



# Citizen Group CSR Report 2012

## Special Feature

Responding to Natural Disasters  
How Citizen helps — Now and into the future

## Message from Management

We strive to be a company that  
is loved, respected and truly  
needed by society



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## We strive to be a company that is loved, respected and truly needed by society

### The Citizen Group's Mission and Vision

The Citizen Group abides by the corporate philosophy, "For the citizen: Contributing to and striving to be respected by the citizens of the world," and engages in business with a sense of mission to help enrich people's lives around the world by producing products that are loved and favored by worldwide citizens.

We understand that Corporate Social Responsibility (CSR) means giving due consideration to sustainability in terms of the economy, society and the environment, and engaging in responsible business activities with proper awareness of our Group's impact on and relationship to society. Recently, CSR is also considered an acronym that stands for Corporate Sustainability Respect. In this sense, we are obligated to fulfill our responsibilities in a socially respectable manner. At the same time, our corporate philosophy also embodies our Group's founding wish to earn wide and lasting respect from all citizens. Therefore, we will abide by this philosophy and commit ourselves to fulfilling our CSR with the participation of all our employees to become a company both loved by citizens and respected by society.

### Group Management with a Focus on Globalization, Speed and Vigor

In recent years, the business environment that we work in is dramatically changing and diversifying on a global scale, such that we are seeing a major transformation of industrial structures in various sectors. As it is risky to make judgments based solely on conventional values, we believe it is necessary to stay on top of such rapid social changes and establish a framework that would allow us to respond promptly to demands and changes in society. Since fiscal 2010, we have been reaching toward our vision of becoming a group capable of continual, sustainable growth, as stated in our medium-term management plan, and have endeavored to establish a tough and sustainable organizational structure. We are convinced that it is owing to this effort that we have been able to override the difficult business environment we encountered in fiscal 2011 in the aftermath of a series of natural disasters and the impact of the strong yen.

Fiscal 2012 is the final year of the present medium-term management plan and the year for formulating a new one. In a time of diversifying values, the

key to new growth lies in quickly grasping values sought by the market and giving thought to what we can do, or ought to do, by harnessing our strengths. Toward this end, I realize I have an important duty to present a proper direction. Now that we have been able to strengthen our organizational structure, we will create a new management plan that focuses on globalization, speed and vigor, and make Group-wide efforts to achieve new growth.

### Transformation into a Truly Global Company

Since our Group's founding in 1930, we have achieved continuous growth mainly based on the watches and clocks business, and have exploited the downsizing technology, precision technology, low power consumption technology and other such technologies cultivated in the watches and clocks business to expand into a variety of businesses on a global scale. While our overseas sales account for roughly 60% of the Group's total sales, simply doing business around the world does not make us a truly global company. We can become a truly global company only by achieving global standards in terms of both personnel and business operations. This means we must undergo a shift to acquire an outward-looking business culture. In other words, we must maintain an accurate understanding of the market, our competitors, and our own strengths and weaknesses as the first step toward globalization in the real sense of the term.

Additionally, to achieve true globalization, it is not only necessary to understand the distinct culture, climate and customs of each region of the world and engage in business activities that are grounded in the local community, but it is more important than ever to recruit and develop human resources who possess a global outlook. Many people who work for our Group have various unique abilities. We hope to provide a working environment that maximizes their true potential and become a vibrant Group.

### Compassion as the Very Essence of CSR

The essence of CSR, the way I see it, lies in each and every employee and their effort to nurture a compassionate heart as a human being and their conscious wish to attain personal growth—in the way that many people realized afresh the importance of connecting and caring for others in the wake of the Great East Japan Earthquake. We are all citizens before we are businesspeople. As long as we make judgments from the consumers' perspective or the perspective of others, our actions will naturally coincide with CSR. With regard to environmental issues of global concern, we can give due consideration to the environment simply by acting with a sense of compassion for the Earth

on which we live based on Japan's deep-rooted ancient custom that frowns on wasting anything. In the same manner, as long as we give due consideration to regional diversity when engaging in business around the world, we can eventually expect to be needed as a community-based company.

In these ways, we firmly believe that ongoing efforts to do what is naturally necessary in a natural manner with a sense of caring as a human being will allow us to grow as a company and help realize a sustainable society.

### Lastly

Based on the above principles, the Citizen Group is committed to producing reasonable profit through proper business activities in consideration of society and the environment, and to benefiting our stakeholders through continuous growth.

This CSR Report presents our CSR initiatives over the past year. It is structured on the Citizen Group Code of Conduct, which was established to ensure abidance with our corporate philosophy, and has been edited to incorporate the views of employees who daily practice the code of conduct.

I hope that as many people as possible will read this report and give us feedback of their views and opinions. Thank you for your further understanding and continuous support of the Citizen Group.

June 2012

**Toshio Tokura**  
President and CEO  
Citizen Holdings Co., Ltd.

戸倉敏夫

### Participating in the UN Global Compact

We announced our participation in the United Nations Global Compact in April 2005 and pledged to make Group-wide efforts to uphold, respect and put into practice the Ten Principles outlined therein. Furthermore, to ensure our commitment to the Global Compact, we have established and comply with the Citizen Group Code of Conduct, which provides specific guidelines that embody the spirit of the Global Compact.

## Editorial Policy

The aim of this publication, CSR Report 2012, is to provide all of our stakeholders with a straightforward outline of the Citizen Group's business activities and the Group's approach and initiatives in relation to its social responsibilities. This report showcases the CSR activities in fiscal 2011 based on our guidelines for better fulfillment of our social responsibilities—the Citizen Group Code of Conduct—and through profiles of our employees. In the Special Feature, we describe the future approach of the Citizen Group as a corporation as tempered by the lessons of the Great East Japan Earthquake and outline our aid activities to disaster stricken areas. In addition, the report features employees from all over the world holding up cards answering the question "What does CSR mean to you?." This gives employees responsible for CSR a visible presence and creates a real feel for our approach to CSR, based on the participation of all employees.

Although designed to make the Citizen Group's CSR activities known to the general public, this report also serves as

a guide for every employee in the Group, to help them understand and carry out CSR activities.

### Organizations covered in the report

**Economic and social data:** 31 domestic and 58 overseas companies (total 89)  
**Environmental data:** 22 domestic and 12 overseas companies (total 34)

### Period covered by the report

Fiscal 2011 (April 1, 2011 to March 31, 2012)  
 Some data from fiscal 2012 is also included.

### Guidelines Referenced

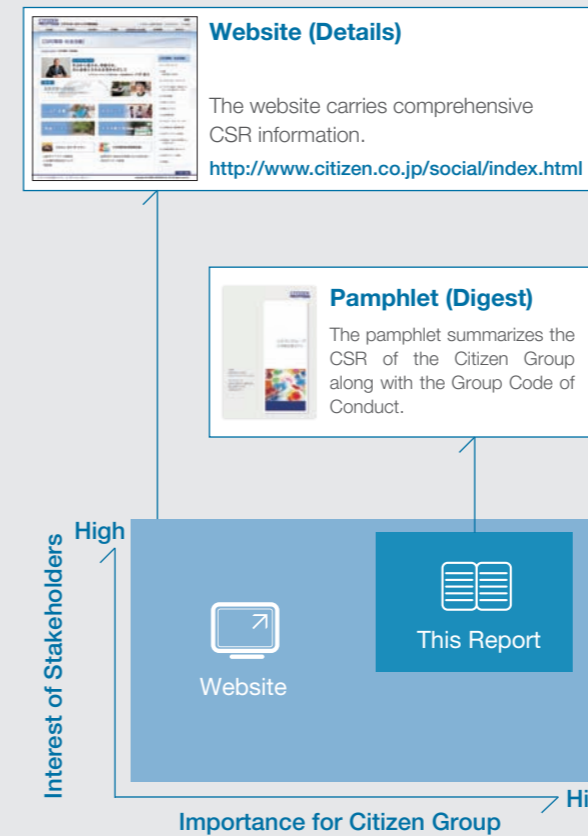
Sustainability Reporting Guidelines 2006 (GRI)  
 Environmental Reporting Guidelines 2012 (Ministry of the Environment, Japan)  
 Environmental Accounting Guidelines 2005 (Ministry of the Environment, Japan)

### Date of Publication

June 2012 (Previous report: June 2011/Next report: June 2013)

### 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.



### Front cover

The Citizen Group assists the ARTS for HOPE project which sponsors art programs for children in disaster stricken areas.

For details, see page 8.

## The Citizen Group

# Harnessing world-leading compact, precision technology to continually offer true value and fulfill people's expectations and aspirations

With the corporate philosophy of "Contributing to and striving to be respected by the citizens of the world," the Citizen Group has been launching diverse businesses around the globe making use of the expertise in miniaturization, precision manufacture, and reduced power consumption built up in its watch division.

