

CITIZEN Group  
CSR Report 2020

— Digest —



## The CITIZEN Group's corporate philosophy

# Loved by citizens, working for citizens

The CITIZEN Group's corporate philosophy "Loved by citizens, working for citizens" calls for contributing broadly to people's lives worldwide through manufacturing loved and being appreciated by the public. This year, the CITIZEN Group built a sustainable management structure to help realize a sustainable society. In the future as well, we will continue making progress as a member of society, while ascertaining the value and meaning that we deliver.

## CITIZEN GROUP CSR REPORT contents 2020

- 01 Corporate philosophy, contents
- 02 Digest overview, editorial policy
- 03 Message from top management
- 05 **Special feature**  
Contributing to deliver solutions to social issues through Eco-Drive Riiiver, compatible with the new Riiiver IoT platform service
- 07 Our sustainable management
- 08 The CITIZEN Group's materiality
- 09 Sustainable management structure
- 10 Stakeholder engagement
- 12 Performance highlights
- 13 Our approach to materiality in materiality
  - 13 Enhancing corporate governance
  - 14 Enhancing quality compliance
  - 15 Respect for human rights and labor practices
  - 17 Promoting sustainable procurement
  - 19 Promoting environmental innovation
- 21 CSR initiatives and evaluations by society
- 22 The CITIZEN Group's business activities



**Cover** The Eco-Drive Riiiver concept

With creativity and sensitivity, expanding the possibilities of the wristwatch without limits. Bringing more creative experiences to time. Eco-Drive Riiiver extends beyond existing expectations for a wristwatch to update the lifestyles.

### Digest overview

The CITIZEN Group reports on the state of its CSR activities so that all stakeholders can understand our CSR initiatives. This digest reports specifically on our sustainable management, under which we continue to create sustainable products through sustainable factories, in accordance with the Medium-Term Management Plan 2021. It also reports on the state of the stakeholder engagement and the approached to materiality in our business activities. Please see our website for information on our committees and the structures for initiatives related to the materiality of enhancing quality compliance and promoting environmental innovation.

### Editorial policy

The CITIZEN Group's CSR website discloses detailed information on our CSR initiatives, including case studies and environmental and social data, as well as the content of this digest.  
 Period subject to reporting: FY 2019 (April 1, 2019 to March 31, 2020) (Includes some information from after the above subject period)  
 Date of publication of this Digest: July 2020  
 Organizations subject to reporting of economic data: 17 companies in Japan and 68 companies overseas (total: 85 companies)  
 Organizations subject to reporting of environmental data: 14 companies in Japan and 14 companies overseas (total: 28 companies)  
 Disclaimer: This Digest contains forward-looking statements. Such statements are based on information available at the time of preparation of the Digest and may differ from the actual results of activities.  
 Guidelines referenced: GRI Sustainability Reporting Standards, Environmental Reporting Guidelines 2018  
 The third party assurances: Plan to obtain it for the disclosed data during FY 2020.

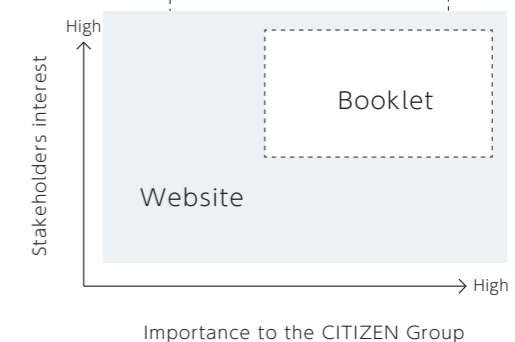
### Booklet (Digest)

Clearly communicates information on CSR of the CITIZEN Group, centered on the state of approach to materiality.



### Website (Details)

More detailed information on CSR initiatives is disclosed on the website.  
<http://www.citizen.co.jp/social/index.html>



### Drive forward sustainable management to deliver 'the value that touched the heart' to our diverse customers

Inspired by our centenary in 2018, the CITIZEN Group has advanced a new philosophy on sustainable management since 2019 based on our vision of being a sustainable enterprise throughout the next century. This is an expression of our desire to identify the clear courses of action of taking the initiative in reform and innovation amid rapidly and certainly changing economic and social conditions and the global environment. For this purpose, recognizing that the "Citizens" referred to in our Group philosophy, "Loved by citizens, working for citizens" refer to all members of the world's population of 7.8 billion, we consider it vital in our everyday activities to ensure the promotion of an understanding of the need to provide value to whom in the world by recognizing the importance of a deeper understanding and appreciation of diversity in the areas of gender, local communities, and economic disparities.

For example, in our core watch business, we are able to connect to customers through their purchases of watches and play a role in "delivering value that touches the heart" by enriching customers' lives and feelings. The way we create value through our business activities is vital to "delivering value that touches the heart" We generate value by contributing to solutions to the environmental, social, and governance (ESG)<sup>\*1</sup> issues and achieving the Sustainable Development Goals (SDGs). Customers support our initiatives through the act of purchasing our products and services. This leads to a sustainable cycle.

To enable our employees to consider this value and the meaning of the CITIZEN Group as their own matters, it is essential that their work-based values and objectives are in sync with the value of the company and the business. They must not only understand in their hearts that what we create is valuable for customers but also strive to ensure that consumers can understand accurately the kind of company we are and the kinds of products we produce when they hear the name "CITIZEN." For this reason, we also are

building a structure to strengthen our branding in order to communicate the CITIZEN brand with excellent care on an everyday basis. We believe that doing so will help to increase the quality of the Group's sustainable management in the future.

### The importance of building a sequence of cycle linking "Sustainable factory" with "Sustainable products"

Up to now, we have taken pride chiefly in "CITIZEN of Technology" . But now, we believe it is essential that the value of these technologies be backed by sustainable management. Our vision of "Sustainable products" and "Sustainable factory" is intended to help achieve this aim.

"Sustainable factory" initiatives are intended to realize the entire value chain including suppliers as sustainable "factories". In addition to our existing efforts to reflect consideration for the environment, we also will aim to develop production facilities that are sustainable in all aspects, including compliance, human rights, labor practices, productivity improvements, and business continuity planning (BCP).<sup>\*2</sup> Of utmost importance is the creation of a series of processes to incorporate new messages on solutions for issues into the sustainable products produced in these sustainable factories, in addition to the eco-friendly qualities and other properties of the long-lasting products we have produced based on CITIZEN's advanced technologies. We will further these initiatives in order to contribute proactively to a sustainable society through means that include the achievement of the SDGs.

### Boldly taking on the challenges of solutions to social issues through management that stresses ROE

Fiscal 2019, my first year in office, was an extremely important phase in which I reviewed our existing approaches in numerous domains. Among the materiality (material issues) identified by the Group, enhancing corporate governance was a very important subject, and rebuilding our approaches to this domain is vital to set a

course of action for sustainable management in the future. As part of these efforts, we established the new Sustainability Committee in April 2020 as a new structure to promote related initiatives. While at present the Sustainability Committee is connected to the Executive Committee, it quickly reports to the Board of Directors on the subjects of its dynamically and actively deliberated agenda. Based on this new structure, we also are strengthening the employee awareness and relations with stakeholders.

