving green procurement | | | | |
| Build a system to evaluate business partners | System not completed | × | Enhance employment of green procurement (moved to the "Citizen environmental products" management category from FY2008) | P34 |
| Continuously audit Restriction of Hazardous Substances (RoHS) directive* compliance | Designated high-risk purchased products as "high-risk products"; clarified inspection procedures | ○ | Prepare for the creation of a management system for chemical substances contained in products to comply with REACH regulations (moved to the "Citizen environmental products" management category from FY2008) | |
| 3. Environmentally friendly business activities | | | 2. Environmentally friendly business activities | |
| Each department is to implement at least one theme (Tokyo, Tokorozawa) | Designated high-risk purchased products as "high-risk products"; clarified inspection procedures | ○ | Each department is to implement at least one theme (Tokyo and Tokorozawa) | P29, 30 |
| 4. Reducing greenhouse gases | | | 3. Reducing greenhouse gasses | |
| 1) Reducing CO ₂ emissions through energy-saving activities | 82 themes implemented in 31 Tokyo departments 44 themes implemented in 11 Tokorozawa departments | | 1) Reducing CO ₂ emissions through energy-saving activities | P35 |
| Reduce CO ₂ emissions at Tokyo offices by 41% (14,050 tons) compared with FY1999 | Reduced CO ₂ emissions by 41% (13,834 tons) | ○ | Reduce CO ₂ emissions at Tokyo offices by 44% (13,300 tons) compared with FY1999 | |
| Reduce CO ₂ emissions at Tokorozawa offices by 14% (10,455 tons) compared with FY1999 | Reduced CO ₂ emissions by 13% (10,623 tons) | × | Reduce CO ₂ emissions at Tokorozawa offices by 14% (10,533 tons) compared with FY1999 | |
| Reduce groupwide CO ₂ emissions by 1% per unit of sales compared with FY2006 | 10% (per unit of sales) | × | Reduce groupwide CO ₂ emissions per unit of sales by 1% compared with FY2007 | |
| 5. Promoting waste reduction activities | | | 4. Promoting waste reduction activities | |
| Reduce and manage industrial waste at Tokyo offices | Reduced 73% (149 tons) compared with FY1999 | ○ | Reduce and manage industrial waste at Tokyo offices | P36 |
| Reduce and manage industrial waste at Tokorozawa offices | Reduced 59% (70 tons) compared with FY1999 | ○ | Reduce and manage industrial waste at Tokorozawa offices | |
| Reduce groupwide waste output by 1% per unit of sales compared with FY2006 | 9% (per unit of sales) | × | Reduce groupwide waste output per unit of sales by 1% compared with FY2007 | |
| Achieve a 95% groupwide recycling rate | 98% | ○ | Achieve a 98% groupwide recycling rate | |
| 6. Reducing chemical substances | | | 5. Reducing chemical substances | |
| Confirm total elimination groupwide of chlorinated organic solvents and chlorofluorocarbon alternatives | Completed in April 2008 | △ | Advance cyanide compound alternatives groupwide | P37 |


Tokyo offices: CITIZEN HOLDINGS CO., LTD.; CITIZEN TECHNOLOGY CENTER CO., LTD.; CITIZEN BUSINESS EXPERT CO., LTD.; CITIZEN WATCH CO., LTD.; CITIZEN ELECTRONICS CO., LTD.; CITIZEN SYSTEMS JAPAN CO., LTD.; CITIZEN LOGISTICS SERVICE CO., LTD.
Tokorozawa offices: CITIZEN TECHNOLOGY CENTER CO., LTD.; CITIZEN BUSINESS EXPERT CO., LTD.; CITIZEN WATCH CO., LTD.

* RoHS Directive: A European Union directive restricting the use of six designated substances (lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyls [PBB], and polybrominated diphenyl ether [PBDE]) in electronic and electrical devices.

Environmental Management

We have constructed a groupwide environmental management system and are promoting environmental management that can efficiently generate steady results.

Environmental Management System

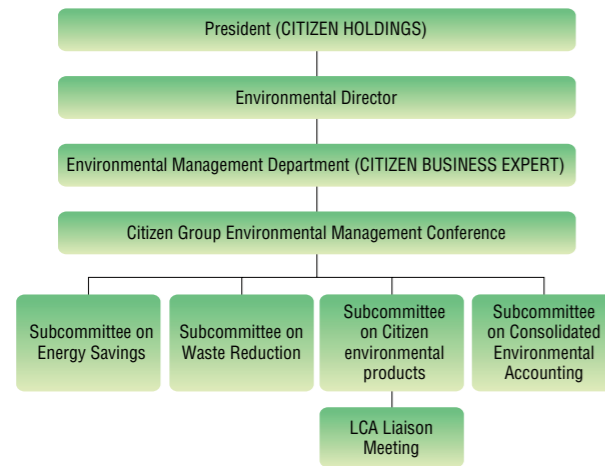
 Acquisition Status of the ISO 14001 Certification
<http://www.citizen.co.jp/english/csr/environment/iso.html>

We have established a groupwide environmental management system to promote efficient and accurate environmental management.

Twice a year, people in charge of environmental activities at 19 Group companies in Japan converge at Environmental Management Conferences to get a picture of the activity status at each company and review and decide on yearly environmental management policy and common issues. Subordinate to the conferences, four subcommittees covering energy efficiency, waste reduction, Citizen environmental products, and consolidated environmental accounting make specific policy in their respective areas.

The Environmental Management Department at Citizen Business Expert presides over these bodies and takes charge of the core environmental management functions of the Group, working to optimize all these activities across the Group.

Environmental Management System



Environmental Management at Production Companies

All 16 of Citizen's production companies in Japan have obtained ISO 14001 certification and each is pursuing its own environmental management activities.

As for Citizen's 18 overseas production bases, we are emphasizing green procurement and chemical substance management, which are important in the production of Citizen environmental products, and we are promoting progressive ISO 14001 certification, conducting environmental activities suitable for each community.

Environmental Education and Training

To advance environmental management, it is essential that each employee of the Group recognize the importance of environmental activities.

Citizen incorporates an environmental training program into courses for employees such as new recruits and newly appointed management, based on the education systems at each Group company. In addition, the Environmental Management Department plans yearly Environmental Managers Education sessions, and Internal ISO 14001 Auditors Education sessions are held for people in charge of environmental tasks in each department. Production departments that handle toxic or hazardous substances also carry out their own drills to prepare for emergency situations.