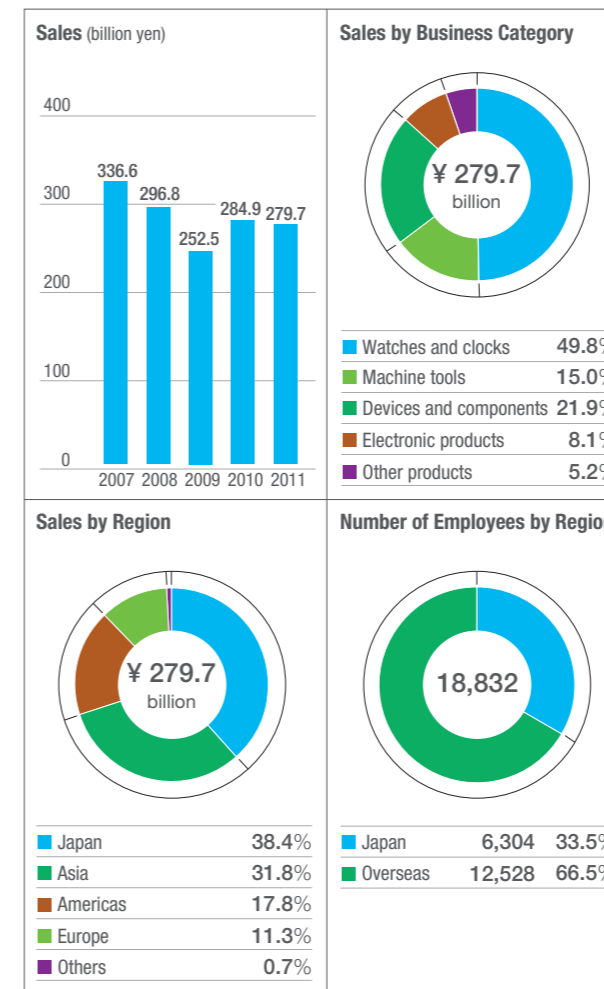
We are creating innovative new products based on the concept of "integration of technology and beauty" in our

watches, realizing high speed machining with micron level precision in our machine tools, providing the parts essential for downsizing, greater precision, and lower power consumption in our devices and components, and making the lives of citizens more convenient and comfort in our electronic products—Citizen's "Micro HumanTech" is alive in all of these businesses and products.

### 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	Toshio Tokura, President and CEO
Capitalization	¥32.648 billion (as of March 31, 2012)
Employees	23,725 (consolidated; as of March 31, 2012)
Sales	¥279.7 billion (consolidated; FY2011)
Listing	Tokyo Stock Exchange, 1st Section

<b>Watches and Clocks</b>  Eco-Drive radio-controlled watch	<b>Machine Tools</b>  NC automatic lathes	<b>Electronic Products</b>  Line thermal label printers
	<b>Devices and Components</b>  LED packages for lighting	<b>Other Products</b>  Bridal jewelry



\* From fiscal 2011, excluding number of part time employees


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# Citizen Products and Technology in Use Here, There and Everywhere

Citizen's wide ranging business activities make it an integral part of society. Citizen products and services play a crucial role behind the scenes of our day-to-day lives.

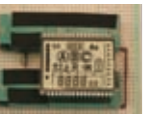
**24 Publication**  
Publishing technical books chiefly in fine arts and history and running the book section in the museum shop of the Tokyo National Museum and elsewhere




**23 Zirconia ceramic parts for optical communicator (Optical Network)**  
Used in connectors for fiber optic cables




**22 Highly reliable Liquid Crystal Display (Gas meters)**  
Durable specifications even at high temperature and humidity



**21 Electronic dictionary**  
Used to store Japanese and bilingual Japanese-English dictionary data and medical, health-related and general information



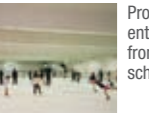
**20 Digital thermometer**  
Predicted temperature measured in about 60 seconds. Backlight enabling reading in dark locations



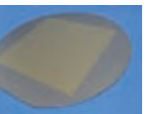
**Digital blood pressure monitor**  
Easy to use health management support tools with clear displays



**19 Leisure Facilities**  
Providing multipurpose entertainment venues, from ice rinks to culture schools



**18 Submount (Optical Disk Drives)**  
A ceramic substrate with high radiation performance mounted with laser and diodes for optical disks




**17 Quartz Crystal Devices (Mobile Phones)**  
Used to produce regular signals in time with actions when on standby



**1 Watch**  
Eco-Drive watches: the first watches to be granted Eco-Mark certification in 1996



**2 Quartz Crystal Devices (Home Electronics)**  
Reference signals used to ensure that electronic equipment is functioning correctly




**3 LED (Lighting)**  
Low-energy consumption, long life, mercury free, environmentally friendly lighting



**4 LCOS\* (Digital still camera)**  
Incorporated in electronic view finders that are more compact and slimmer than optical versions



**PN liquid crystal (Digital still camera)**  
Liquid crystal used to display focus area within viewfinders



**Compact switch (Digital still camera)**  
Used for shutter switches, etc.



**5 Marriage Ring**  
Scratch resistant rings that keep their shape



**6 Sports timer**  
High visibility magnetic reversal displays, essential during marathon broadcasts



**7 Automotive Components**  
Manufacturing components for use in ABS brakes, airbags, engines, etc.



**LED backlight unit (Car navigation)**  
Used in the development of slimmer, energy saving car navigation systems




**8 Electronic View Finders (Camcorders for professional use)**  
High resolution viewfinders capable of catching even fast movements during sporting events



**9 Time control system**  
Clocks fitted to buildings or other exterior surfaces, often cherished as symbols representing the local area




**10 LCOS\* (Projector)**  
Used in video engines due to high definition and picture quality



**11 Combustion Pressure Sensor (Ship)**  
Fitted inside engine cylinders to measure combustion pressure



**12 Self-service ordering system**  
Enables restaurant customers to order from menu touch screens at their tables



**13 POS Thermal Printer**  
Used for issuing receipts, tickets, and coupons




**14 Photo Printer**  
Enabling easy photo printing at locations such as supermarkets and photo stores




\* Short for "Liquid Crystal on Silicon," LCOS are LCD panels that use silicon substrates.

**LED (Mobile Phones)**  
Used for key lights, camera flashes and backlights on mobile phones, etc.




**Electronic Paper (Mobile Phones)**  
World's first electronic paper keypad, harnessing the memory capabilities and flexible properties of electronic paper



**Compact switch (Mobile Phones)**  
Used as switches on side surfaces



**16 Digital Pedometer**  
Easy operation for measurement while walking or jogging to help maintain and improve health



**15 NC automatic lathe**  
Machinery used to grind metal to make high-precision components



**Measuring instruments**  
Instruments used to accurately measure small components



**Coreless Motor, Gear Head, Encoders**  
Used in electronic microscopes, radiotherapy equipment, robots, etc.



Special Feature

# Responding to Natural Disasters

How Citizen helps  
— Now and into the future

## 01



The basis of disaster response is, first and foremost, ensuring people's safety, and then seeking to find ways to minimize damage. Dividing its initiatives into measures launched by individual companies with consideration of the form and scale of their businesses and the specific characteristics of the regions concerned, and shared, company-wide measures, the Citizen Group works to mount effective responses to disasters.

## The Citizen Group's Response to the Great East Japan Earthquake and Tsunami Disaster

### Rising from the Ruins and Facing the Challenge

Immediately after the Great East Japan Earthquake, employees of Citizen Tohoku's Soma Works, located in Shinchicho, in Fukushima Prefecture's Soma District, received instructions to return home. Then the tsunami struck. While the Soma Works narrowly escaped being inundated by the tsunami, many employees' houses were damaged, and they were forced to live in evacuation centers.

Then-President of Citizen Tohoku, Haruo Kumagai, sent a message to employees affirming his belief that striving not to be overwhelmed by disaster, and working to restore the plant and to create a functioning workplace as soon as possible would in itself be a means of providing support for the disaster-struck region. This sentiment rallied the plant's employees in the wake of the disaster, and under conditions in which even reporting for work was difficult, they began to make efforts towards recovery.

### Measures introduced in anticipation of a major earthquake proved effective

In part as a result of the effectiveness of measures introduced prior to the Great East Japan Earthquake, the molds and important production machinery which are essential to the Soma Works' operations escaped serious damage. Particularly large production equipment such as press machines were fixed to the building's foundations and were thus almost undamaged, while completed and partially completed products on the same floor had only fallen over.

The plant was well provided with earthquake precautions targeting important equipment because of Citizen Tohoku's conviction that a massive earthquake with its epicenter in the ocean off Miyagi Prefecture would occur within a 30-year period. The Soma Works suffered significant damage in the Miyagi Earthquake in 1978, due, for example, to the fact that a large amount of goods and equipment fell from shelves. Following this experience, the plant was scrupulous in putting anti-earthquake measures into place in order to prevent molds and production equipment from falling or toppling. As a result, it was able to restart production less than two weeks after the earthquake.

As an issue for the future, the first order of business is the ability to effectively confirm the safety of employees and their families. To ensure that it is able to do so without fail, the Soma Works has decided to begin training in the use of a safety confirmation system which has already been introduced by 35 Citizen Group companies.

### Creating better systems based on lessons from the disaster

In the future, after identifying the issues brought into focus by the earthquake and tsunami disaster, Citizen Tohoku will proceed with the formulation of a business continuity plan (BCP) that foresees all potential disasters and unusual situations. Using the experience of the recent disaster, the company will realize a BCP that offers practical and effective guidance in all relevant areas from evacuation procedures to the procurement of equipment.



### Support for the Affected Region

The Citizen Group is striving to aid the people affected by the earthquake and tsunami disaster and contribute to the recovery of the disaster-struck region. To this end, Citizen has provided relief funds totaling 100 million yen via the Japanese Red Cross Society, and Citizen Watch Co. of America, Inc. has donated 50,000 U.S. dollars through the American Red Cross. In addition, Group companies have mounted a variety of initiatives to help the victims of the disaster.

#### Providing support through sport

We held a table tennis event for children in Shinchicho, where the Citizen Tohoku Soma Works is located. Seeking to contribute to the region's recovery from the disaster, we invited five players from Division 1 of the Japan Table Tennis League to participate, under the slogan "You Can Do It Soma!"

Students from elementary and junior high schools in Fukushima and Miyagi Prefectures came together at the venue to trade shots with the League players, receive instruction, and watch rapid-fire demonstration matches.

We think that the event was a success in raising spirits in the region through the agency of sport.