Furthermore, in FY 2020, we will advance initiatives based on the three pillars of return on equity (ROE)<sup>\*3</sup>, ESG solutions, and diverse innovation including the areas of technology to assess the assets, capital, revenue efficiency. In our corporate philosophy "Loved by citizens, working for citizens," the phrase "working for citizens" is related to all 17 targets of the SDGs. Returning to this philosophy as our root, we will strive to increase corporate value further by delivering new value to customers.

\*1 ESG stands for the initial letters of Environment, Social, and Governance respectively.

\*2 Business Continuity Planning (BCP) refers to planning the systems, roles, procedures etc. in normal times that are needed to enable continuation or swift recovery of the supply of products and services, by being prepared for the business impacts of large-scale disasters and emergencies.

\*3 Return on Equity (ROE): An indicator used in financial analysis



佐藤敏彦

Toshihiko Sato  
President & CEO  
CITIZEN WATCH Co., Ltd.

# Contributing to deliver solutions to social issues through Eco-Drive Riiiver, compatible with the new Riiiver IoT platform service

## The birth of Eco-Drive Riiiver

Progress in digitalization and the spread of the Internet of Things (IoT) and artificial intelligence (AI) technologies throughout society and the economy are making the social infrastructure, such as public transportation, and the products and services we use every day increasingly more convenient. At the same time, faced with such environmental issues as global warming and plastic waste, as well as issues like low birth rates, aging populations, and a decreasing workforce, people have a tendency to prefer more ethical lifestyles by choosing products and services that are more eco- and people friendly.

In light of such circumstances, the CITIZEN Group has developed the open Riiiver IoT platform to deliver new experiences in time (lifestyles) by organically linking people, things, and experiences. We created Eco-Drive Riiiver as a watch compatible with this Riiiver

platform through the combination of technologies that we built up to now. The concept of the Eco-Drive Riiiver calls for extending beyond the existing expectations for a wristwatch to update the lifestyles. Eco-Drive Riiiver not only displays the time but, by linking to the Riiiver platform, makes possible a wide range of other features, such as checking the latest sports updates or bringing friends together while out and about by pressing a button on the watch. This unprecedented product brings unlimited possibilities to the wristwatch.



Eco-Drive Riiiver uses light-powered technology

## Distinguishing features of Eco-Drive Riiiver

Delivers enhanced functions and usability to individual users, to take them wherever their ideas lead

- As an Eco-Drive watch that requires no external power source, it offers expanded possibilities for linkage with third-party devices, services, etc. through the unique IoT platform Riiiver (applications).
- Eco-Drive is the first wristwatch equipped with an internal acceleration sensor, capable of measuring steps walked and calories consumed every day.
- When linked with a dedicated applications, variations in light exposure on the watch can be displayed on a map, together with the amount of power generated.
- The dedicated applications is linked to real time to change its background color and offer a user experience with a real feel for the time of day.

## Launching Eco-Drive Riiiver

The CITIZEN Group is deploying a brand-new approach to the marketing of Riiiver and CITIZEN Eco-Drive Riiiver. Both Riiiver and CITIZEN Eco-Drive Riiiver were announced in March 2019 at South by Southwest 2019, one of the world's largest creative festivals, in Austin, Texas, U.S.A., when CITIZEN was the first wristwatch maker ever to exhibit at this event. Prelaunch sales of CITIZEN Eco-Drive Riiiver began on June 17, 2019, through GREEN FUNDING, a crowdfunding site in Japan operated by the CCC (Culture Convenience Club) Group. In just 28 minutes after fundraising began, the target figure of JPY 1.5 million was reached, and as of August 29, 2019, funding had been secured in the amount of JPY106,302,704. This approach was intended to let users know about the new value and form that Eco-Drive Riiiver

brings to the wristwatch, to make people's lifestyles more enjoyable, and to attract developers who would participate in the development of related services. A local convention event was held in Sapporo, Hokkaido, home to NoMaps, which was intrigued by the Riiiver concept at South by Southwest 2019, and plans call for expanding local events in cooperation with businesses and local governments through Riiiver in the same way as being conducted with NoMaps. We continue development of Riiiver as an IoT platform capable of proposing solutions to social issues, by staying present in the real lives of various communities while also seeking ideas to help improve people's lives, as well as recruiting developers grow Riiiver together with us.



The Riiiver Innovation Project Hackathon in NoMaps held jointly with NoMaps



Our booth at South by Southwest 2019

## Business environment

Amid the rapid spread of digital technologies in society and economic activities and resulting changes in and diversification of consumer consciousness, today's world is changing at a speed never experienced or imagined before. For this reason, businesses are faced with various challenging situations and issues that they have never encountered before.

As the domestic market shrinks because of the population decrease resulting from low birth rates and the aging of society, the CITIZEN Group's core watch business needs to capture demand and secure markets by expanding e-commerce sales channels and proactive international business development based on its high-quality watches. In addition, amid signs of an increasing ethical orientation in the values of society as a whole, it is vital to differentiate our products through the pursuit of design, functionality, and other properties reflecting the diversification of consumer needs. In light of the fact that watches, which have been considered status symbols, increasingly play roles as fashion accessories and parts of users' lifestyles in the digital society of the future, it also is essential to redefine the existing

concept of wristwatch value and create new value. Furthermore, in response to demands in recent years for strengthening of supply chain management as a whole, in such areas as reducing the environmental burden, resolving human rights issues, and resilience to natural disasters, it is vital, not only in the wristwatch business but in other businesses, such as machine tools and devices as well, to redesign the procurement and production structures together with our suppliers and other business partners for the purpose of the business continuity of our customers and ourselves.

For the entire Group to respond on a global basis to such business opportunities and risks, securing and developing human resources are essential. Since for CITIZEN, as a company that takes pride in its precision machinery technologies in particular handing down technical skills and knowledge management are important focal areas, so a systematic approach is vital. We must make organized, structural efforts to increase satisfaction among the employees who support CITIZEN's growth by building workplaces where they can engage in rewarding work.

## Contribution to society through "Sustainable factory" and "Sustainable products"

The CITIZEN Group considers sustainable factories and sustainable products to be the key to successfully operating sustainable management. We define "Sustainable factory" as sustainable production facilities that reflect the comprehensive consideration of matters, such as compliance, human rights, labor practices, business continuity planning (BCP), and productivity improvements throughout the entire value chain, including suppliers, in addition to existing environmental considerations. The "Sustainable products" produced in such sustainable factories not only stress the perspective of sustainability but also take into consideration the creation of new value to lead to innovation. Through coordination and cooperation with our various business partners including suppliers, in addition to our own in-house efforts, we continue to focus on operating sustainable management of such initiatives to be able to contribute to the lives of consumers and to society as a whole.