Moreover, we have instituted our own Business License System to promote and support acquisition of public qualifications, such as Environmental Pollution Control Operator and Energy Manager.

Example Initiative

Guangzhou Most Crown Electronics/
Master Crown Electronics (Wuzhou)

Educational Efforts at Subsidiaries in China

Citizen Miyota's two subsidiaries in China are channeling resources into environmental education. Guangzhou Most Crown Electronics Limited advances its environmental protection efforts under the slogan, "Raising individual environmental awareness to create a comfortable environment for the next generation." In fiscal 2007, the subsidiary themed its environmental education activities around RoHS compliance and the sorting of waste for disposal. RoHS inspections can now be conducted at subsidiaries in China, and these companies are witnessing notably higher levels of environmental consciousness in their employees.

Master Crown Electronics (Wuzhou) Limited conducts education related to ISO 14001 twice a year for 120 of its managers, which is resulting in enhanced operations pertaining to the standard.



Environmental education at a subsidiary in China

Environmental Audit

At the Group's Tokyo and Tokorozawa offices, an external audit is performed once a year by an ISO assessment organization, and internal audits are performed twice a year.

Internal audits are conducted by a team of certified internal auditors. Each year, we train up at least 20 new internal environmental auditors at our Tokyo and Tokorozawa business sites.

We have corrected two non-compliant items pointed out in external audits in fiscal 2007, and have improved items requiring

oversight. We have also confirmed corrective action on a total of nine non-compliant items discovered in internal environmental audits, through reports on the corrective measures submitted by the departments in question.

Audits for business sites besides those in Tokyo and Tokorozawa are conducted individually by each ISO 14001 certified company.

Environmental Risk Management

The Group's environmental risk management covers areas such as compliance with environmental law and regulations, management of substances designated in the RoHS Directive, development of governance for waste and recycling, preventing malfunction and accidents in environment-related facilities, and measures against soil and groundwater contamination. Environmental risk management information is exchanged at Environmental Management Conferences and effective measures are applied at each Group company.

In fiscal 2007, preliminary inspections via documentation were completed at approximately 60 factories in Japan and overseas, to ensure stringent management of chemical substances. In 2008, we plan to have people in charge of environmental risk management visit the factories subject to inspection and formulate guidelines for chemical substance management. We are also advancing a plan to audit all our factories in a two-year cycle.

Soil and Groundwater Surveys and Status of Countermeasures

In fiscal 2006, we carried out Usage History Surveys to determine what measures were taken at the time of use of hazardous substances at production bases in Japan and overseas, evaluating responses on a five-point scale. Currently, we are progressively carrying out voluntary investigations of soil and groundwater at bases deemed to have high contamination risk. Bases at which voluntary investigations revealed contamination have reported the matter to the relevant government agencies and are taking steps to remedy the situation under government guidance.

Results of Voluntary Investigations and Status of Countermeasures

| Business Location | Contaminants | Countermeasures | Status of Countermeasures |
|--|--|--|--|
| Tokyo Office of CITIZEN HOLDINGS | Lead, fluorine, hexavalent chromium, cyanide | Pavement | Completed in May 2008 |
| Tokorozawa Office of CITIZEN HOLDINGS | Fluorine | Pavement and containment | Completed in May 2007 |
| CITIZEN SAITAMA | Lead | Removal | Completed in March 2008 |
| Three companies in the Miyota area CITIZEN MIYOTA, CITIZEN FINE TECH, CITIZEN MACHINERY | Volatile organic compounds | Aeration of pumped water and activated carbon adsorption | Ongoing measures started in April 2006 |

Status of Cleanup of Groundwater Contaminated with Volatile Organic Compounds at Citizen Tohoku

Regarding the groundwater contamination caused by volatile organic compounds (VOCs) discovered in June 2006 at Citizen Tohoku Co., Ltd. and reported in CSR Report 2007, Citizen Tohoku decided to implement two measures to prevent the contaminated groundwater from flowing off-site: construction to prevent dispersion of groundwater and construction to clean up contamination sources in the soil.

The construction to prevent dispersion of groundwater entailed installation in May 2007 of groundwater purifying filters (permeable reactive barriers) and impermeable sheet pile walls downstream below ground, covering a total length of 240 meters. Following construction, we have monitored the groundwater downstream every three months, but to date have not detected any VOCs. We will continue to report the results of our ongoing monitoring activities to the relevant government agencies.

Concerning the cleanup of contamination sources in the soil, since the contamination source is located under facilities currently in operation, we plan to transfer production facilities to a new building completed in April 2008 and carry out treatment of the contamination sources during FY2008. We had already replaced the cleaning fluid containing VOCs—which caused the contamination—with hydrocarbon or water-based cleaning fluids as of March 2006.



Construction to prevent dispersion of groundwater

Waste Liquid Leakage Accident at Citizen Electronics Hachinohe

In June 2007, leakage from cracks in wastewater piping and joints was discovered inside a piping pit installed between the wastewater treatment building and a production building while constructing a new production building. We speculate that the incident was caused by cracks originating from the Sanriku-Haruka Offshore Earthquake of December 1994, which have worsened and begun leaking in the intervening years.

Upon finding acidic pH levels between 4.4 and 6.5 in analysis of soil directly below the leak, we immediately notified the city of Hachinohe, formulated a soil neutralization plan and are currently taking steps to treat the soil. At the same time, we switched over to earthquake-resistant piping and coated the interior of the piping pit to prevent dispersion in the event of future leakage. We have also informed each Group company about this accident and are ensuring that thorough inspections and preventive measures are implemented at all factories.