#### Bringing smiles to the faces of the leaders of the next generation

The Citizen Group is providing support for ARTS for HOPE, an initiative that brings art programs to children in areas affected by the disaster, and the Iwate Mobile Library project being conducted by Shanti Volunteer Association, which seeks to offer a substitute for libraries which were destroyed along the Iwate coast by offering a mobile book lending service focusing on areas of temporary accommodation.

A call to Group employees saw us collect 30 boxes of art supplies, including paints, crayons and sketchbooks, and 2,077 near-new books, which have been donated to the organizations running the respective projects.

#### Offering the joy of working

As an initiative to support people who lost their jobs as a result of the earthquake and tsunami disaster, since June 2011 Citizen Heiwa Watch Co., Ltd. has provided employment to a total of seven evacuees, seeking to provide them the psychological stability that comes with working.

Thanked by Katsunobu Sakurai, the mayor of Minami Soma in Fukushima Prefecture, for what he considered "A tremendous show of support," then-President of Citizen Heiwa Watch, Atsuo Kawaguchi, promised to continue to provide support for local employment. Citizen Watch Miyota Co., Ltd. is also providing employment for people from the affected areas.



Katsunobu Sakurai, Mayor of Minami Soma (R) and (then) President of Citizen Heiwa Watch, Atsuo Kawaguchi



Some of the many books donated by Citizen employees



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02



## Human Bonds Transcending Borders

— Healing victims of the disaster through music —

### Hope for Tomorrow Through Music, from Italy to Shinchicho

Seeking to support recovery from the Great East Japan Earthquake disaster, the Citizen Watch's Group companies Citizen Watch Italy and Citizen Watch Europe donated a total of 453 musical instruments, including harps, clarinets, brass instruments and other brass band instruments to elementary and junior high schools in Shinchicho, Fukushima Prefecture's Soma District, where the Citizen Tohoku Soma Works are located. A commemorative concert was held together with the presentation ceremony.

The L'Aquila earthquake struck Italy in April 2009. To aid recovery efforts, Citizen Watch Co., Ltd. donated computers to elementary schools in the L'Aquila region. Following the Great East Japan Earthquake, Dante Grossi, the Managing Director of Citizen Watch Italy, stated his desire to return that kindness by providing a form of direct support to the children of Japan which would communicate a feeling of warmth and hope transcending national borders.


20% of Shinchicho was flooded by the tsunami that followed the earthquake, and the town suffered enormous damage: 578 families lost their homes, and more than 110 of the town's residents were killed or went missing. Amid these circumstances, Mr. Grossi and Citizen Watch Italy sought to encourage local children, the leaders of the future, to feel hope for tomorrow, with strong spirits unbowed by hardship and hearts comforted by music, through their donation of musical instruments and organization of a commemorative concert. We hope that the donated instruments will offer a powerful message to victims of the disaster at other events organized to promote recovery, and that the spirit of Citizen Watch Italy's gift will be communicated.



"The world has witnessed the events in Tohoku. With extraordinary courage and discipline, and tremendous passion, you have faced the destructive power of nature, and set about rebuilding your lives with a new courage and determination. Your parents, facing terrible hardships, have taught us the meaning of human dignity. As the representative of all the staff members of Citizen Watch Italy, I would like to offer a humble gift to you from our country. While it is seems an insignificant gift compared to the things

that you really need at present, it is our hope that it will serve to remind you that you are not alone, and that there are people who admire you."

*Message From Dante*





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03



## Response to the Thai Floods

— Support for employees caught in the disaster —

While the facilities belonging to Royal Time Citi (RTC) and Citizen Machinery Asia (CMA) did not suffer flood damage during the massive floods which occurred in Thailand in 2011, 560 employees were affected.

The residences of 480 of RTC's employees (90% of the company's workforce) were flooded. In some cases the damage was severe, cutting lifelines and leaving the employees without the means of getting to work and going shopping, making it impossible for them to lead normal daily lives. Wishing to provide support to help employees overcome this situation as quickly as possible, we organized a "Help Citizen Employees Suffering in the Thai Floods" campaign to raise funds, and we also distributed supplies by means of boats.

CMA was forced to suspend operations from October 17 to 21, but recommenced work on the 24th, with all employees working hard to make up the production backlog. Members of the Citizen Machinery Miyano Group set up donation boxes in their company canteens, raising a considerable amount of money, which was presented to flood victims individually by Citizen Machinery Miyano's President, Kenji Sugimoto, as a token of sympathy, and in appreciation of the efforts of employees who had mounted all-night vigils in order to protect CMA from flooding.

Because a "Citizen-wide" perspective means that we are all united as employees of Citizen despite the fact that our countries and workplaces might be different, support from colleagues and aid towards recovery came quickly from companies throughout the Group.

#### Details of support provided

- For one month, RTC delivered water, food (rice and pot noodles) and everyday items by boat to the residences of employees affected by the flood.
- RTC and related factories in China supplied 20 tons of rice for 500 employees, representing 40 kg per person when distributed to all employees.
- Based on RTC's company rules, 480 employees affected by the flood were offered a donation of 3,000 baht per person.
- Donations of 3,325,619 yen were made by Citizen Watch Group companies.
- Citizen Watch supplied four rubber boats and 400 blankets.

#### "Our Thai employees gave us courage"

We first heard reports of people falling victim to flooding in early September. At the peak of the floods, at the end of October, about 90% of our employees were affected. In the midst of this situation, seeing our Thai employees coming voluntarily to the plant and working hard to pile sandbags and bail water gave the Japanese staff members fresh heart.

#### Voice

Royal Time Citi Co., Ltd.  
 Managing Director  
**Toshihiko Oso**



Kenji Sugimoto, President of Citizen Machinery Miyano, presenting donations individually to employees affected by the Thai floods

# The Citizen Group's CSR and Risk Management

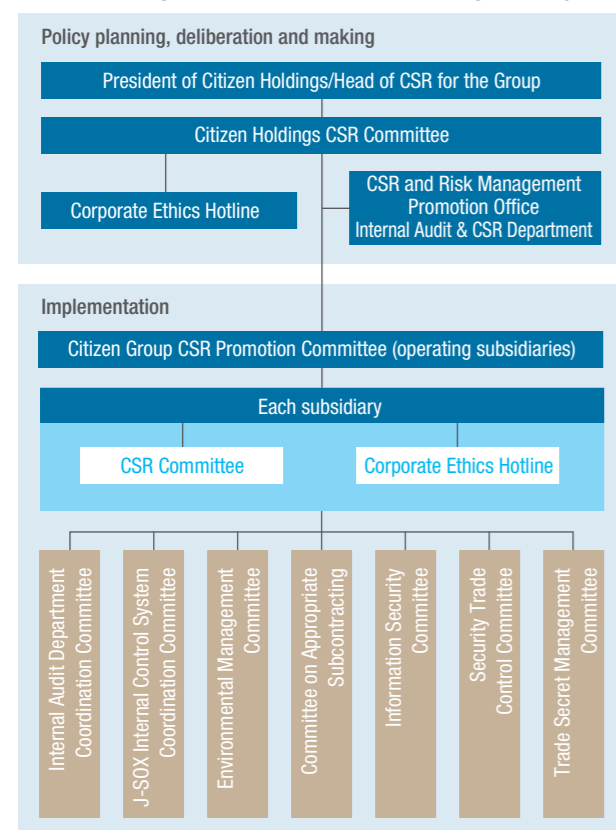
## CSR and Risk Management Promotion Structure

Under the Citizen Group's CSR and Risk Management system, the president of Citizen Holdings bears overall responsibility, and the CSR Committee, composed of representative members of Citizen Holdings, reports directly to the president and plans and proposes guidelines and policies for the Group.

As an executive body, the Group CSR Promotion Committee consists of supervisory personnel in charge of CSR selected from the operating subsidiaries. Individual subsidiaries have their own CSR committees. In addition, committees are set up with the participation of the Group companies to plan and implement policies for concerns that are important to the entire Citizen Group. The auditing departments of these companies join forces to audit and evaluate the effectiveness and efficiency of these efforts in terms of governance, with the aim of improving the quality of corporate actions.

Individual subsidiaries carry out activities to raise awareness of compliance. They offer CSR education based on their own educational frameworks designed for according to the job classifications of their employees. If the need arises, we conduct CSR and compliance education for all the companies in the Group.

### Schematic Diagram of Our CSR and Risk Management System



## Relations with Stakeholders

The Citizen Group's business activities are built upon relationships of trust with a variety of stakeholders. Our aim is to communicate with our stakeholders and to bring our corporate philosophy to fulfillment.

### The Citizen Group's Stakeholders



## Basic Approach to Risk Management

We are working on risk management for the purposes of properly controlling risks that may impede the realization of our Corporate Philosophy, the accomplishment of management plans, and the fulfillment of our social responsibility to achieve sustainable growth in corporate value. Risks involving the Group are classified into two types: strategic risks and operational risks. The strategic risks are dealt with by the Management Committee and by the Operational Management Committee, whereas the operational risks are addressed by all companies in the Group in an organized manner.

## CSR and Risk Management Efforts

The Citizen Group has developed Basic Risk Management Rules. The Citizen Group CSR Promotion Committee in the executive departments monitors operational risks in each Group company to determine whether they should be addressed by individual companies or by a Group-wide committee or equivalent body. A proposal is then made to the CSR Committee. The CSR Committee then considers the risks that the Group CSR Promotion Committee has referred. The CSR Committee coordinates the resources needed to deal with the risks within the Group, and if necessary, it makes proposals to the Group Management Committee.