Conceptual diagram of sustainable management



## New materiality in FY 2020

Materiality	SDGs aimed at contributions
<b>Enhancing corporate governance</b>	10 (Reduced Inequalities), 16 (Peace, Justice and Strong Institutions)
<b>Enhancing quality compliance</b>	4 (Quality Education), 9 (Industry, Innovation and Infrastructure), 12 (Responsible Consumption and Production)
<b>Respect for human rights and labor practices</b>	3 (Good Health and Well-being), 5 (Gender Equality), 8 (Decent Work and Economic Growth), 10 (Reduced Inequalities)
<b>Promoting sustainable procurement</b>	3 (Good Health and Well-being), 5 (Gender Equality), 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production), 16 (Peace, Justice and Strong Institutions), 17 (Partnerships for the Goals)
<b>Promoting environmental innovation</b>	7 (Affordable and Clean Energy), 12 (Responsible Consumption and Production), 13 (Climate Action), 14 (Life Below Water), 16 (Peace, Justice and Strong Institutions)

## Process of identification and review of materiality

As a member of the international community, since FY 2017, the CITIZEN Group has identified and prioritized materiality for fulfilling our responsibilities as a true global enterprise and realizing continued growth. In the identification of materiality, together with reference to the principles and guidelines related to CSR and sustainability, such as the SDGs, the United Nations Global Compact, ISO 26000, Responsible Business Alliances (RBA), and GRI standards, we also ascertain on a comprehensive basis the social issues that are important to society and our stakeholders and then prioritize as our materiality the topics of particularly high importance in light of the CITIZEN Group's corporate philosophy, codes of conduct, medium-term management plans, and other business strategies. In FY 2020, in line with the SDG compass, we ascertained the positive and negative impacts on

the SDGs of business activities throughout the value chain and mapped them along the two axes of their impacts on society and their importance to our businesses by prioritizing as materiality the five topics of high importance in terms of both of these axes. In FY 2020, in order to enhance quality-related compliance throughout the group, we revised the materiality of quality initiatives into that of enhancing quality compliance. Furthermore, we revised the materiality of promoting responsible procurement into that of promoting sustainable procurement since these activities are intended not only to fulfill our social responsibilities but also to create new value. To carry out more effective initiatives related to these five materiality, we prepared a roadmap for the period through 2030 and established clear goals, measures, and key performance indicators.

The CITIZEN Group's roadmap may be viewed on our website [https://www.citizen.co.jp/social/materiality/road\\_map/index.html](https://www.citizen.co.jp/social/materiality/road_map/index.html)

## 📌 Sustainable management structure

In April 2020, the CITIZEN Group established the Sustainability Committee to put sustainable management into practice by continuing to produce sustainable products in sustainable factories while also contributing to solutions to the materiality identified. Chaired by the president & CEO of CITIZEN WATCH, this Committee, whose membership consists of the executive directors of CITIZEN WATCH and operating companies' presidents, promotes sustainable management throughout the CITIZEN Group. The CSR section and Management Planning

Division of CITIZEN WATCH, which serve as the secretariat for this Committee, work together with the CSR sections and management planning sections of Group companies and with the secretariats of each committees in charge of assigned materiality. They hold periodic sustainability secretariat conferences to periodically review sustainability issues in each company and check on matters, such as the state of progress of related initiatives. Proposals and reports from each company are presented to the Sustainability Committee for deliberation.

### ■ Sustainability Committee

<b>Objectives and Functions</b>	To promote sustainable management in the CITIZEN Group: (1) Identification and periodic review of materiality (2) Promoting efforts in existing businesses to improve their sustainability and contribute to resolving social issues (3) Formulating policies for addressing ESG issues and monitoring activities based on those policies
<b>Meets</b>	Quarterly (every three months)

The following subcommittees of the Sustainability Committee have been established: the Group Quality Compliance Committee, which deliberates on quality compliance in the Group; the Group HR Committee, which deliberates on hiring and human-resources development and addresses discrimination by nationality, LGBT status, and others, as well as human rights; and the Group Environmental Committee, which deliberates on such subjects as group wide opportunities, risks, and measures related to environmental issues in general. The Group Sustainable Procurement Committee was newly established in 2020 to deliberate on revisions of the supplier management

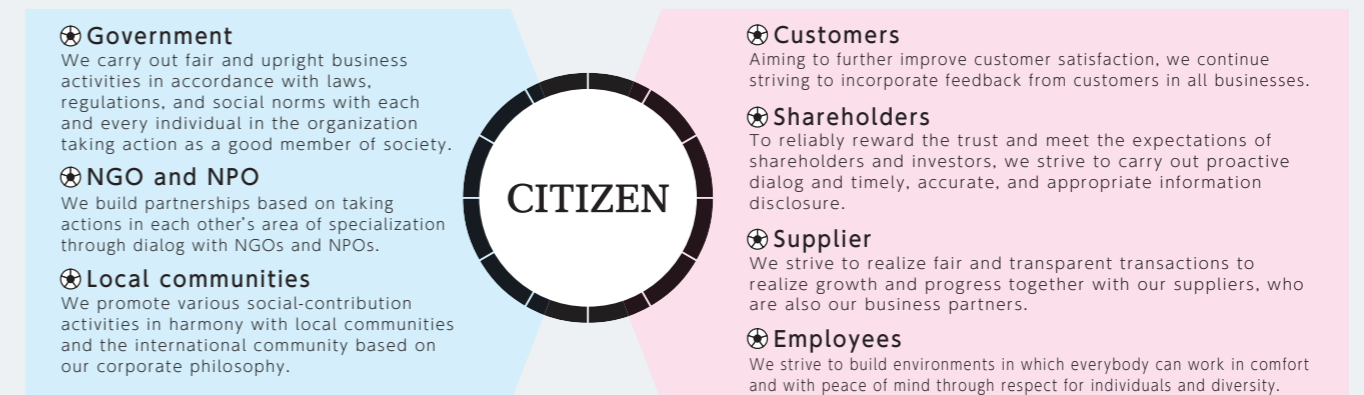
structure group wide to be more sustainable and responsible. We also established the Group Information Governance Committee, the Group Legal/Compliance Committee, and the Group Business Continuity Management Committee to address matters related to the handling of management-related risks and making the Group's management base more resilient. These committees addressing risks related to the management base have been established under the Management Committee, which meets monthly, as a structure that enables swift detection of and deliberation on problems as well as immediate responses to them.



## 📌 Engagement with stakeholders

The CITIZEN Group's business activities are supported by a wide range of stakeholders. In addition, we communicate with stakeholders daily to realize the corporate philosophy "Loved by citizens, working for citizens." We value

stakeholder engagement as a company that aims to be able to continue delivering value while earning the trust of society.



## 📌 Stakeholder engagement

To maximize the value that we deliver to society, the CITIZEN Group considers it vital to reflect in management the desires and expectations of diverse stakeholders and respond to them appropriately. Toward this end, we aim to give concrete form to our corporate philosophy through communication with stakeholders. Since identifying 'promotion of sustainable management' as one of the priority topics in the new Medium-Term Management Plan 2021,

which has taken effect in FY 2019, we have carried out engagement between the employees of Citizen WATCH and international environmental NGOs to review anew how we can contribute to solutions to social issues through our businesses. We believe that broadening the employees' fields of view and incorporating new values through cooperation with stakeholders will lead to effective future measures.