Business Activities and Environmental Impact

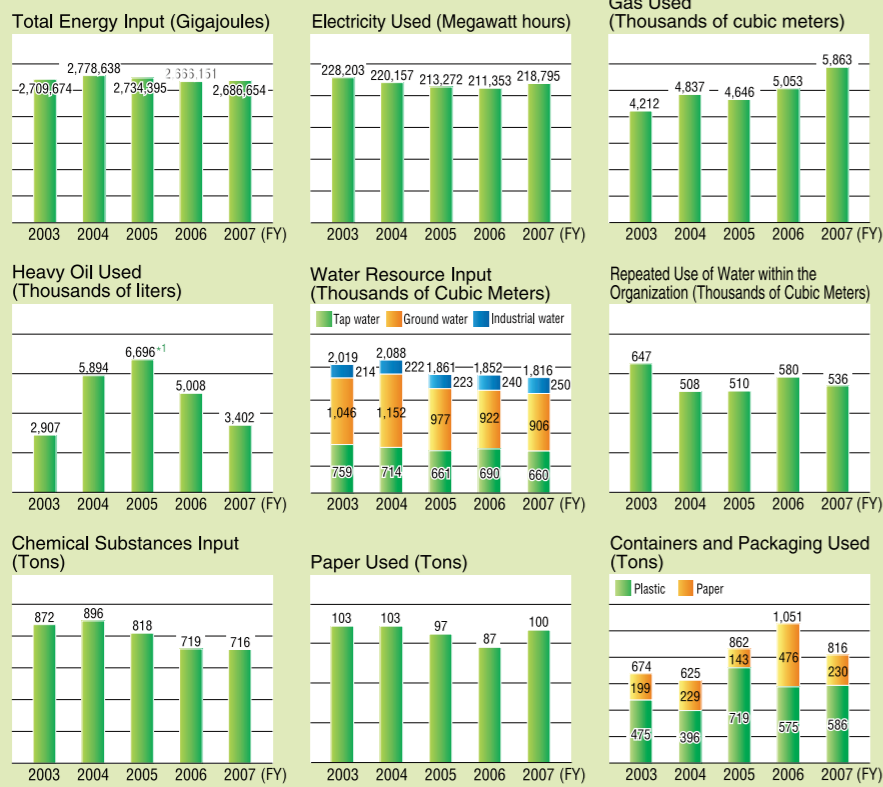
We accurately ascertain the total input of energy and chemical substances, and total emissions of CO₂ and waste, for the Group and apply this knowledge to well-planned activities to reduce environmental impacts.

Environmental Accounting
<http://www.citizen.co.jp/english/csr/environment/accounting.html>

INPUT

| | | | | | |
|---|----------|-----------|--------------------------------------|----------|-------|
| Total energy input (gigajoules) | Japan | 2,686,654 | Chemical substances input (tons) | Japan | 716 |
| | Overseas | 885,936 | | Overseas | 1,620 |
| Water resource input (thousands of cubic meters) | Japan | 1,816 | Containers and packaging used (tons) | Japan | 816 |
| | Overseas | 1,588 | | Overseas | 820 |
| Repeated use of water within the organization (thousands of cubic meters) | Japan | 536 | | | |
| | Overseas | 1 | | | |

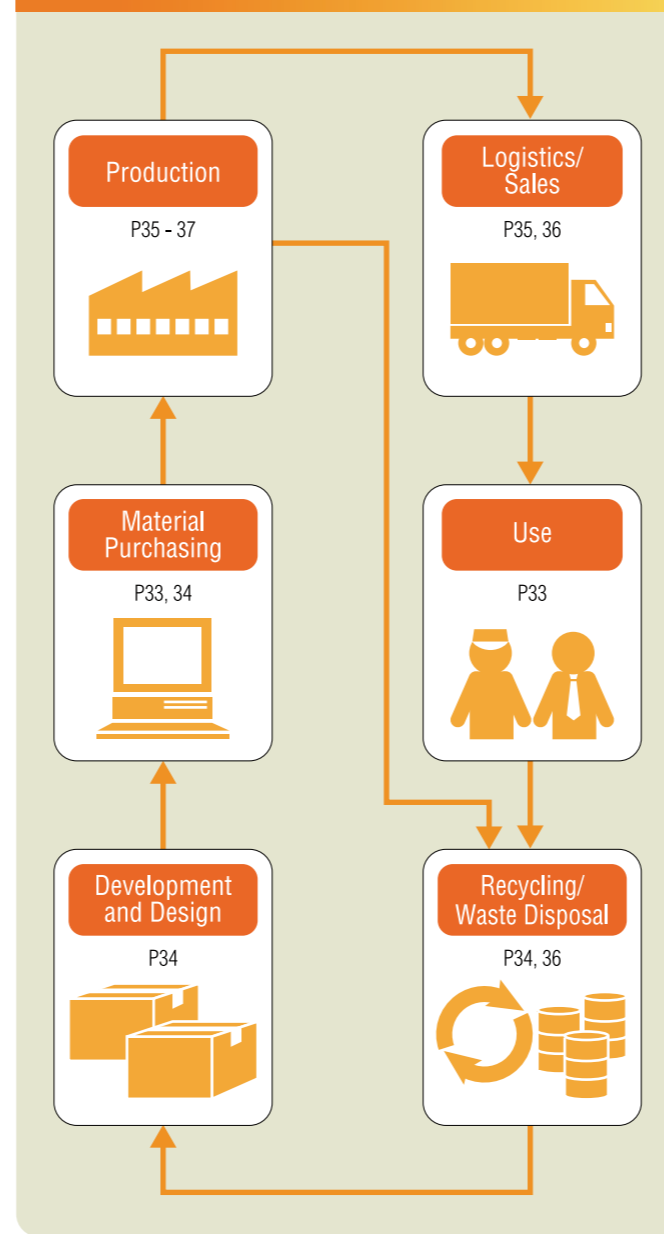
Input at Group Companies in Japan



Input and output data does not include the logistics/sales, use, or material purchasing stages of the Group's business activities. Some of the yearly data has been altered from the previous year's report, following a review of calculation methods used.

*1 The amount of heavy oil used increased because of the introduction of cogeneration and power generation facilities in fiscal 2004. We are stepping up efforts to increase thermal efficiency, to improve overall energy efficiency.