In fiscal 2011, we continued work on a risk that the Citizen Group as a whole had designated as high priority in its fiscal 2010 risk evaluation: business continuity plans (BCPs) for use in the event of a disaster. We inspected and evaluated our manufacturing companies in particular. In addition, we formulated Group Trade Secret Management Rules for dealing with trade secrets and began implementing them throughout the Group.

The criteria for risk evaluation in fiscal 2011 were set up so that they could be stated in quantitative terms as much as possible. As a result of evaluations conducted throughout the Group companies, it was decided to position maintaining safety overseas and dealing with emergency situations as major issues for fiscal 2012.

## Post-Disaster Business Continuity Plans (BCP)

The Citizen Group has been working on a post-disaster BCP for several years, but our experiences during the Great East Japan Earthquake of March 2011 prompted us to improve our post-disaster BCP to make it more effective.

In fiscal 2011, we focused on first saving human lives and then bringing manufacturing plants back on line. The manufacturing companies in particular examined and evaluated a set of questions that was uniform across the entire Group. As a result of these investigations, we uncovered the following two issues.

### Recovery Systems

Each Group company has an emergency response system in place, but they have delayed in setting up recovery scenarios. In specific terms, this means setting up a timeline for recovery and positing procedures and methods for restarting operations in each department.

### Alternative Production Facilities/Other Aspects of Business Continuity

We need to conduct further studies and investigations of these matters in terms of supply chain management.

### Issues for Group Companies by BCP Implementation Status

- ① Companies that have been working on BCPs since before the 2011 earthquake: They will implement their plans laterally within their own Groups.
- ② Companies that began considering BCPs before the 2011 earthquake: They have accelerated their efforts since the earthquake, but they will inform and train their employees further, including conducting disaster drills.
- ③ Companies that began implementing BCPs after the 2011 earthquake: The entire company will accelerate its efforts.

In specific terms, these plans will be conceived and carried out with consideration for each company's regional characteristics, corporate structure, and size, as well as kinds of potential natural disasters and the degree of

damage. We will set up a framework in which activities that might prove useful to others can be actively shared throughout the Group, even as companies share information among themselves.

## Internal Reporting System

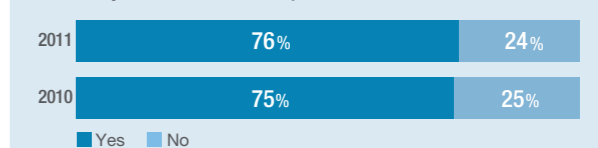
We have set up a Corporate Ethics Hotline in accordance with the Internal Reporting System Rules, both for prevention or early detection of legal violations or misconduct stemming from dishonest actions and for improvement in the levels of self-regulation. Our Internal Reporting System Rules state that the reporting party's privacy must be respected. They also state that the subject of the report must be given the opportunity to refute claims made against them and that the reporting party must not be subjected to unfair treatment.

Furthermore, since 2008, we have had an external reporting hotline in place, one that allows employees to file reports anonymously. This is just one of the ways in which we have created and operated an environment that encourages employees to report misconduct.

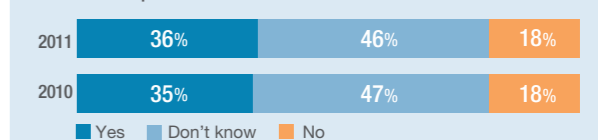
## Results of CSR Awareness Surveys

The Citizen Group conducts a CSR awareness survey every year in order to determine the degree to which employees are aware of CSR and corporate ethics.

### Q.1 Are you aware of the Corporate Ethics Hotline?



### Q.2 If you detected any legal violation, would you call the Corporate Ethics Hotline?



\* Response rate in 2011: 75.3% (6,849 of 9,097 persons), 2010: 76.7% (6,651 of 8,677 persons)

## Topics Exchanging Opinions with Students at Musashino University

Students at Musashino University wrote an evaluation of our 2011 CSR Report from the perspective of job seekers considering joining the company as new employees. We took the opportunity of receiving the report to exchange opinions with the students. We received much valuable feedback, such as the dearth of information relevant to a prospective employee. We plan to create similar opportunities for exchanges with our outside stakeholders in the future.





Citizen aims to pursue its corporate social responsibility  
 “corporate group contributing to and striving to

**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.



(CSR) with the participation of all employees as a  
 be respected by the citizens of the world.”

- 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 every effort to abide by this Code of Conduct. If a situation in violation of this Code of Conduct should happen to arise, the Company will make an appropriate report to the community about its own efforts to solve the problem and to prevent its recurrence. It will also impose strict penalties once the scope of rights and responsibilities is clear.
- Effective April 6, 2007



\* We asked employees of the Citizen Group “What does CSR mean to you?” (The English translations of the messages can be seen in the web version of the Citizen Group CSR Report.)



## Group Code of Conduct, Article ①

Provide our customers with products and services that demonstrate our concern for safety, quality, and the environment.

# Craftsmanship that Our Customers Love — The Citizen



**Mikio Unno**  
Director,  
Executive Adviser,  
Citizen Watch Co., Ltd.

## Citizen's Flagship Brand, Embodying Its Corporate Philosophy — The Citizen

"The Citizen," launched in 1995, was the first high-quality brand in the industry to provide a 10-year warranty and promise complete after-purchase service, including long-term repairs. Seventeen years after its introduction, The Citizen has become a flagship brand embodying the company's corporate philosophy of "Contributing to and striving to be respected by the citizens of the world."

In order to ensure that our customers continue to love our products over the long term, we allow no compromises in the areas of performance and quality, and only our master watchmakers, experienced technicians, assemble the watches. We use timeless designs to create watches that customers can treasure forever.

We want to remind our customers of two things: our watches as part of a culture in which people use fine products for a long time, and the practice of taking good care of fine objects, something that contemporary people are apt to forget.

## Creating Products with Our Customers

Our long-term interactions with customers in connection with the maintenance and repair of their The Citizen watches have taught us many things.

If you make a fine product, customers will be pleased with it. In addition, listening to feedback from customers serves as a motivation to make even finer watches, leading to improvements in quality and technology. Thus creating

products on the basis of feedback from our customers is both the starting point of craftsmanship and the essence of Citizen's philosophy.

In the future, we would like to make more people aware of this sense of values.

For more information about The Citizen, please see our website at: <http://citizen.jp/the-citizen/story/index.html> (Japanese only)

**Training Human Resources Leads to Delighted Customers**

**Voice**

"The Citizen" embodies the company's corporate philosophy of "Contributing to and striving to be respected by the citizens of the world," and it has become our flagship brand, one that we are very proud of. In order to provide our customers with this high-quality watch, it is essential to promote the growth of each individual employee. Organizations are based on people, and no matter what kinds of organizations and systems a company has in place, neither the company nor its products can grow unless it fosters the growth of its people. For that reason, I believe that my job—and my responsibility to our customers—is to reconfirm the significance of our work and to ensure that the tenacious efforts of each individual employee lead to greater customer satisfaction.



**Ryota Aoyagi**  
President and CEO  
Citizen Watch Co., Ltd.

## Design for the Future

Creating environmentally friendly products is a mission for those of us engaged in manufacturing. But wearing a watch also involves an element of fashion, so it is essential to respond to the feelings of customers who want to possess something wonderful. These watches feature both a high level of precision and environmentally friendliness. On top of that, their design inspires customers to want to wear them forever. The superb and balanced way in which Citizen watches are assembled is one of their strengths, and we believe that these products are harbingers of the future.

## What Designers Can Do

We don't want to burden those who come after us, so we ask ourselves what we can do to ensure a better future. These are things that people engaged in manufacturing must be intensely aware of: the environment, quality, and design. Indeed, it is from the balance among these elements that the value of a product design arises.

My own personal goal is to make changes that impart new values to people's lives and their sense of time.

It pleases me to think that watches that I had a hand in making are marking out the moments of the happy occasions in people's lives.

## Tokyo Designers Week 2011

Tokyo Designers Week is a design event that draws large numbers of companies and designers from Japan and overseas, and Citizen first participated in this event in 2010. At the 2011 event, we exhibited the possibilities of a variety of designs that arose out of the process of developing the Eco Drive Concept Model, a watch that generates electricity from light.

During the 2010 Tokyo Designers Week, Rido Sasaki exhibited "Photosynthesis Watch," an almost plant-like watch, which delineated a fine and delicate form like a new bud, "woke up" when exposed to light, marked time with a needle of light. Visitors to the exhibition chose it as the most superb concept presented.



A presentation by a designer

# The Possibilities of Designs that Meet the Customers' Expectations



**Rido Sasaki**  
Product Planning Headquarters  
Citizen Watch Co., Ltd.

\*Ms. Sasaki is holding a prototype of the Photosynthesis Watch that she designed herself.

## Group Code of Conduct, Article ②

Engage in fair, transparent and open competition in business transactions, and maintain healthy relationships with our suppliers and government regulatory authorities.

# Reinforcing Overseas Green Procurement



**Takeshi Inoue**  
Former Manager  
Environmental Planning Department  
Citizen Watch Co., Ltd.

“It is important to conduct multiple verifications on a daily basis to protect suppliers.”

## Building Structures That Support Mutual Development

The watch business conducts transactions with a total of about 400 suppliers (green partners) in Japan and other countries, and all suppliers cooperate with Citizen's green procurement efforts.

The percentage of manufacturing conducted overseas has been rising rapidly in recent years, and it is important not only to comply with environmental regulations of each country including in Europe, the United States, China, and so on, but also to conduct rigorous control of hazardous substances such as lead contained in materials, parts, and components. For this reason, that establishing verification systems that can maintain the best relationships for both sides is an urgent matter.

conditions are unstable and fluid. In response to these circumstances, ongoing checks on a daily basis are necessary for both sides. We make every effort to travel to local sites and engage in repeated face-to-face discussions in order to actively identify problems and learn about management's approaches.