### ■ Examples of stakeholder engagement

Stakeholder	Method	Results/evaluation	Future responses/plans
Customers	Responding to inquiries and requests received by customer service centers	Improving products and services, ensuring safety, promoting universal design principles	Implementing social campaigns
Suppliers	Holding briefings for suppliers on sustainable procurement	Evaluation of results of supplier surveys, evaluation based on on-site fact-finding	Enhancing human rights due diligence
Employees	Conducting employee satisfaction surveys, interviews with superiors, labor-management conferences, providing information on the internet	Enhancing work-life balance, employee health promotion, adoption of flextime systems, adoption of a talent management system	Improving employee satisfaction, enhancing work-life balance programs, developing workplaces where employees can work with peace of mind, developing workplaces where employees can demonstrate their abilities to the maximum extent
NGOs and NPOs	Cooperation in projects that contribute to society, holding discussions with international environmental NGOs	Dispatching personnel to joint social-contribution activity 12 times with a total of 164 employees participating; holding briefings to report on results of Social Contribution Mission Program	Holding briefings to report on the results of Social Contribution Mission Program
Local communities	Conducting community contribution activities (including watch assembly classes and donation/sponsorship activities), participating in community events, accepting plant tours, exchange through table tennis (company authorized sport)	Total number of employees participating in beautification activities: 2,112; number of plant tours accepted: 172; number of watch assembly classes held: 32; donations to social contribution activities: JPY37.5 million; number of table-tennis lessons held: 27	Inviting community residents to events held on business sites, contributing to stable communities through mutual understanding, enhancing activities to contribute to local society through our businesses, improving table-tennis skills in the community

## Engagement with Conservation International Japan

The CITIZEN Group values engagement with diverse stakeholders. We aim to find solutions to social issues by learning about them and about how they can be addressed and by reflecting these lessons in the development of our own products as well as raising awareness among consumers. Our engagement with Conservation International Japan was inspired by the Save the BEYOND global campaign deployed to mark the 30th anniversary of the CITIZEN PROMASTER brand of professional sports watches. PROMASTER products have consistently supported the efforts of adventurers worldwide to take on challenges under extreme conditions. This campaign was grounded in environmental protection in the face of the threat of

loss due to global warming of the natural environment about which adventurers care so passionately. This engagement program involved study groups and seminars intended to consider what we should do to protect the environment, what we should do through our business activities in the years toward 2030, and how we should publicize these initiatives among consumers in the face of rapidly advancing climate change. It served as an opportunity to deepen our understanding of stakeholders' needs and learn about measures for the future from new perspectives. The engagement activities were followed by repeated discussions among participants, which led to new ideas to serve as the bases for our future measure.

### Lessons learned from engagement

#### 1. Procurement of sustainable raw materials

In light of the increasing globalization and complexity of supply chains, one measure that needs to be implemented with priority is procurement of sustainable raw materials. As a company that advocates sustainable products, it is vital that CITIZEN focuses on raw materials in CSR procurement activities currently deploying, and we will enhance related efforts in the future as well.

#### 2. Initiatives to be carried out in the years through 2030

As seen in the way ESG investment is attracting increasing attention in Japan, a subject of interest today is how businesses should think about and put into practice solutions for social issues. Since ethical consumption is likely to grow increasingly important as the millennials and younger generations become central to economic activities, it will be essential to practice sustainable management.

#### 3. Unceasing communication with consumers

Unceasing communication with consumers will grow even more essential to help consumers understand CITIZEN's thinking on sustainability and its products. As digital technologies advance worldwide, we will deepen the understanding of the new value we deliver to contribute to a sustainable society through multiple contact points with consumers without relying solely on traditional marketing methods.



Engagement with International Convention Japan

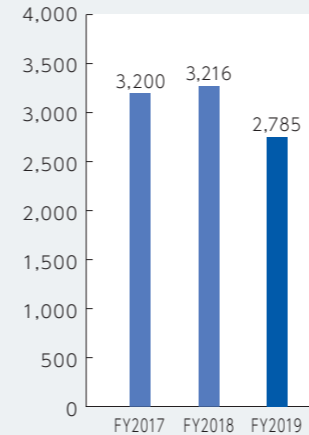
## Financial performance of the CITIZEN Group

In FY 2019, the group saw signs of flat consumption due to the increase in the consumption tax despite a recovering trend that included improving employment conditions in the Japanese economy. Furthermore, the impact of the COVID-19 pandemic led to rapid slowdowns in both the domestic and international markets. Economic activity in China slowed dramatically, and a bearish trend was seen in other

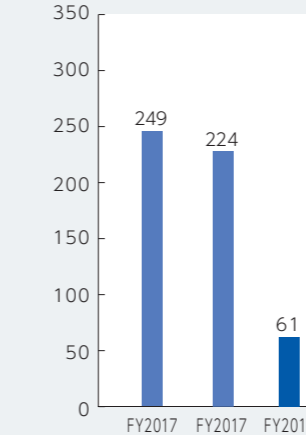
Asian markets as well. The pandemic weighed heavily on North American and European economies as uncertainty grew about prospects. As a result, net sales fell to JPY 278.5 billion and operating income dropped to JPY 6.1 billion. Ordinary income stood at JPY 7.5 billion, and net loss attributable to owners of the parent was JPY 16.6 billion.

### Profitability

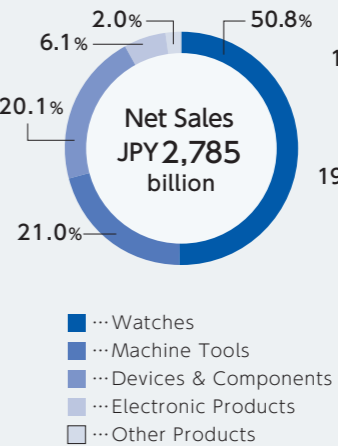
Net Sales (JPY 100 million)



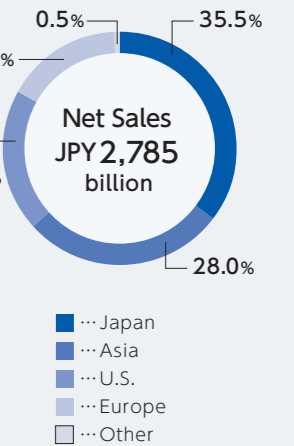
Operating income (JPY 100 million)



### Net sales ratio by business segment



### Net sales ratio by region



As of March 31, 2020

## CITIZEN Group nonfinancial performance



CITIZEN Group Code of Conduct translated into **10** languages



The 2020 Certified Health and Productivity Management Organization Recognition Program under the large enterprise category **Recognized**



Percentage of Group employees in Japan completing e-learning on human rights: **89.4%**



Number of cases of monitoring under international environmental laws and regulations: **830**



Total number of employees participating in programs for Social Contribution Mission Program: **164**

See the CITIZEN website for other detailed CSR data <https://www.citizen.co.jp/social/data/index.html>

Basic concept

Reflecting the origins of its name, the CITIZEN Group's corporate philosophy is "Loved by citizens, working for citizens." Based on this philosophy, we strive to contribute to society and increase corporate value by consistently continuing corporate activities in harmony with our local communities and

the global environment. Recognizing the importance of management transparency and of supervisory functions to multifaceted management in order to increase corporate value continually, we implement measures aiming to enhance our corporate governance.