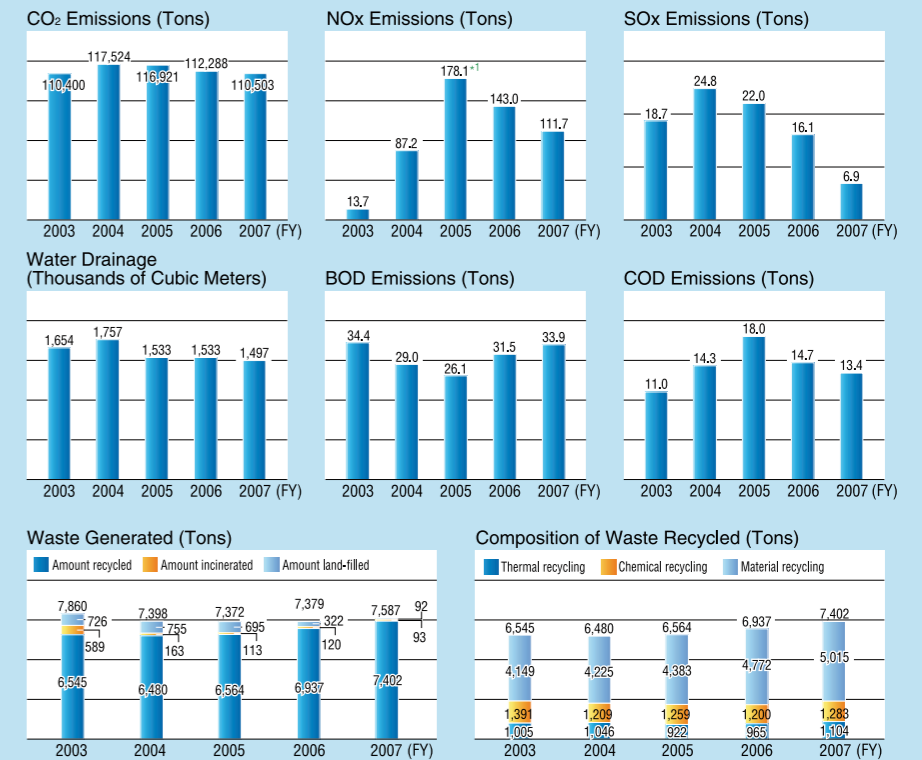
Business Activities



OUTPUT

| | | | | | |
|---|----------|---------|--------------------------|----------|-------|
| CO ₂ emissions (Tons-CO ₂) | Japan | 110,503 | BOD emissions (Tons) | Japan | 34 |
| | Overseas | 35,003 | | Overseas | 392 |
| NOx emissions (Tons) | Japan | 112 | COD emissions (Tons) | Japan | 13 |
| | Overseas | 4 | | Overseas | 105 |
| SOx emissions (Tons) | Japan | 7 | Waste generated (Tons) | Japan | 7,587 |
| | Overseas | 7 | | Overseas | 1,670 |
| Water drainage (Thousands of cubic meters) | Japan | 1,497 | Waste land-filled (Tons) | Japan | 93 |
| | Overseas | 1,022 | | Overseas | 955 |

Output at Group Companies in Japan



Environmental Accounting*2

In terms of environmental conservation benefits, there was an increase in energy used, total waste generated, and plastic containers and packaging used, but water used, chemical substances used, CO₂ emissions, water drainage, and paper containers and packaging used decreased. Although total waste generated rose compared with fiscal 2006, a higher amount of recycled waste improved the recycling rate. The accounting of economic costs and benefits considers only the actual results and does not take into consideration the various benefits associated with risk avoidance. Total investment for the period was ¥25,181 million, with total R&D cost at ¥10,801 million.

Environmental Conservation Costs (Millions of yen)

| Category | Major Initiatives | Investment | Costs | |
|---------------------------------|--|--|-------|-----|
| Business areas costs | | 244 | 1,083 | |
| Breakdown | 1) Pollution prevention | Prevention of air, water and sound pollution | 76 | 631 |
| | 2) Global environmental conservation | Energy conservation | 163 | 201 |
| | 3) Resource circulation | Waste reduction and recycling, effective water usage | 5 | 251 |
| Upstream/downstream costs | Recycling of containers and packaging, use of the Eco Mark | 0 | 21 | |
| Administration costs | Environmental education, operation of environmental management systems, tree-planting and beautification at Company facilities | 4 | 454 | |
| R&D costs | Solar-powered watches, R&D on basic watch technologies | 193 | 578 | |
| Social activity costs | Social contribution activities | 0 | 5 | |
| Environmental remediation costs | | 0 | 168 | |
| Total | | 441 | 2,309 | |

Actual Economic Benefit Associated with Environmental Preservation Activities (Millions of yen)

| Benefit Amount | | Amount |
|----------------|--|--------|
| Revenue | Operating revenue from the sale of valuable resources produced through business activities | 582 |
| | Reductions in energy costs through energy conservation | 187 |
| Cost reduction | Savings on water usage costs and wastewater processing costs through resource conservation | 37 |
| | Reductions in waste disposal costs through resource conservation and recycling | 28 |
| | Other reductions | 16 |
| Total | | 850 |

*2: In fiscal 2007, Citizen Holdings and major production and sales companies of the Group were included in the boundary of the consolidated environmental accounting of the Group.

Material Balance and Environmental Accounting

Reporting Period: April 1, 2007 to March 31, 2008

Boundary for Calculation of Material Balance

Japan

A total of 22 companies: CITIZEN HOLDINGS CO., LTD.; CITIZEN TECHNOLOGY CENTER CO., LTD.; CITIZEN BUSINESS EXPERT CO., LTD.; CITIZEN WATCH CO., LTD.; JAPAN CBM CORPORATION; CITIZEN HEIWA WATCH CO., LTD.; CITIZEN TOHOKU CO., LTD.; CITIZEN T.I.C. CO., LTD.; CITIZEN SAITAMA CO., LTD.; CITIZEN ELECTRONICS CO., LTD.; CITIZEN ELECTRONICS FUNEHIKI CO., LTD.; CITIZEN ELECTRONICS HACHINOHE CO., LTD.; CITIZEN MIYOTA CO., LTD.; CITIZEN FINE TECH CO., LTD.; CITIZEN SYSTEMS CO., LTD.; CITIZEN MACHINERY CO., LTD.; CITIZEN SEIMITSU CO., LTD.; CITIZEN SEIMITSU KAGOSHIMA CO., LTD.; CITIZEN SAYAMA CO., LTD.; CITIZEN YUBARI CO., LTD.; CITIZEN PLAZA CO., LTD.; CITIZEN LOGISTICS SERVICE CO., LTD.

Overseas

A total of 11 companies: CITIZEN DE MEXICO, S.A. DE C.V.; ROYAL TIME CITI CO., LTD.; CROWN YOUNG INDUSTRIES FACTORY; TECHNO RICH LCD; CITIZEN SYSTEMS (JIANGMEN) CO., LTD.; C-E (SUZHOU) LTD.; XUNKE ELECTRONICS LTD.; MASTER CROWN ELECTRONICS (WUZHOU) LIMITED; GUANGZHOU MOST CROWN ELECTRONICS LIMITED; DA WANG SHAN FACTORY; HUA DU FACTORY

Environmental Accounting Boundary

The 22 Group companies in Japan, given above

Enhancing Products with Citizen Environmental Products

The Group is keenly aware of the impact its products have on the environment and endeavors to raise the environmental quality of its products in line with its efforts on reliability and safety.