The primary objective of green procurement is to provide customers with safe and secure products. In the case of external ornamentation of watches in particular, we have many overseas suppliers, and the success of green procurement in the watch business depends on overseas green partners.



Verification testing using samples (fluorescent x-ray analysis)

## China Advancing and Evolving on a Daily Basis

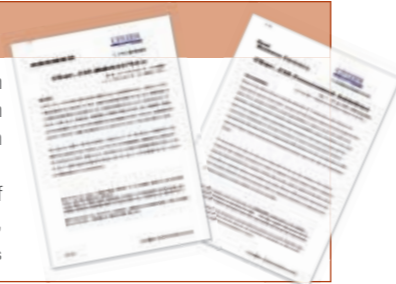
Our green partners in China are caught up in the whirlwind of change that is taking place amidst rapid growth, and

## CSR Procurement

The Citizen Electronics Group engages in procurement activities in accordance with the spirit of the Citizen Group Code of Conduct and the United Nations Global Compact including comprehensive compliance with the aims of building strong partnerships with suppliers who actively undertake CSR including consideration for the environment and human rights and achieving a harmonious coexistence and mutual benefit.

Suppliers are requested to comply with the CSR Procurement Guidelines, a statement of requirements concerning observance of human rights, labor, occupational safety and health, fair trade, and so on.

The CSR Procurement Guidelines



## Group Code of Conduct, Article 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.

# Information Disclosures and Communication with Investors

## Active and Fair Information Disclosures

In order to be selected by all stakeholders as a trusted partner that has earned the trust of society, it is essential that Citizen is understood as a company.

As the departments responsible for the external dissemination of information, the Public Relations Section and Investor Relations Section are bodies within the Management Planning Department that develop structures for fair disclosures by engaging in active communications while sharing information with each other.

Under this type of structure, building trusting relationships with stakeholders, increasing corporate value and brand value and supporting the continuous growth and development of the Group while raising social recognition of the Citizens Group and improving understanding of the Group's corporate philosophy and its management stances are important roles shared by the Public Relations Section and Investor Relations Section. We also believe that these activities are essential for carrying out our responsibilities as a business enterprise.

each group company and periodically confirms and shares information concerning new products, management, personnel matters, and so on while developing structures to consolidate, manage, and distribute information concerning Citizen Holdings. In order to gain trust broadly throughout society, rather than disseminating information based primarily on the company's own ideas, we continuously strive to disclose information from the consumer's perspective, taking into account people's lifestyles and needs while maintaining our objectivity.

The Investor Relations Section holds financial briefings four times each year and actively responds to requests from the media, working to increase opportunities for dialogue with shareholders and investors, enhance the transparency of corporate activities through appropriate dissemination of information concerning the latest developments and management's vision, and raise corporate value. In other of the Section's important roles is supporting bidirectional communications to convey within the Company perspectives and opinions from outside the Company with the aim of improving corporate activities. We are working to increase understanding of the Citizen Group by as many people as possible and build long-term trusting relationships.

## Conducting Appropriate Communications

To actively disclose accurate corporate information in a timely manner, the Public Relations Section works with

“Gaining the understanding and trust of stakeholders and building good relationships is our responsibility.”

## Assessment by Outside Organizations

Citizen Holdings has been selected for inclusion in the Ethibel Sustainability Index by Belgian socially responsible investment (SRI) assessment company Ethibel for eight consecutive years since 2004.



Toshiyuki Furukawa, General Manager  
Management Planning Department and  
members  
Citizen Holdings Co., Ltd.

**Group Code of Conduct, Article 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.

## Promoting Downsizing to Reduce Environmental Impact

**Citizen Group Environmental Policy** Revised April 1, 2010

Slogan  
**“Small is Eco”**

**1 Promoting downsizing**  
Use production and technology innovations to reduce environmental impact, generate profits and reduce CO<sub>2</sub> emissions

**2 Creating new environmental value through Citizen Environmental Products**  
Identify new environmentally-conscious content of products and parts

**3 Minimizing environmental risks**  
Compliance with global environmental laws and regulations (REACH regulations, US regulations, Chinese regulations, etc.)

**4 Enhancing communication with local communities through environmental and social contribution activities**



**“Small is Eco”**

“Small is Eco” was adopted in 2010 as a group-wide slogan that makes use of the Group’s expertise to invigorate environmental activities throughout the Group. Downsizing is central initiative within those environmental activities.

Citizen Watch has been developing miniaturization technologies since about 2003. Such technologies not only reduce environmental impact by saving space, resources, energy, and manpower and reducing costs, they also provide environmental value by reducing water usage, chemical usage, and detrimental effects on the work environment and health. Citizen Group refers to this added value as a whole as “downsizing.”

Representative examples of integrated operations in the watch business include the KM-2 micro-cam lathe and miniaturization of watch assembly lines of Citizen Heiwa Watch.

In 2011, we began trial use of “functional water technology” for washing the cutting oil that adheres to watch components, and in addition to the miniaturization of facilities, we are adopting the downsizing concept with washing processes as well.




Washing watch components using functional water

### Citizen Heiwa Watch


Example of Application of Miniaturization Technology and Observed Effects

We are developing environmentally conscious production facilities, and introduction of the KM-2 has resulted in a 75% reduction in electricity consumption, a 70% reduction in mass, and a 12% reduction in installation space per unit, providing energy, resource (cost), and space saving benefits.

**Earlier C-7 model**



**KM-2**



Observed Effects (CO<sub>2</sub> Reduction in FY 2011)

CO<sub>2</sub> emissions

**226 tons**

(overall)

Reduction in environmental impact per unit

Electric power

**1.3 kWh**

Mass of resources

**500 kg**

Space

**0.9 m<sup>2</sup>**

Standards for Determining Observed Effects

The environmental impact reduction effects including energy, resource, and space savings were converted to reductions in carbon dioxide. The carbon dioxide units used are listed below.

Electric power: 0.357 kg-CO<sub>2</sub>/kWh  
Resources (iron): 2.5 kg-CO<sub>2</sub>/kg (iron)  
Space: 76.0 kg-CO<sub>2</sub>/m<sup>2</sup> per year

## Development of Environmentally-Friendly Products — LEDs for Lighting



“Gentle Light That Adds Color to Our Lives”

**Nodoka Oyamada**  
Opto Devices Division  
Citizen Electronics Co., Ltd.

### Environmentally-Friendly Light That Uses Watch Manufacturing Technology

LEDs are an environmentally-friendly light source. Compared to incandescent light bulbs, LEDs use only about one-seventh or one-eighth the power and do not contain any hazardous substances such as the mercury found in fluorescent lights. LEDs also have longer life spans, contributing to a reduction in waste caused by replacement. LEDs are truly the “lighting of the future.”

Citizen Electronics began developing LED lighting in 2003 and successfully developed a lighting LED with a brightness of 17,000 lumens, the world’s highest level, in 2011.

The Citizen Electronics environmental policy of “smaller, thinner, higher-performance product designs” is applied here too, and the presence of the beneficial tradition of pursuing the “lighter, thinner, shorter, smaller” can be sensed in the attitudes of each developer.

### Providing Healing Light to People and the World

Awareness concerning electricity increased dramatically following the Great East Japan Earthquake in 2011, and demand for energy-saving products and renewable energy is increasing rapidly.

We will continue our efforts to develop environmentally-friendly products with the aim of providing products that lend even a little of our strength so that we can contribute to solving various problems around the world including the restoration of areas affected by disasters.

Light is an essential item that cannot be removed from our lives. It is my desire that such light causes no detrimental stimulus or harm to people or the global environment, that is safe and secure, that at times can calm or excite people, and that is both pleasant and enjoyable.



A team member meeting

### Approximately 51% Energy Savings Achieved with LED Lighting — Inubosaki Lighthouse illuminated

The Inubosaki Lighthouse in Choshi, Chiba Prefecture was selected as one of the “world’s 100 lighthouses.” The lighthouse provides maritime weather information and plays a role as a differential GPS station to provide GPS differential information and is crucial for safe and economic navigation by ships. LEDs powered by solar panels are used to light up the lighthouse. The LED lights use LEDs manufactured by Citizen Electronics, and compared to the earlier metal halide lamps, they reduce power consumption by approximately 51%.



#### Example Initiative

\* The LED lights were manufactured by IWASAKI ELECTRIC Co., Ltd.

# Supporting Individuals Who Inspire Others — CITIZEN OF THE YEAR



“Every year, we select deserving individuals who inspire their communities and honor them for their actions and activities.”

### What is Citizen of the Year?

Citizen of the Year is an annual awards scheme that recognizes citizens who have inspired local residents and made significant contributions to the development, happiness, and all-around enhancement of their local communities. Prompted by a lack of wide-ranging recognition for deserving citizens, the scheme was established in 1990 to mark Citizen's 60th anniversary, tying in with the spirit of the company's name.

For more information about Citizen of the Year, please see our website at: <http://www.citizen.co.jp/english/coy/>

### Supporting the Development of High School Students in Farming Communities in Bangladesh through Video Classes

Atsuyoshi Saisho, a university student, was selected as the first Japanese coordinator of Grameen Bank in Bangladesh. Mr. Saisho was aware of educational disparities caused by the lack of local teachers. Only about 10% of high school students in impoverished agricultural communities are able to complete school, and Mr. Saisho wanted to do something to help them. His idea was inspired by the video classes that he took through a preparatory school. Classes taught by a well-known teacher were recorded and played in remote villages. Of the approximately 30 students who participated in the first session, 20 passed and four were admitted to some of the most competitive universities. In the second session of the program, results are being improved and the territory is being expanded.