Enhancement of the governance structure

Aiming to practice sustainable management and enhance our governance structure, the CITIZEN Group has established the Sustainability Committee to review existing promotion structures and enable more dynamic deliberation and swift decision-making. (See p.9. "Sustainable management structure" ) By doing so, we aim not only to facilitate smooth communication between the management and operational levels but also to increase the effectiveness of the Board of Directors' supervisory functions regarding important sustainability-related topics, initiatives, and risks.

The main sustainability-related topics deliberated by the Board of Directors in FY 2019, other than renovation of the structure were as follows

- Summary report on monitoring related to measures to prevent recurrence of quality compliance violations at Group companies
- Revision of the "CITIZEN Group CSR Procurement Guidelines"
- Review of the roadmap for each materiality through 2030

Anti-Corruption initiatives

The CITIZEN Group formulated the CITIZEN Group Anti-corruption Policy to further enhance its anti-corruption initiatives. To thoroughly put into practice Article 3 of the CITIZEN Group Code of Conduct, which calls for the Group to 'engage in business practices that are fair, transparent, open to competition, and responsible,' we established clear accountability practices based on the responsibilities of the Board of Directors and management and on appropriate disclosure of information. We also established rules concerning the maintenance of an internal whistleblowing

program to quickly detect corruption in business activities and the importance of responding to unforeseen circumstances and preventing their reoccurrence. We are requesting the understanding and cooperation of the entire supply chain regarding related matters. In FY 2020 as well, we will continue education and training activities and collect various proposals and comments through means that include the use of the internal whistleblowing program in order to implement thorough anti-corruption initiatives.

Thorough risk and crisis management

Through a comprehensive review of the form of the existing committee structure, we further enhanced risk and crisis management. The CSR section of CITIZEN WATCH plays a central role in the timely and appropriate implementation of risk and crisis management group wide under a

revised structure in which each Group company cooperates in related initiatives constantly. Through a periodic risk assessment process, we identify as Group priorities new risks that the CITIZEN Group will face or will need to give important consideration in the future.

Basic concept

Aiming to continually deliver products and services that reflect thorough consideration for safety, security, quality, and the environment, the CITIZEN Group established the Quality Compliance Committee in FY 2018.

With membership consisting of the officer responsible for quality at each company, this Committee strives not only to ensure the permeation of quality-related compliance throughout the Group but also to improve the effectiveness of the internal whistleblowing program.

Permeation of the Group Quality Code of Conduct

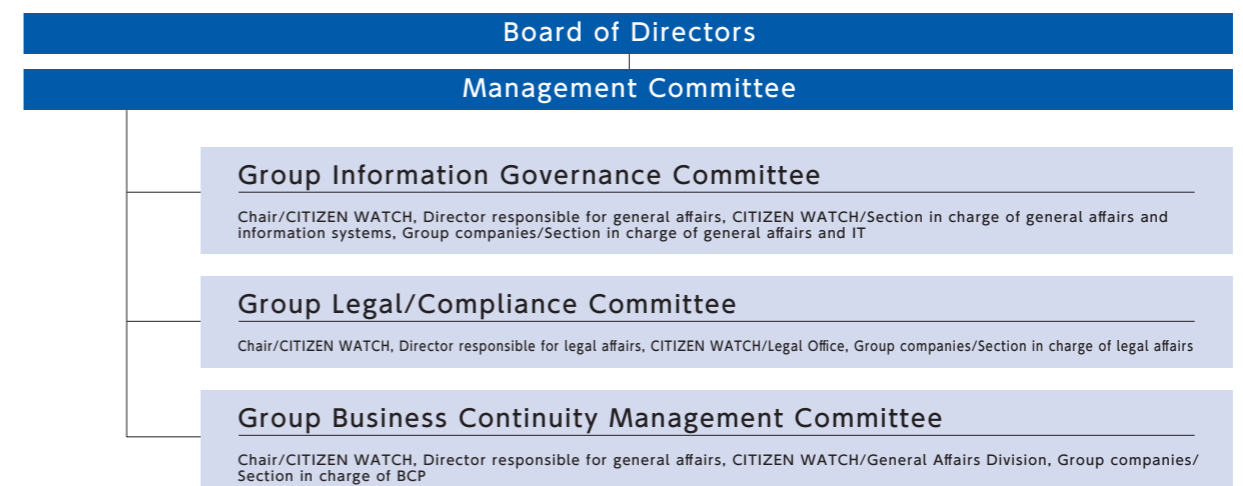
In FY 2019, we implemented thorough training and education intended to achieve further permeation of the Group Quality Code of Conduct as established in FY 2018 by the Quality Compliance Committee. We are building a Group-wide compliance training program for which priority trainees are clearly identified, including the establishment of new quality compliance training programs for newly appointed officers and new employees. We are also making continual improvements intended to

progress in the effectiveness of the internal whistleblowing program. In FY 2018, together with revising the internal whistleblowing program into the Compliance Hotline, which is intended to prevent and swiftly identify any quality-related improprieties, we also formulated the Compliance Hotline Rules and established guidelines for users and Hotline staff as we aim to continually improve both the transparency of the program and the awareness of it throughout the organization.



Compliance training

The CITIZEN Group's risk assessment structure





Basic concept

Since signing the United Nations Global Compact in 2005, as an enterprise that does business worldwide, the CITIZEN Group has supported, respected, and enacted its 10 principles related to human rights, labor, the environment, and anti-corruption. In addition, Article 4 of the CITIZEN Group Code of Conduct identifies the basic policy of "Respect human rights and

diversity and create safe, comfortable workplaces." We have established guidelines on respect for human rights, building comfortable workplaces, workplace safety, and health management. Through these efforts, we strive to fulfill our responsibilities with respect for human rights in cooperation with our business partners.

Establishment of the human rights due diligence structure

In FY 2019, through a decision by the Board of Directors, we established the CITIZEN Group Human Rights Policy as a reaffirmation of the CITIZEN Group's responsibilities for and its approaches to respect for human rights. Together with our Statement on Modern Slavery and Human Trafficking and the CITIZEN Group Policy on Conflict Minerals, this policy describes the Group's understanding of issues related to human rights on which we base our clear definition of related initiatives as a global enterprise. We have also enhanced our structures for implementing these policies and other measures and established, under the Sustainability Committee, the HR Committee as an important organization tasked with securing respect for human rights. Chaired by the director of CITIZEN WATCH responsible for HR, the HR Committee consists of members from the HR sections of Group companies in Japan. The CITIZEN WATCH HR Division serves as its secretariat to effect cooperation in related areas group wide while working with HR and CSR sections to deploy initiatives at overseas facilities in order to ensure a thorough understanding of matters, such as the decisions of the HR Committee. We also implement thorough internal training on the Human Rights Policy, including an e-learning program provided for all Group employees in Japan in FY

2019. In particular, December has been named Human Rights Month in the CITIZEN Group, and during this time, Group companies in Japan engaged in activities, such as setting up panel displays on human rights, to deepen the understanding of the subject by introducing the Human Rights Policy and all 30 articles of the Universal Declaration of Human Rights. We plan to deploy these initiatives to Group companies overseas as well in the future. We are implementing human rights due diligence through such means as attitude surveys of employees at Group companies in Japan. We also strive to respond to and prevent risks through the use of an internal whistleblowing system (together with the Speak Up system) to accept from employee reports, requests for consultation, comments, proposals, and other feedback regarding human rights issues. In addition, we are making progress in areas such as on-site fact-finding to suppliers under the CITIZEN Group CSR Procurement Guidelines. Also, since the CITIZEN Group includes subsidiaries subject to UK Modern Slavery Act, we employ measures, such as publishing the Statement on Modern Slavery and Human Trafficking at the start of each fiscal year, to fulfill our responsibility to help resolve human rights issues as a member of the international community.