Realizing Citizen Environmental Products

The Group is promoting initiatives for Citizen environmental products. We carry out environmental product assessments on a variety of aspects from the development stage, and approve as Citizen environmental products those that satisfy all the evaluation criteria, which include resource and energy efficiency, reuse and recycling, long-term usability, environmental conservation (hazardous chemical substances management), and environmental information provision and packaging. In fiscal 2008, we will establish evaluation criteria for and commence efforts toward Citizen super environmental products, which will be assessed from an even stricter standpoint.

In fiscal 2007, we achieved an 88% ratio of Citizen environmental products among new models, surpassing our goal of 80% for the year. We aim to boost this ratio to 100% for new models in fiscal 2008.

Examples of Citizen Environmental Products

Eco-Drive Radio-Controlled Watch

A diver's watch waterproof to 200 meters, which requires no battery replacement because it is solar powered, and needs no time adjustment thanks to its radio reception function

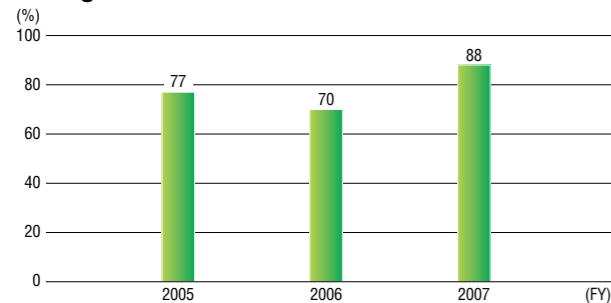


Pedometer

The world's thinnest multi-function pedometer with 3D acceleration sensor



Ratio of Citizen Environmental Products among New Models



Exhibiting at Eco-Products 2007

Thirteen companies of the Group jointly exhibited in the Eco-Products 2007 environmental event held in December 2007. At previous exhibitions where each company simply displayed its own products, it was difficult for attendees to get an overall picture of the Citizen Group. Therefore, this time we used illustrations to express in story-like fashion how the miniaturization and energy-saving technologies that are Citizen's forte lead to lower environmental impact and CO₂ emissions, under the theme, Small is ecological. We also

Initiatives for LCA

Life Cycle Assessment (LCA) is a method to evaluate all types of environmental impact quantitatively, based on the amounts of resources and energy taken in and waste discharged at each stage of the product life cycle, from material procurement to production, logistics, consumption, recycling and disposal.

To promote determination and reduction of environmental impact, in fiscal 2007, the Group began considering effective application of LCA with the aim of calculating and applying LCA data in product planning discussions, design changes, production process improvement, and other areas.

Example Initiative Citizen Systems

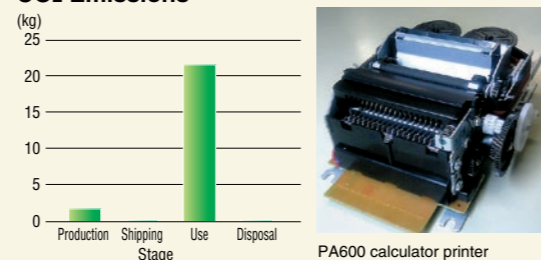
Results of LCA Performed on Calculator Printer

In fiscal 2007, Citizen Systems conducted LCA on the PA600 calculator printer, marking the first time the company performed LCA on a printer.

The chart below shows data on environmental impact calculated from the perspective of global warming, in each stage of the printer's life cycle from production to disposal.

The results of the analysis show that 93% of total CO₂ emissions for the life cycle occur during use of the printer. We will work to mitigate the environmental impact of new products in the development stage under the theme of creating products that consume little electricity during use.

CO₂ Emissions*



PA600 calculator printer

* Based on one million lines of print; disposal stage evaluated as land-filling

showed off the Group's CO₂ emission levels and other environmental performance data in a readily understandable panel format.



Eco-Products 2007

Achieving Green Procurement

To advance the creation of environmentally friendly products, we revise the Green Procurement Guidelines as needed and ask for the cooperation of and provide support to our suppliers.

Promoting Green Procurement

The Group promotes green procurement activities, which entail preferential purchase of products, parts and materials with low environmental impact. The standard governing these activities is posted on our website as the Green Procurement Guidelines. In fiscal 2006, we revised the chemical substance management standards in accordance with the enactment of the RoHS Directive (an E.U. directive restricting the use of six designated substances in electronic and electrical devices: lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyls [PBB] and polybrominated diphenyl ether [PBDE]).

The number of Group suppliers in Japan grew by 13 companies, to 566, in fiscal 2007. We continue carrying out inspections of these suppliers, using a supplier assessment system that gives suppliers an A, B, C, or D grade. For suppliers graded B, C or D, we request improvement and have set up a contact point to support them in their efforts.

In fiscal 2007, we worked to maintain consistent operations according to the guidelines whenever possible in dealing with diverse customer demands. We aim to respond nimbly to the REACH regulations (regulations concerning the registration, evaluation, approval, and restriction of chemical substances; enacted in June 2007), participate in JAMP (Japan Article Management Promotion-consortium: an industry organization that promotes activities to encourage the creation and dissemination of mechanisms to smoothly disclose and transmit chemical substance information within supply chains) and cooperate in establishing a system of standards to transmit information on chemical substances with minimal difficulty.

Example Initiative Citizen Machinery

A Head Start on RoHS Compliance for Machine Tools

Machine tools are not currently subject to either the E.U. RoHS Directive or Chinese RoHS. However, as a member of the Citizen Group with its emphasis on environmental management, Citizen Machinery commenced preparations in fiscal 2007 to voluntarily completely eliminate use of the substances regulated, irrespective of whether the category of equipment is subject to regulation.

Starting with new products released in fiscal 2008, the company will ensure that all models are RoHS compliant.



Cincom A32

Initiatives for Environmental Regulations

In response to the enactment of the RoHS Directive in the European Union in July 2006, the Group strengthened its checking procedures upon receipt of procured products in fiscal 2007 and is channeling resources into confirming the status of RoHS compliance, including the formulation of checking procedures to identify high-risk incoming products.