Mr. Atsuyoshi Saisho

### Transcribing Books into Braille for Students of a School for the Blind for More Than a Half-Century

Mr. Tatsuyuki Takeuchi was assigned to school for the blind as a teacher of Japanese and was surprised to learn that almost no books other than textbooks were available in Braille. Concerned that his students would not learn the joy of reading books, he learned Braille on his own and over the course of nearly 60 years transcribed more than 4,000 books including novels and poetry collections as well as academic works and encyclopedias for students who are seeking to obtain qualifications. At around age 40, he began putting efforts into teaching transcription and trained other transcribers as well. Today, at the age of 83, Mr. Takeuchi has undertaken transcription of the New Anthology of Classical Japanese Literature, which has 100 volumes.



Mr. Tatsuyuki Takeuchi

### Volunteering to Prepare Bodies for Burial in Disaster Areas and Supporting Survivors

Ms. Ruiiko Sasahara excels at preparing bodies for burial and volunteered to assist in restoring the many badly damaged bodies caused by the tsunami following the Great East Japan Earthquake based on their condition while alive. She helped send off more than 300 people while enabling survivors who had suddenly lost a family member to avoid the pain of viewing their loved ones in a distressful condition. Ms. Sasahara continues to provide mental health support including traveling throughout the disaster area and engaging in volunteer activities such as *Ochakko*, discussion groups where survivors can drink tea and talk with a doctor who specializes in palliative care, since last autumn.



Ms. Ruiiko Sasahara

## Topics

### Walking for Health and the Environment

Since 2007, Citizen Watch (China) Co., Ltd. has been holding an annual walking event called “Walk for Health, Walk for the Environment.” The United Nations designated 2011 as the International Year of Forests, and it was a year for raising awareness concerning the importance of preserving sustainable forests. Vast areas of forest lands are being lost around the world even now,



and the 2011 walk was held in the Shunan bamboo sea in Sichuan Province to educate people about current conditions and raise awareness about the preservation of sustainable forests. About 30 people from Chongqing, Chengdu participated in the walk, raising awareness about the power of nature and the preservation of forests.

### Citizen Heiwa Watch Wins Monodzukuri Nippon Grand Award

Citizen Heiwa Watch won the fourth Monodzukuri Nippon Grand Award for excellence in the youth support category. The award, presented by the Ministry of Economy, Trade and Industry and other organizations, was created to support the development of *monodzukuri* (manufacturing) that supports advances in Japanese industry and culture and makes significant contributions to enriching lifestyles.

Citizen Heiwa Watch was recognized for its measures such as technical classes conducted at a special need education school with the aim of fostering the next-generation of manufacturing human resources and watch assembly clinics for parents and their children.



### Technical Classes at Special Need Education School

Since 2002, we have cooperated with the Iida special need education school Nagano Prefecture to conduct periodic technical training courses on watch manufacture. We have hired many graduates, and the courses also serve to raise interest in working while assisting disabled persons to participate fully in society.

### Watch Assembly Clinics for Parents and their Children

We have conducted a program entitled “You Too Can Become a Future Master” every year since 2007 as a part of the Iida City Super Science Promotion Project for educating schoolchildren with the aim of raising awareness concerning employment by the young people who will be the workers of the future. The program teaches participants about local companies and raises interest in manufacturing.



### Solar Bear Smile Project

Citizen Watch contributes a portion of sales of its solar-powered Eco-Drive products to the Solar Bear Fund, a non-profit organization that engages in global warming prevention activities and environmental education for children, to support the installation of solar power equipment by kindergartens and nursery schools. In February 2012, Citizen Watch donated solar power facilities to the Iwaki City Azamino Kindergarten in Fukushima Prefecture.



### Pink Ribbon Campaign

Since 2010, Citizen Watch Company of America, Inc. has supported a campaign for the eradication of breast cancer, selling products with the pink ribbon mark on the back cover throughout the North American market. A total of \$200,000 including 2% of sales and other funds were donated to Susan G. Komen for the Cure.



## Group Code of Conduct, Article 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.

# Creating Ideal Working Environments

“A true business person is also able to fulfill his role as a member of a family.”

**Fumio Kikuchi**  
Manager  
Business Management Department  
Citizen Tohoku Co., Ltd.



## Desire to Create New Value

Citizen Group believes that one of its management responsibilities is to create an environment that respects each employee, recognizes diversity, and supports full participation by all personnel, and to carry out this responsibility, we strive to create workplaces where it is easy for personnel to work. Citizen Tohoku Co., Ltd. in particular has made efforts to create an environment where women can work as long as they like with peace of mind, implementing various programs and systems.

Citizen Tohoku actively conducts programs that seek to improve the workplace from the perspective of women

such as the Dianthus Beautification Campaign and supporting the promotion of women to management positions in an attempt to create systems that function with a good balance between men and women. The company seeks to create new value by avoiding male-dominated perspectives and incorporating flexible female perspectives as well.

There are many issues, but by addressing them one by one, I believe that we can create workplaces that respect each employee and support their ambitions. It is the company's role to establish various systems and programs that support this.

## Bakke Nursing Room

Citizen Tohoku established and operates the Bakke Nursing Room at the worksite.

The nursing room was established so fathers and mothers can work nearby their children with a sense of security and with the aim of promoting interest in manufacturing among the children, who can see their parents at work, to foster future generations of Citizen workers. The children have some degree of interaction with the workers, and they provide some motivation to each other. The nursing room is currently attended by five children, its full capacity, and the children are growing day by day.



## Parenting Class for Fathers

A parenting class was held for fathers to support an appropriate balance between work and parenting by male employees. The hope is that the class expanded the men's perspectives concerning parenting and support working mothers while fostering fathers who are fond of actively participating in their children's upbringing and education.

### For Children's Development

I learned that when fathers are more closely involved in their children's care, there are many positive benefits on the children's development such as enhancement of the children's analytical abilities, the ability to express and control emotion, and ability to develop interpersonal relationships. In the future, I am going to value my time with children even more.



**Hiroshi Taya**  
Business Management  
Department  
Citizen Tohoku Co., Ltd.

## Terakoya Education/Kiheitai Activities

Citizen Finetech Miyota Co., Ltd. implements a variety of programs from the perspective human resource development with the aim of promoting initiative-taking and autonomy on the part of employees. By training employees who pay attention to changes and problems, address issues on their own, and move to the next action, the company seeks to improve work abilities and rise employee satisfaction.

Terakoya education is a program that trains employees but also supports employees taking the initiative by asking what each employee wants to learn and adopting innovations in conveying information by having employees teach in their areas of specialization. The program consists primarily of voluntary courses conducted after working hours, but three years after its launch, participation in the program is increasing, particularly in QC inspection courses, leading to substantial results.

In addition, *Kiheitai* activities supplement existing small-group quality improvement programs by supporting not only initiative-taking and autonomy, but also measures to eliminate barriers between departments. Employees set the topics and issues are addressed by groups within departments or inter-departmental groups. This supplements quality improvement programs, which are intended mainly to reinforce business structures, with personnel development effects by promoting awareness and fostering teamwork.

By conducting *terakoya* education and *kiheitai* activities throughout the company, Citizen Finetech Miyota is achieving growth by individual employees and raising motivation. This is expected to lead to steady improvements and results in business activities. Establishing this type of environment is an important role of the company.

# Promoting Initiative-Taking and Autonomy by Employees

“Training human resources who can present issues and resolve them on their own.”



Top: Terakoya activities  
Middle: Kiheitai activities  
Bottom: Citizen Finetech Miyota Operating Officer  
Yasuhiro Nakagawa

## Group Code of Conduct, Article 7

Respond to anti-social behavior by individuals and organizations in a decisive manner.

# Responding to Anti-Social Forces

Citizen Group is aware that ties to anti-social forces lead to a substantial loss of confidence in the company by society and have a significant impact on the continued existence of the company. Our fundamental policy is to take a decisive stance against demands for inappropriate gains from anti-social forces and organizations, and we completely avoid all ties with anti-social forces.

We establish and reinforce systems to avoid all relationships with anti-social forces such as holding briefings for general affairs personnel of group companies to encourage the inclusion of anti-social force exclusion provisions in all contracts entered into by group companies.

We maintain regular contact with local companies and outside organizations such as the police to support activities for the exclusion of anti-social forces.



A briefing for general affairs personnel

## Group Code of Conduct, Article 8

Value and respect the different cultures and customs of foreign countries, and contribute to the development of local communities.

# Encouraging Structural Reforms and Changes in Corporate Culture in China



“We are growing into a company with local ties in China, a country undergoing rapid change. I’m confident that we can accelerate the pace by improving communication with employees.”

**Yoshiaki Kurobe**  
Former Managing Director  
Citizen Precision Guangzhou Ltd.

## Relationship between Evolving China and Japanese Companies

The extremely rapid pace of change in China has resulted in many problems as well as heightened awareness for the Citizen Group, which has group companies and plants in China.

This evolution has not just been economic, but has extended to their thinking, lifestyles, and approaches to work. As they have changed, it has been necessary for us to make various responses.

In 2009, the management team at that time had misgivings about operations in China. Personnel expenses were rising rapidly in conjunction with high economic growth, and environmental regulations were being made stricter on a yearly basis, requiring various management measures. Under these rapidly changing conditions, it was necessary to determine

what types of structures and systems should be created to provide employee-friendly work environments and promote the development of Citizen Precision



CPGZ acquired “Cleaner Production Certification” under China’s Cleaner Production Promotion Law.

Guangzhou (CPGZ) in a way that will lead to the development of the Citizen Group as a whole. There were many problems to be addressed, but we believe it was also necessary to take measures for the benefit of the local workers.