Outlook

In light of the enactment of the law preventing workplace power harassment in Japan in June 2020, in FY 2020 and later, we will continue to enhance training systems at Group companies in Japan and establish training programs in the English and Chinese languages at Group companies overseas to raise

awareness of respect for human rights even further. In addition, we will aim to enhance our human rights due diligence systems and functions to help reduce risks related to human rights overall by identifying human rights risks in a multifaceted manner, including measures implemented at Group companies overseas.

Basic concept

The CITIZEN Group stresses efforts to create comfortable and rewarding workplaces. As part of these efforts, we have issued the Health Declaration under which we are promoting health management based on thinking and practice intended to ensure the good health of our employees. We are also stressing gender

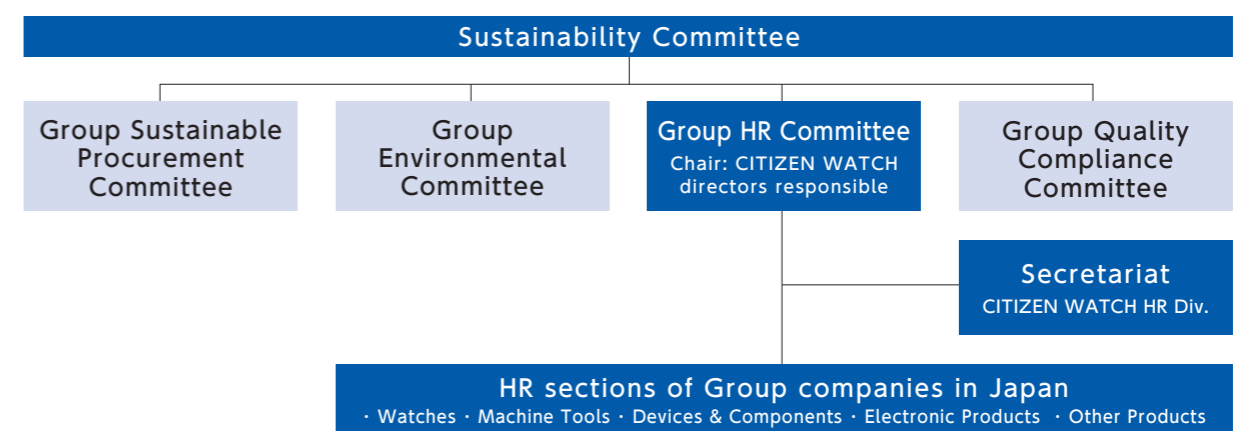
management practices based on thinking about the working environment for female employees from the perspective of gender diversity. In these ways, we aim to build an organization in which our diverse human resources, the source of our strength as an organization, can work and demonstrate their abilities over the long term.

Securing and training diverse human resources, and outlook

A look at the macroeconomic environment in which the CITIZEN Group does business shows a changing population structure and increasing lifestyle changes and diversity accompanying this trend amid the rapid social and economic digital innovation. In addition, social changes resulting from the super-aging of Japan's population are expected to lead to increasing difficulty in securing human resources as the working population starts to decrease. Under such conditions, the Medium-Term Management Plan 2021 released in 2019 expresses our desire under the Group medium-term management vision of "Innovation for the next - Sense the Time and Create an Impression for the Future" to "be sensitive to changes over time as we take on the challenge of creating completely new value, not merely continuing manufacturing as in the past, and moving toward a sustainable future." Putting this into practice will require securing and training human resources who can take on the challenges of creating new value. At the same time, we face calls to implement work style reforms and a pressing need to increase organizational productivity.

CITIZEN WATCH took the lead ahead of other Group companies in Japan by launching a new company-wide flextime system in May 2020. At the same time, through the setting of appropriate goals by management and the adoption of programs to improve advising and guidance capabilities for enhancing our ability to challenge issues in the workplace, we have strived to firmly establish those systems and increase their effectiveness. In addition, as we aim to realize workplace environments where employees can get a stronger feel for rewarding work, we have introduced a talent management system. In order to evaluate these initiatives properly, we have adopted a 360-degree HR evaluation program and, in October 2019, introduced a new salary system that takes roles and results into account for all employees. In FY 2020, we intend to enhance our systems and programs based on results from FY 2019, including consideration for the adoption of CITIZEN Watch's initiatives at other Group companies in Japan.

Group HR Committee organizational chart



Basic concept

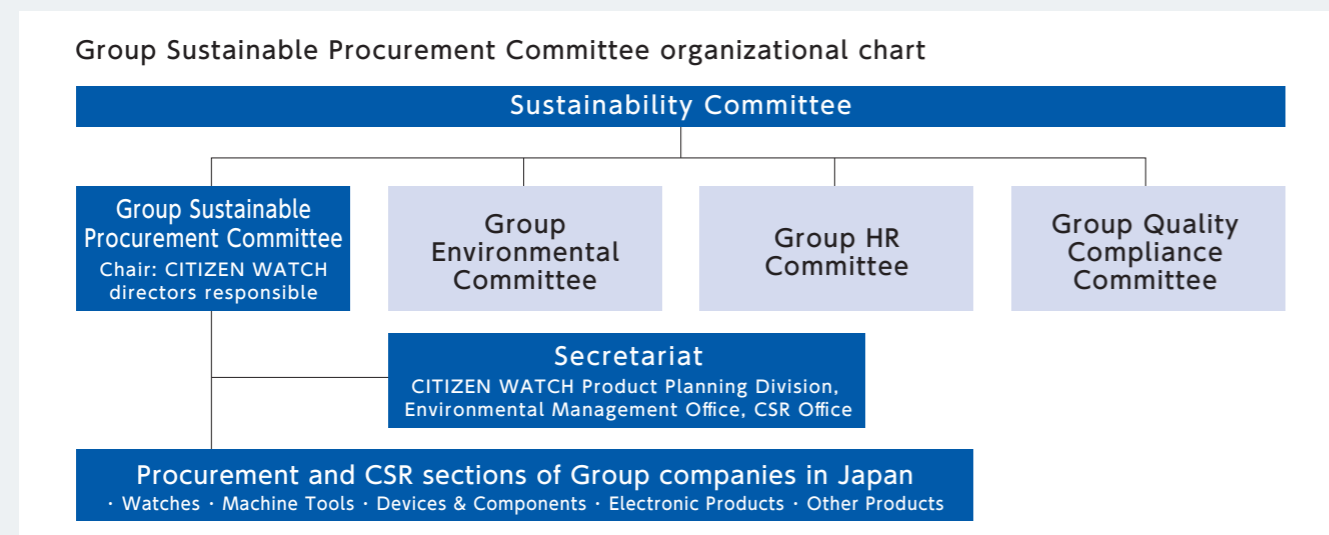
The CITIZEN Group advocates the concept of "Sustainable factory" based on consideration for not only its own factories but also their manufacturing processes as one important pillar of sustainable management. This is intended to ensure that the entire value chain, including suppliers, is based on sustainable factories. Another pillar of sustainable management is that of delivering to society "Sustainable products"

produced in these sustainable factories. To realize these goals, it is essential to practice sustainable procurement and maintain sustainable production structures in cooperation with suppliers who constitute vital upstream elements of the value chain with comprehensive consideration for compliance, human rights, labor practices, BCP, and productivity improvements.