The Group receives written guarantees from its suppliers to verify that each of the parts making up the products supplied does not contain regulated substances. However, since in some cases the six regulated substances are contained in stabilizing agents, flame retardants, pigments, and other substances within the parts, we perform analyses with our own x-ray fluorescence spectrometers and commission analyses from outside laboratories to confirm that each of the parts contains none of the regulated substances.

Furthermore, to comply with the REACH regulations, which went into effect in June 2007, we are working to check on whether registration is required, identify and disseminate the requirements for molded products within the Group, and prepare for implementation of a system to collect information on the chemical substance content of purchased products.



Regulated substance content inspection

Example Initiative Citizen Watch

Intensive Management for Products Designated as High Risk

Although all the Group's watch and clock products are already RoHS compliant, we continue to verify the status of procured materials.

For example, the red, orange, yellow, and green paint used on watch and clock faces and the colored plastic used in the parts formerly contained minute quantities of lead or cadmium to bring out the colors.

We have completely switched over to alternatives for all materials produced in Japan, but more cautious handling is required for materials procured from overseas. Therefore, Citizen Watch designates watch and clock components such as the face and other parts as high-risk parts and has begun intensive management on such products, which includes establishing inspection procedures implemented upon receipt of materials to verify with certainty that regulated substances are not used.

Reducing Greenhouse Gasses

The Group established the Subcommittee on Energy Savings in 2001 and has implemented a wide variety of energy-saving measures from early on.

Reducing Greenhouse Gas Emissions

To efficiently and steadily reduce CO₂ emissions, the Group set up the Subcommittee on Energy Savings as a venue where representatives from each business site can report on efficiency examples and copy one another's effective initiatives in the Groupwide effort to save energy.

Our goals for fiscal 2007 were to reduce groupwide CO₂ emissions by 1% per unit of sales compared with fiscal 2006, and to reduce total CO₂ emissions by 2,500 tons compared with fiscal 2006. Although total CO₂ emissions decreased 1,800 tons, emissions per unit of sales increased 10%, due to an approximately 10% decline in sales. We continue to strive for a 1% reduction per unit of sales across the Group in fiscal 2008.

As for the five greenhouse gasses besides CO₂, with the revisions of the Act on Promotion of Global Warming Countermeasures and in accordance with the Calculation and Reporting Manual for Greenhouse Gas Emissions promulgated in November 2006 by Japan's Ministry of the Environment, we calculated data on usage and emissions at each Group company starting from the portion for fiscal 2006. After conversion to the weight in CO₂ having equivalent greenhouse impact, Groupwide emissions of these other greenhouse gasses were calculated at 602 tons in fiscal 2006 and 575 tons in fiscal 2007. This represents 0.5% of total CO₂ emissions.

Example Initiative Citizen Business Expert

Introducing a Thermal Storage Heat Pump System

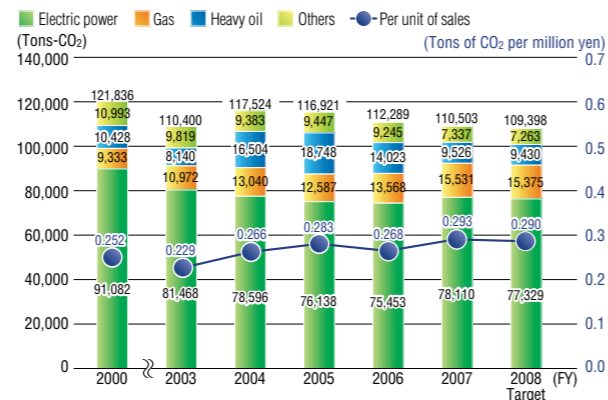
To cut down on energy consumption, Citizen Business Expert replaced its aging absorption hot/cold water generator with a high-efficiency thermal storage heat pump air conditioning system. The company managed to cut peak power consumption by using a system that utilizes low-cost night-time power to make ice and hot water, employing the ice and hot water in thermal storage during the daytime for heating and cooling.

Implementation of this system cut CO₂ emissions in half, from 113 tons to 55 tons.



Thermal storage heat pump system

Groupwide CO₂ Emissions



Example Initiative Citizen Saitama

Thoroughly Reducing Power Usage through Five Initiatives

Citizen Saitama Co., Ltd. works to save energy through the following five initiatives.

- 1) Activities to raise awareness of power saving at general assemblies
- 2) Reducing the operating time of compressors and related equipment
- 3) Implementing energy savings patrols
- 4) Introducing energy-efficient lighting fixtures to replace aging ones
- 5) Introducing energy-efficient air conditioning equipment to replace aging equipment

Thanks to these efforts, as well as favorable sales, in fiscal 2007 Citizen Saitama reduced its CO₂ emissions per unit of sales by 13% compared with fiscal 2006.

We endeavor to continue reducing energy consumption, such as by installing automatic stop mechanisms on equipment and using data on lighting intensity to decrease power used in lighting fixtures even more.



Energy savings patrol

Example Initiative Hua Du Factory

Saving Energy by Combining Production Lines into a Single Line

A Citizen Seimitsu subsidiary in China enhanced energy efficiency by combining production lines for glass substrates for hard disk drives, which had been divided between the first and second floors, into a single line on the second floor.

By eliminating the air-conditioning equipment, lighting and water purifying apparatuses on the first floor, the company cut yearly CO₂ emissions by 890 tons.

Effective Utilization of Resources and Reduction of Waste

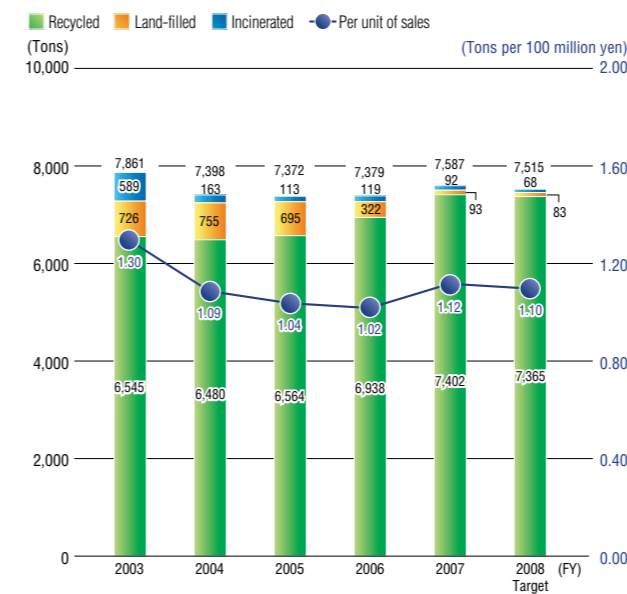
Citizen is working to reduce waste output not only at factories, but at all locations, including offices and employee cafeterias.