## Raising Organizational Capabilities: The Phoenix Plan

Under these circumstances, the key issue was how management can work with employees to enhance organizational capabilities. The Phoenix Plan was adopted with the aim of becoming a company that can survive until at least 2020. The plan calls for structural reforms (changes



Posters in corridors encourage participation in 3Q7S activities led by local employees.

in corporate culture) and production reforms in order to become a world-leading enterprise.

First, measures were taken to change the corporate culture with the aim of transforming local employees into human resources who were able to act more autonomously. Among the specific measures was localization of management by establishing organizations centered on local personnel. Another measure was the implementation of 3Q7S activities led by local employees. Also, employee conditions were reformed to improve yields, quality, and productivity by reducing employee separation and improving its stabilizing technical skills. In addition, 10 committees were established within CPGZ, taking into account the unique characteristics of Chinese employees, to listen to the comments and opinions of the employees and discuss them in executive officer meetings and establish systems regarding benefits, safety, wages, and so on that incorporate the employees’ perspectives to the greatest extent possible. Longtime employees were actively promoted to foreman and leader positions, outside consultants were hired, and training tailored to specific positions was conducted. The results have been a fostering of awareness as executives, reductions in costs, a reduction of leadtimes, and an overall improvement in efficiency throughout the plant.

## Becoming a Locally-Recognized Company

Employees from other districts have a strong tendency to resign from their jobs at the time of the Chinese new year and return to their hometowns, and long-term employees are often locals. CPGZ is putting greater efforts into activities that support local regions with the aim of making contributions and becoming a company where employees can be proud to work for the benefit of such local employees. Improving CPGZ’s local reputation also serves to please the families of such employees and increases local residents who want to work for the company. I believe that this is one example of the beneficial coexistence and mutual development of the company and local communities.

## Future Targets

Today at CPGZ, there is an awareness of the need to thoroughly implement the PDCA cycle, and we are adopting corporate policies for each year, setting priority tasks for each division and incorporating measures designed to carry those tasks into day-to-day activities. We have also started consulting with the government, attorneys, and labor bureaus to respond to rapidly changing laws in China.

Our targets for the future are to establish a corporate culture that enables employees to act autonomously, to respond to environmental regulations, to become a company understood by our stakeholders, and to coexist harmoniously and achieve mutual benefit with and be recognized by local communities. All employees are working together to achieve these targets.

## Topics

### Employment of Disabled Persons

CPGZ actively employs disabled persons. The company currently has 26 disabled employees and does not create any distinctions in the work content based on their disabilities and assigns the same work as non-disabled employees. Support is available, but disabled employees are given work with significant responsibilities and some individuals have even been promoted to team leader positions. CPGZ plans to hire even more disabled employees in the future and provide them with a positive work environment.



## The Company as Seen by a Local Employee

I have worked for CPGZ since I was hired after graduating, and I currently work on improving worksites and managing employee conditions.

We have the highest respect to employee opinions. Women account for 90% of the workforce, and therefore, we work to create a work environment that is friendly to women employees. Local employees want to work even after childbirth. As a result, new mothers are granted 30 minutes each morning and afternoon for nursing, enabling employees with young children to work with peace of mind. Currently, about 100 pregnant women work for CPGZ, and most women return to work after taking maternity leave. In the future, I hope to enhance the childcare leave system and to establish a nursing room.

My role is to create ties between the company and its employees and to create an even better workplace, and I hope to make the company a good place to work including wages and benefits while taking into consideration the interests of the company.

**Yang Wanling** Deputy Senior Manager  
Management Center  
Citizen Precision Guangzhou Ltd.



Voice

**Group Code of Conduct, Article 8**

Value and respect the different cultures and customs of foreign countries, and contribute to the development of local communities.

## Human Resource Development in China



“Conveying manufacturing techniques raises motivation and generates pride in one’s work.”

**Yoshitaka Nakayama**  
Managing Director  
Guangzhou Most Crown Electronics Ltd.

### Watch School Opened

Guangzhou Most Crown Electronics Ltd. (MCLG) made reforming the corporate culture and developing human resources priorities. As a part of its measures to address these issues, the company opened a watch school to raise technical skills.

At the watch school, which was established in 2011, a total of 24 local employees selected from various departments learn watch assembly skills and techniques (including theory) once each month with the aim of becoming watch professionals. The watch school provides a forum for employees who want to learn, and is intended to enable employees to experience the joys and difficulties of manufacturing, raise motivation, and support the development of human resources who are proud of their jobs.

In addition, the 3M Academy was established as a part of self-improvement activities to enable employees to study Japanese and Chinese and improve their communication skills. By undertaking these activities with objectives, not only are skills raised, but awareness is improved and the fundamental policy of the 3M group (Citizen Watch Miyota, MCLG, and Myoko Precision)—“Respect the field and people! Make the company better and dreams happen!”—is put into practice.

The hope is that future graduates will become instructors and the Academy can be operated by local staff only, and I am confident that we will achieve this objective.

### Reforming Employee Awareness

#### Citizen Micro Devices (Suzhou) Co., Ltd. (CDLS)

People in China believe that it is possible to make advances by seeking a new environment, and personnel separation rates are high compared to Japan, and as a result, accumulating technical skills is an issue. In order to overcome this problem, CDLS made a major push to reform its corporate culture and change and raise employee awareness.

Employee training is conducted on quality, health and safety, 5S, and other topics. In addition, outside instructors were employed to conduct supervisor training, work methods and approaches, management techniques and so on with the aim of raising the skill levels of supervisors.

Based on the belief that communication is essential, efforts are also made to promote communication by holding social events and inter-departmental exchanges.



**Takashi Mitsuishi**, General Manager  
Citizen Micro Devices (Suzhou) Co., Ltd.

**Group Code of Conduct, Article 9**

The top management of the Citizen group recognizes 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.

## Corporate Governance

### Basic Approach

The Citizen Group endeavors to improve business value and contribute to society through sustained corporate activities in harmony with local communities and the global environment under the corporate philosophy of “Contributing to and striving to be respected by the citizens of the world.” In the constant pursuit of this goal, we strive to reinforce corporate governance in recognition of the importance of ensuring management transparency and effectively supervising management from various perspectives.

### Roles of the Pure Holding Company and Subsidiaries

We have clarified the scope of responsibility and authority of Citizen Holdings and each of the individual operating subsidiaries that make up the Citizen Group. Citizen Holdings is responsible for developing management policies to optimize Group-wide management and to make effective use of resources to boost corporate value. Individual operating subsidiaries in turn operate independently based on the nature of their segments in the interests of more effective management and increased profitability.

### Roles of the Board of Directors and the Board of Auditors

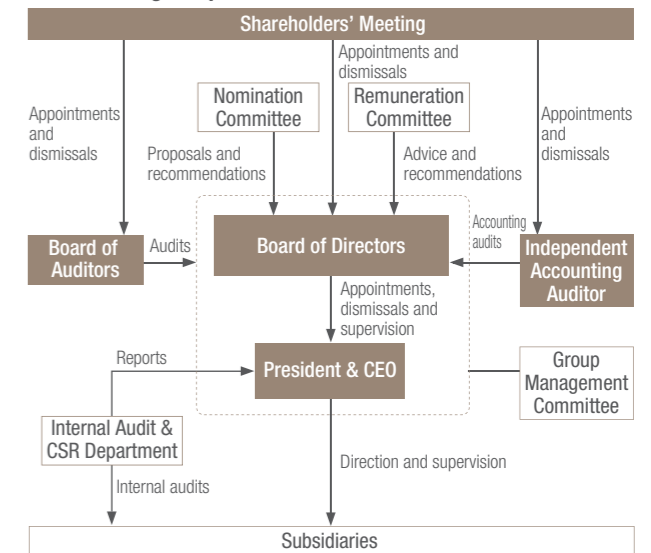
The Citizen Holdings Board of Directors consists of nine members (as of March 31, 2012), including two outside directors (registered as independent officers with the Tokyo Stock Exchange). The Board of Directors determines management policies and other important matters for Citizen Holdings and the Citizen Group and supervises the execution of directors’ duties.

The Citizen Holdings Board of Auditors consists of three members including two independent outside auditors (as of March 31, 2012). In addition to checking the execution of directors’ duties in general through activities

such as reviewing important documents, monitoring the company’s operations and finances, and attending meetings of the Board of Directors and other bodies, auditors are also responsible for auditing the implementation and management of internal control systems.

We have also established a Nomination Committee and Remuneration Committee—consisting of outside directors and the president—to provide advisory support.

### Citizen Holdings Corporate Governance Structure



### Internal Control Systems

Having set out a basic policy on the establishment of internal control systems at Citizen Holdings, we are now working to further enhance our internal control systems. To ensure proper and effective execution of the internal control systems and reliable financial reporting, J-SOX Internal Control System Coordination Committee meetings are held with the participation of relevant personnel from Group consolidated subsidiaries. In collaboration with outside audit institutions, we work to constantly improve, operate, and evaluate our internal control systems.

### Comment from an Outside Director

There is no end to unfortunate incidents caused by an inward-looking management culture or a failure of management’s ethical viewpoints, and even more important than actively disclosing information is building structures that seek assessments from outside the company. In my opinion, the Citizen Group has outstanding corporate ethics and the group-wide efforts to carry them out lead to trustworthy management.

The Company’s corporate governance systems are appropriate for clarifying executive authority and responsibilities concerning business and strengthening audit functions to accelerate the pace of management and enhance its reliability while encouraging intra-group competition and rebuilding the Group’s overall high earning structures. As an outside director, I regularly make proposals and offer my opinions concerning management from an outside perspective and strive to raise the corporate value of the Citizen Group.