Enhancement of the sustainable procurement structure

In addition to supplier evaluations and awards programs, centered on the Environmental Partnership system, as well as existing initiatives in the areas of green procurement, conflict minerals, and quality auditing of suppliers, the CITIZEN Group aims to realize sustainable procurement based on the concept of sustainable management. Based on this point of view, we have revised our existing CITIZEN Group CSR Procurement Guidelines to establish, in April 2020, the second edition. Under these Guidelines, we reflect in the CITIZEN Group's approaches changes that have occurred in social and economic conditions in recent years, international norms such as the Global Compact, and demands from stakeholders. In addition, to help achieve the SDGs we are incorporating elements in an even broader and more comprehensive manner to help resolve social issues, such as those in domains related to human rights and labor

practices. Together with updating these Guidelines, we have also established a new promotion structure. The Group Sustainable Procurement Committee, for which the CITIZEN WATCH Product Planning Division, Environmental Management Office, and CSR Office serve as the secretariat, has been established under the Sustainability Committee. Chaired by the CITIZEN WATCH director responsible for CSR, this committee's membership includes the procurement and CSR sections of Group companies. It meets twice a year to check on the state of development of effective partnerships with suppliers to realize sustainable procurement group wide and on the functional status of systems established for this purpose. In this way, we strive both to enhance cooperation among Group companies to swiftly ascertain the facts of supplier situations and request corrective measures and other necessary actions.



Preparations for on-site fact-finding of CSR initiatives

The CITIZEN Group aims to realize sustainable procurement in cooperation with suppliers through on-site fact-finding of suppliers' CSR initiatives<sup>1</sup>. Considering FY 2019 to be a preparatory phase for implementing full-fledged investigations, we enhanced related systems and rules during the fiscal year in addition to strengthening the Group's promotion structure. We also prepared on-site fact-finding check sheets based on the Guidelines for suppliers to use as self-assessment

sites in China, Hong Kong, and others, we deployed programs suited to local conditions, including holding local training sessions. Each Group companies in Japan held briefings for suppliers and requested understanding and cooperation in implementing on-site fact-finding at a total of 275 companies. In addition, briefings for suppliers in China included training sessions on human rights, as training concerning an important topic in society.

questionnaires (SAQs) on assess their own systems so that we can use the assessment result for the on-site fact-finding processes

In addition, to further raise awareness of the importance of sustainable procurement, we also carried out educational activities led by the secretariat to help the concept permeate further among officers and sections responsible at Group companies. At overseas production facilities and other



A briefing for suppliers

Implementing investigation and outlook

Under the on-site fact-finding plans for FY 2019, SAQs were used at 57 companies in order to prioritize the investigation of suppliers that are strategically important to the CITIZEN Group. Based on the results thereof, each Group company<sup>2</sup> proposed visit plans of one or more companies for a total of eight. While this resulted in the use of SAQs at 68 companies, because of the considerable impact of the COVID-19 pandemic as the end of FY 2019 approached, the visit was completed at only three companies. If any issues are discovered in the results of the on-site fact-finding, the suppliers are requested to implement corrective measures. This time visit

identified an issue in management of working hours at one company, and we provided it with guidance on making improvements. During FY 2020, depending on such factors as the degree to which the pandemic is brought under control, we will expand the use of SAQs and on-site fact-finding of suppliers to implement risk management of partners and the supply chain more systematically. In addition, by sharing the results with suppliers, we will aim to strengthen our partnerships with them to enable both cooperation at a deeper level and the creation of new business opportunities.

<sup>1</sup> This corresponds to generally known CSR auditing and/or monitoring of suppliers and is to conduct survey and ascertain their states of compliance with the Group CSR Procurement Guidelines.

<sup>2</sup> CITIZEN WATCH, CITIZEN MACHINERY, CITIZEN ELECTRONICS, CITIZEN FINEDEVICE, CITIZEN SYSTEMS, CITIZEN WATCH MANUFACTURING, CITIZEN T.I.C.

## Basic concept

Since its founding, the CITIZEN Group has worked consistently to carry out manufacturing with consideration for people and the environment while remaining grounded in our corporate philosophy "Loved by citizens, working for citizens." In FY 2019, we revised the CITIZEN Group Environmental Policy that serves as the basis for the Group environmental initiatives and the Environmental Vision 2050 based on that policy by clarifying our goals of decarbonization, resource recycling, and contributing to safe,

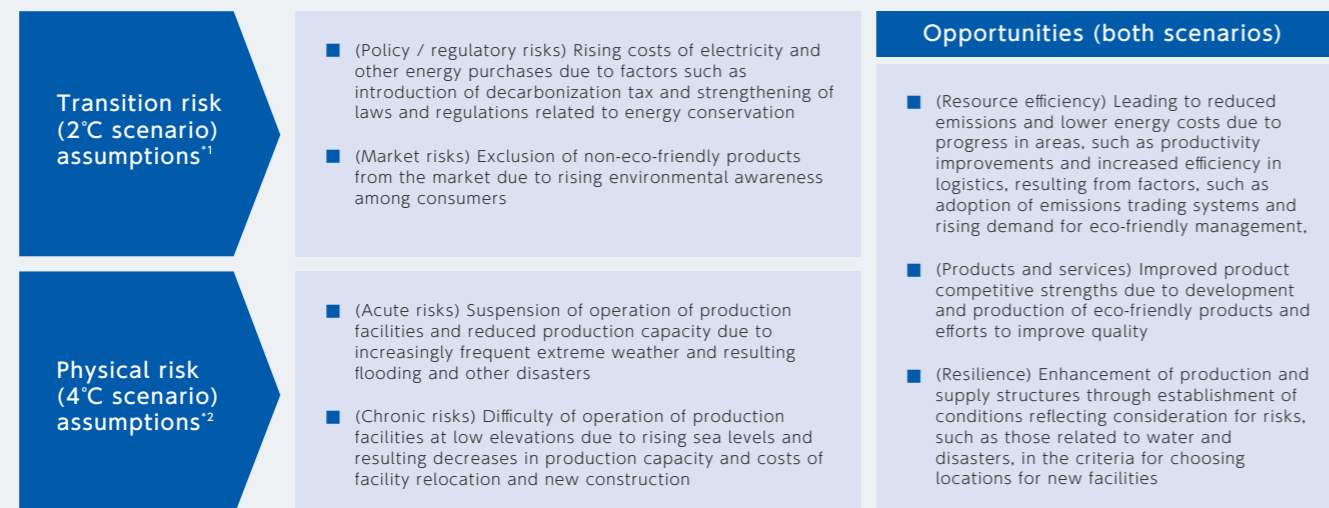
comfortable living. In order to increase the effectiveness of our medium- to long-term environmental initiatives, we revised our Environmental Goals 2030, establishing five goals reflecting consideration for contributing to achievement of the SDGs. Through achieving these goals, we will promote the practice of sustainable management aiming to expand the creation of "Sustainable products" produced in "Sustainable factory".