Promoting Waste Reduction Activities

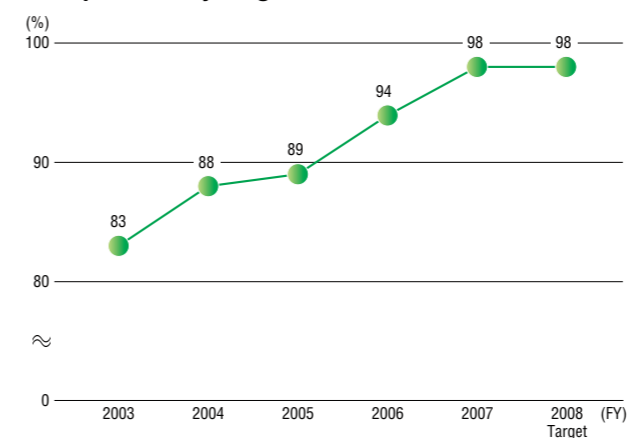
To contribute to the formation of a recycling-based society, we are advancing efforts to completely eliminate garbage before it is discharged as waste. In fiscal 2007, we worked toward the groupwide goals of reducing the amount of waste per unit of sales by 1% compared with fiscal 2006 and achieving a 95% recycling rate. Consequently, the actual recycling rate for fiscal 2007 reached 98%. Moreover, among the Group companies, 14 business sites completely eliminated garbage (recycling rate at least 99%). We aim to realize a groupwide recycling rate of 99% by fiscal 2010.

Concerning waste reduction, waste per unit of sales rose 9%. In fiscal 2008, we will continue our efforts to reduce the quantity of waste by 1% per unit of sales across the Group.

Groupwide Waste Production



Groupwide Recycling Rate



Example Initiative Citizen Electronics

Recycling Plastic Scrap

At a factory of a company in China contracted by Citizen Electronics to manufacture plastic parts, the end pieces and malformed molds originating from the process of molding plastic parts had totaled seven to 10 tons per month.

The factory formerly disposed of the plastic scrap, but began to review this practice from the standpoint of reducing consumption of fossil resources, considering that plastic is a recyclable material, and from fiscal 2007 the factory has sold the plastic scrap to recyclers for reuse.



Sorted plastic scrap

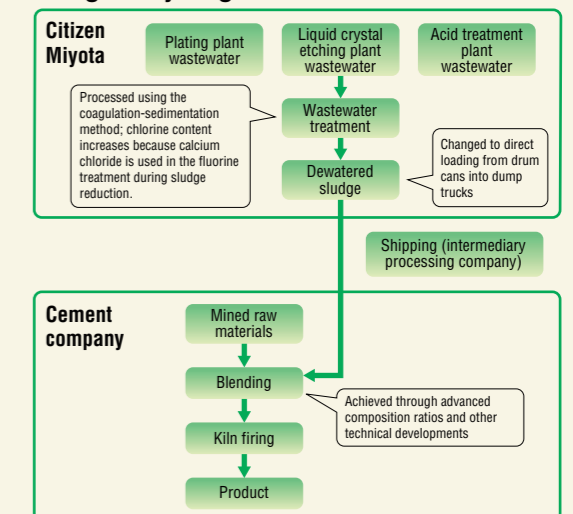
Example Initiative Citizen Miyota

Recycling Dewatered Sludge as Cement Materials

For the past several years, Citizen Miyota has explored recycling options with cement companies to enable the reuse of dewatered sludge in cement materials, but the high fluorine and chlorinated substances content of the sludge had prevented the realization of this goal.

However, reuse in cement materials was made possible in fiscal 2007 by the development of technologies at cement companies to reduce the content of the interfering substances, and by Citizen Miyota's change of discharge method to direct loading from drum cans into dump trucks. The achievement substantially improved the recycling rate to 93.7%, from 75.8% in 2006.

Sludge Recycling Flowchart



Reducing Hazardous Chemical Substances

In keeping with its provision of Citizen environmental products, the Group strives to eliminate or reduce hazardous chemical substances in its production processes.

Reducing the Use of Hazardous Chemical Substances

Since 2003, the Group has worked to reduce usage of chlorinated organic solvents and chlorofluorocarbon alternatives (HCFCs), which had been used in fabrication processes for a variety of parts. After investigating the ideal replacements for each process, we started changing production processes and installing new equipment. Although we had aimed for complete elimination of dichloromethane in fiscal 2005, Citizen Miyota had been unable to do away with the chemical for quality assurance reasons. However, changes in cleaning processes and the introduction of new cleaning devices finally enabled complete elimination in April 2008.

The Group is currently pursuing alternatives to cyanide compounds as a priority initiative. Each Group company is also setting specific goals and working to cut down on hazardous substances according to their actual operating situations, led by Citizen Watch's goal of eliminating mercury in its primary batteries in 2008.

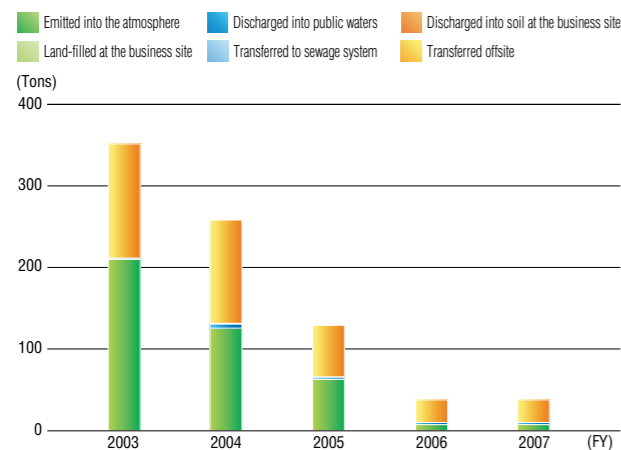
Compliance with PRTR Law*

Each company in the Group conducts its own notification regarding PRTR substances. The chart below summarizes the data submitted for the whole Group in fiscal 2007.