**Kazumoto Yamamoto**  
Outside Director  
Citizen Holdings Co., Ltd.



## Data: Environment

Targets and Results for Fiscal 2011 Evaluations ○: Achieved △: Partly achieved ×: Not achieved

Targets for FY2011	Results for FY2011	Evaluation
<b>1. Promoting downsizing</b>		
Use production and technology innovations to reduce environmental impact, generate profits and reduce CO <sub>2</sub> emissions	Tokyo: Activities addressing 96 topics conducted Tokorozawa: Activities addressing 38 topics conducted	
Set topics linked to the environment based on business targets (policy management) Save resources, save energy, save space, improved recyclability, reduce chemical use, improve operating rates, etc.	Citizen Watch used the concept of "deemed effects" to calculate the results of its miniaturization activities.	○
<b>2. Creating new environmental value through Citizen Environmental Products</b>		
Identify new environmentally-conscious content of products and parts	Specific actions were not taken; some hazardous chemicals were replaced and chemical substance management was maintained	△
Create a new "eco-drive" value (watches)	Acquisition of overseas eco-marks	
<b>3. Minimizing environmental risks</b>		
Compliance with global environmental laws and regulations	Collected updated information REACH regulations, United States regulations, Chinese regulations, etc.	○
Response to the Act on the Rational Use of Energy: CO <sub>2</sub> (electricity & gas) reductions (generally, 1% annually) Tokyo: 55% reduction in CO <sub>2</sub> emissions compared to 1999 (10,730 t-CO <sub>2</sub> )	Down 57% compared to 1999 (10,144 t-CO <sub>2</sub> )	○
Tokorozawa: 13% reduction in CO <sub>2</sub> emissions compared to 1999 (10,809 t-CO <sub>2</sub> )	Down 18% compared to 1999 (10,206 t-CO <sub>2</sub> )	○
Implementation of waste reduction activities Tokyo: Reduction of industrial waste—maintenance and management	Down 79% compared to 1999 (114 t)	○
Tokorozawa: Reduction of industrial waste—maintenance and management	Down 39% compared to 1999 (103t)	○
<b>4. Enhancing communication with local communities through environmental and social contribution activities</b>		
	Undertaken as part of CSR activities	○

### Business Activities and Environmental Impact

	Japan		Overseas	
	INPUT	OUTPUT	INPUT	OUTPUT
Total energy input (GJ)	2,290,208	14,423,934	CO <sub>2</sub> emissions (t-CO <sub>2</sub> )	91,900
Water resource input (km <sup>3</sup> )	1,705	1,591	BOD emissions (tons)	39
Repeated use of water within the organization (km <sup>3</sup> )	397	17	COD emissions (tons)	7
Chemical substance input (tons)	637	1,669	SOx emissions (tons)	5
Containers and packaging used (tons)	634	1,400	Water drainage (km <sup>3</sup> )	1,337
			Waste generated (tons)	7,317
			Waste land-filled (tons)	240

Input and output data does not include environmental impact at the distribution/sales, usage or procurement stages. Period: April 1, 2011 to March 31, 2012. Scope: 22 domestic companies, 12 overseas companies

### Data: Employees (18 main group companies)

#### Recent Graduates Hired

	FY 2009	FY 2010	FY 2011
Male	89	65	90
Female	35	19	26
Total	124	84	116

#### Employees Hired Mid-Career

	FY 2009	FY 2010	FY 2011
Male	14	35	37
Female	11	28	13
Total	25	63	50

#### Use of Childcare Leave Scheme

	Male	Female	Total
FY 2009	0	57	57
FY 2010	3	42	45
FY 2011	4	39	43

#### Use of Nursing Care Leave Scheme

	Male	Female	Total
FY 2009	0	3	3
FY 2010	0	0	0
FY 2011	0	1	1

#### Employment of Disabled Persons

	FY 2009	FY 2010	FY 2011
Employment rate	1.69%	1.91%	1.89%*

\* Employment rate as of June 1, 2011

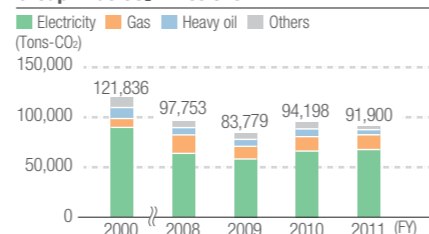
#### Implementation of Specific Health Checkups and Specific Counseling Guidance (at 32 worksites)

	FY 2009	FY 2010	FY 2011
Specified medical examination rate (employee & family)	75.5%	78.5%	79.5%
Metabolic syndrome rate	10.8%	11.1%	12.1%
Pre-metabolic syndrome rate	11.9%	11.5%	11.8%
Specific counseling guidance rate	20.3%	23.0%	32.6%

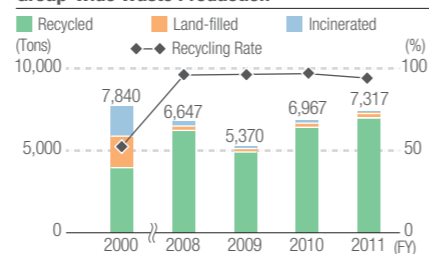
#### Occurrence of Accidents

	FY 2009	FY 2010	FY 2011
Fatal accidents	0	0	0
Accidents resulting in employee absence	10	6	8

#### Group-wide CO<sub>2</sub> Emissions

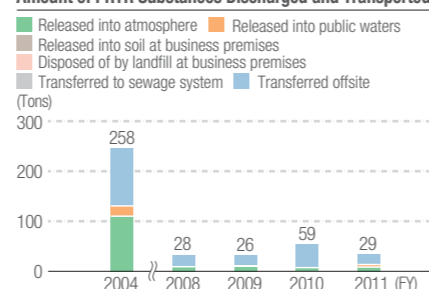


#### Group-wide Waste Production<sup>1</sup>



<sup>1</sup> Waste production = industrial waste + general waste + valuable resources

#### Amount of PRTR Substances Discharged and Transported



## Third-Party Comments

A company's CSR report is more than a simple report outlining CSR initiatives. It represents a commitment to undertake initiatives that seek to put the company's principles into practice. My comments this year are once again based on this same perspective.

**One Akiyama**

President of Integrex Inc.



### 1. Positive points

The Citizen Group reports on its CSR initiatives and maintains a highly admirable stance of involving all of its personnel in initiatives aimed at putting into practice its corporate philosophy of "contributing to and striving to be respected by the citizens around the world" in every aspect of its business activities based on the Citizen Group Code of Conduct, which serves as a guide for carrying out that corporate philosophy.

The report presents information not only on the specific initiatives undertaken in business activities for each item of the nine-article Code of Conduct, but also introduces the "faces" and "voices" of the employees involved in an easy to understand and accessible manner. I found the initiatives for reforming systems, changing corporate culture, and developing human resources in China under Article 8 including the straightforward presentation of local problems and issues and the approaches and actions taken to address them to be a particularly interesting statement of the actual concerns and difficulties confronted when conducting overseas business and the efforts needed to overcome them.

The Special Feature focuses on Responses to Natural Disasters, and the ongoing measures undertaken in response to the Great East Japan Earthquake have been fruitful. The Group went beyond national borders when working towards recovery following the earthquake and in response to the flooding in Thailand to provide mutual support, and the full participation by all employees in Japan and other countries was quite impressive.

### 2. Potential improvements for the future

The report on activities undertaken pursuant to the Citizen Group Code of Conduct was easy to understand and worthy of praise, but I also would like to see reports on specific targets for each item of the Code and on the progress of activities intended to achieve those targets.

When targets are set, activities undertaken to achieve those targets, and the activity targets are presented the following year, the results are easy to understand, PDCA is more effective, and ongoing activities are supported.

Also, given that more than 60% of the Group's sales come from overseas, it is essential to spread the Group's principles among the 63% of its personnel who are based overseas. It is important to share principles and raise understanding of them while periodically verifying the spread of those principles and the awareness and attitudes of employees including overseas employees. From the perspective of risk management too, it is particularly important to conduct business based on local conditions. A higher level of reporting on CSR initiatives is expected in conjunction with globalization.

### 3. Looking ahead

In order to be a company that is respected by society, it is necessary to incorporate the three Is. The most important is integrity. The good faith of the organization and maintaining agreement between what the company says and what it does in order to put its principles into practice is crucial. Second is the innovation performed on the basis of the trust obtained as a result of the company's integrity. In order to continue to grow as a company needed by society, innovation, improvement, and reform are absolutely essential for creating value. Last is *Ichien-yugo*, integration between the company and individuals, the company and other companies, and the company and society while enabling each to exhibit its unique capabilities. *Ichien-yugo* is the very purpose of CSR initiatives.

I hope that the Citizen Group will make use of its unique strengths and think long and broadly about what is needed and what it can do to build a truly sustainable society and work together as a corporate group, contributing to and striving to be respected by the citizens of the world. I hope also that the Citizen Group will continue its initiatives based on integration (*Ichien-yugo*).

### Response to the Third-Party Comments

I would like to thank Ms. Akiyama for her valuable opinions and comments. The proposal was made that we strive to become a truly global company and a vigorous company as our management policy for carrying out the new medium-term plan. The Group's risk management environment is changing as a result of globalization, and we believe that establishing a work environment that supports autonomous activity by employees including overseas employees is necessary for undertaking CSR initiatives. We will work to enhance dialogue with stakeholders and make use of their individual strengths while working together to put our corporate principles into practice and raise corporate value.

**Masanori Ito**

Manager  
Internal Audit & CSR Department, Citizen Holdings Co., Ltd.