We have succeeded in decreasing the number of substances requiring notification from 7 to 6, and have curtailed the amount handled to 41 tons, from 47 tons in fiscal 2006—a 13% year-on-year decrease.

Total substances discharged and transported came to 28 tons in fiscal 2007, representing a 92% reduction from 351 tons in fiscal 2003.

Amount of PRTR Substances Discharged and Transported



Example Initiative

Citizen Seimitsu

Activities to Reduce Cyanide Usage

The Group is actively working to reduce cyanide compounds by advancing alternatives as a priority initiative in its chemical substance management. Known most commonly in the form of hydro-cyanic acid, which is a useful substance in surface treatment and plating processes, yet it is highly toxic.

Citizen Seimitsu uses cyanide to remove burr (residual material) and surface dirt from watch parts, in the process for dissolving small copper balls in order to add luster to automotive parts, and in the process for removing film prior to plating watch parts and trim parts.

In fiscal 2007, the company conducted surveys on cyanide alternatives and experiments to substantiate such alternatives, and completed the transition to alternative substances in pre-plating processes at all its factories in Japan. At overseas factories, possible alternatives have been narrowed down, processing conditions have been fully set and proving tests will be commenced. On the other hand, alternatives for use in processes for removal by dissolving of copper balls are in the experimental stages, but are scheduled to be fully implemented in fiscal 2008.

As a result of these steps to introduce alternatives, we are predicting an 85% reduction in total cyanide usage as of March 31, 2009, compared with 4,508 kilograms in fiscal 2006.



Alternative testing device

Amount of PRTR Substances Discharged and Transported in Fiscal 2007

| Chemical Substance | Amount Handled | Amount Discharged | | | | Amount transferred | |
|---|----------------|-----------------------------|-------------------------------|---|----------------------------------|------------------------------|---------------------|
| | | Emitted into the atmosphere | Discharged into public waters | Discharged into soil at the business site | Land-filled at the business site | Transferred to sewage system | Transferred offsite |
| Xylene | 15.4 | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 4.4 |
| Nickel compounds | 14.7 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 13.1 |
| Hydrogen fluoride and its water-soluble salts | 5.3 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 2.7 |
| Bisphenol-A epoxy resin | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.2 |
| Inorganic cyanide compounds | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dichloromethane | 1.1 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Total | 41.0 | 3.3 | 0.6 | 0.0 | 0.0 | 0.0 | 23.6 |

* The Pollutant Release and Transfer Register (PRTR) Law mandates the ascertainment, tabulation and declaration of data by the government, businesses and other entities on the source and volume of hazardous chemical substances discharged into the environment or the volume contained in waste transported from business locations.

Third-Party Comments



Riyako Godai

Critic
Chairman of the Citizen of the Year Screening Committee

The past few years have witnessed a spate of corporate scandals that resulted in a loss of trust from stakeholders, thereby reaffirming the importance of corporate social responsibility (CSR). CSR can be stated as the yardstick by which companies evaluate whether they are maintaining the trust of the public.

The Citizen Group upholds a business philosophy, true to its name, of "contributing to and striving to be respected by the citizens of the world," and has built a solid record of creating products focused on "precision technological capabilities forged in the micro-world." The Special Features in this report on the Group's "Business" and "Product Quality" are persuasive and document the business content and current activities of each Group company from a CSR perspective, conveying the Group's enthusiasm for having every employee participate in CSR efforts.

The definition and scope of CSR changes with the times, and currently there is a focus on the importance of work-life balance. Companies are rediscovering that environments that are easy to work in for men and women and encourage open communication help improve business value, accommodate issues stemming from declining birth rates and maintain diversity. In this aspect as well, the Group not only has child-care and nursing care leave systems (pooled time off available in two-hour units) but also other systems tailored to employee needs.

Reading the report, I could feel how the Group's environmental efforts functioned effectively among the collective companies. Citizen examines its manufacturing and products to see to what extent environmental impacts can be reduced at each stage while retaining high product quality. The Company also reviews and revises numerical targets for its goals and introduces sample cases where appropriate—including those from overseas.

However, I think the broad-based CSR activities being carried out at each department, including efforts toward compliance, risk management, customer satisfaction, and diversity, would be easier to follow if they were laid out in a table or other visual aid showing goals and results achieved. This would help the reader see how the textual content reflects the actual status of the Group's CSR activities. Along the same lines, I would like to see the array of efforts across the Group displayed in a comparison by years or a similar format in the next report.



One Akiyama

President of Integrex Inc.

My comments are based on the view that CSR reports are not just reports of activities, but expressions of a company's commitment to efforts in the cycle of planning, doing, checking, and acting (PDCA)—as well as to reaffirming its principles—in the drive to realize its business philosophy.

1. Favorable Aspects

Ubiquitous reference to its business philosophy of "contributing to and striving to be respected by the citizens of the world" underscores that all of Citizen's business activities have a common foundation in its business philosophy. Also evident is the Group's commitment to people in its broad range of efforts toward having all employees help bring the business philosophy to fruition by improving company systems, recognizing employees' awareness, implementing educational training, having interactive dialogues, and creating the atmosphere of open communication.

In terms of environmental management, this CSR report lays down a long-term vision and plan for 2025 and 2010 based on Citizen's business philosophy and assesses this fiscal year's CSR activities in light of that vision and plan. Also presented are efforts that follow the PDCA cycle toward the goals for the coming fiscal year. Moreover, I give high marks for disclosing negative information, such as the groundwater contamination reported last year and Citizen's response, as well as the waste liquid leakage incident.

2. Areas for Additional Efforts and Improvements

With the exception of environmental issues, overall coverage is limited to the "plan" and "do" steps of the PDCA cycle. Citizen's next challenge is to incorporate documentation of the "check" and "act" steps. Although last year's report included a table showing the status of efforts toward the achievement of department-specific CSR targets in line with the Citizen Group Code of Conduct, this table is unfortunately absent from this year's edition.

Furthermore, Citizen is a global corporation with overseas subsidiaries accounting for more than 60% of sales and staff. I would like to see more information on the issues faced and measures taken overseas, especially given the current growing importance of concerted CSR activities across international corporate groups.

3. Expectations for the Future

I anticipate that corporate activities that contribute to the sustainability of society will be important for the sustainability and competitiveness of corporations. I look forward to Citizen's advancement of efforts toward a solution to the major global issue of climate change in accordance with the aim of "contributing to and striving to be respected by the citizens of the world."