## Responding to climate change risks and opportunities

The CITIZEN Group promotes global environmental management throughout the value chain. With regard to the impact of climate change, a subject of concern on a global scale, we are proceeding with an analysis of the scenarios for assessing and identifying risks and opportunities that could have major impacts on Group businesses and finances in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In response to the identified risks, we are advancing efforts to reduce the greenhouse-gas emissions said to cause global warming, aiming to realize a 2°C scenario. As part of such efforts, in addition to energy-conservation activities and the adoption of LED lighting and other energy-saving

equipment at Group business facilities, we are also making progress on preparations for eco-friendly capital investment to establish "Sustainable factory." In addition, to reduce emissions throughout the entire supply chain, we calculate the scope of these emissions for the entire CITIZEN Group. As an opportunity, we envision growth in ethical consumption in the future. In the watch business, we are advancing efforts to create new "Sustainable products" such as Eco-Drive. In the future, we will announce our support for the TCFD's recommendations and make progress on the enhancement of climate-related disclosure from the perspectives of governance, strategy, risk management, metrics and targets.

### Climate-change-related risks and opportunities that bring financial impact on the CITIZEN Group



\*1 Only the impacts of transition risks are considered with assumption that there would be no major physical risks.

\*2 Only the impacts of physical risks are considered with assumption that the physical risks of climate change would be severe.

## Reduction of restricted chemical substances

As the international trend toward restricting use of harmful chemical substances strengthens from year to year, the CITIZEN Group is proactively restricting the chemical substances that it uses. In Japan, to reduce volumes of substances subject to the PRTR, we are promoting the use of substitute substances. While our target for FY 2019 was to keep the volumes used to roughly the same level as in FY 2018, we were able to reduce them by 6.8% instead. In the Group as a whole, after fully abolishing use of ferric chloride, which accounted for a large percentage of subject substances used, in FY 2018, this year we made progress on the replacement of 1-bromopropane. We will continue making progress on the reduction of subject substances, aiming to achieve by FY 2030 a reduction of 45% vs. FY 2018. We will also continue to respond to restrictions on

chemical substances contained in products as we make progress, together with our suppliers, on investigating the content of high-risk parts and materials in response to the addition of four phthalates to the substances restricted under the RoHS Directive, which was amended in July 2019. As we aim to establish "Sustainable factory" in the future, we will continue to make progress on strengthening our responses to the chemical substances contained in products on a global scale. In addition, we also will enhance implementation of life-cycle assessments as we strive to expand our lineup of "Sustainable products." In addition to internal efforts, we will move forward with further cooperation with suppliers and customers and proactively disclose information in the future, as we strive to reduce the use of restricted substances even more.

## Responding to water risks

As in the case of climate change, we are integrating group wide risk-management systems regarding assessment of water-related risks and opportunities. While we have confirmed that once again in FY 2019 the production facilities of the CITIZEN Group were not exposed to pronounced water risks, we are basing our activities on the latest information in cooperation with the managers or local industrial parks and administrative agencies. Our Group Environmental Goals 2030 call for a

major reduction of 35% vs. FY 2018 in water used group wide, including major production subsidiaries, by FY 2030. In FY 2019, we reduced water use through the promotion of more advanced water circulation system and the adoption of high-efficiency equipment at production facilities. As a result, we were able to reduce overall water use by 10.4% vs. FY 2018. We will continue initiatives to protect sustainable water resources while paying close attention to the circumstances of water risks in the future as well.

## Effective use of resources and waste reduction

In the area of effective use of resources, in addition to digitalization of factories and offices and thorough segregation of plastic waste, we continue the verification of resources for which consumption can be reduced and efforts to reduce such consumption in the various aspects of our business activities, including a review of the materials and forms of product packaging and shipping containers, digitalization of user's manuals and catalogs, and a reduction in raw material use through improved productivity and yields. In the area of waste management, we continue on-site monitoring at the processors in Japan to confirm that facility waste is processed properly. As

a result, our recycling rate, including thermal recycling, in Japan is 99.4% as we have continued since 2013 to generate almost no waste, while the recycling rate overseas is approximately 60%. Although it is more difficult to implement related measures overseas due to differences from Japan in terms of waste processing and management, we are advancing initiatives that include thorough reductions in raw materials and other supplies used. Based on a review of these initiatives and concepts, in April 2020, we established the CITIZEN Group Resource Circulating Vision. In the future, we will further strengthen these initiatives to practice sustainable management based on these approaches.

## Participation in the United Nations Global Compact

In April 2005, the CITIZEN Group declared its support of the United Nations Global Compact, which is based on 10 principles in the areas of human rights, labor, the environment, and anti-corruption. The UN Global Compact serves as the foundation for the CITIZEN Group's CSR activities, as its content was referred to when revising the CITIZEN Group Code of Conduct. In addition, the CITIZEN Group participates in the Supply Chain subcommittee, CSV subcommittee, Human Rights Due Diligence subcommittee, and Disaster Prevention/Mitigation subcommittee of the Global Compact Network Japan (GCNJ), an organization of businesses participating in the

Global Compact. These subcommittees are intended both to share information on the latest trends and case studies related to CSR through presentations by experts and to produce outputs to support CSR activities at various firms based on the broad-ranging industry experience of participating firms. The knowledge gained through these subcommittees is also reflected in the CITIZEN Group's CSR activities.



## Evaluations by society

The CITIZEN Group has continued to carry out business activities by putting into practice our corporate philosophy "Loved by citizens, working for citizens." Based on our determination never to violate social norms, bring doubt in our customers or business partners, or behave dishonestly, we

implement a wide range of CSR activities aiming to deliver solutions to social issues in order to contribute to sustainable development of society. These concepts and initiatives have been rated highly by external evaluation institutions, and we have been selected for ESG indices and other honors.



FTSE4Good



FTSE Blossom Japan

### FTSE4Good Index Series and FTSE Blossom Japan Index

Since December 2019, we have been included in the FTSE4Good Index Series and FTSE Blossom Japan Index.

### MSCI Japan ESG Select Leaders Index and MSCI Japan Empowering Women Index (WIN)

We have been included in the MSCI Japan ESG Select Leaders Index since December 2019 and the MSCI Japan Empowering Women Index (WIN) since June 2017. The inclusion of CITIZEN WATCH company, Ltd. in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of CITIZEN WATCH company, Ltd. by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

### SOMPO Sustainability Index

Since 2017, we have been included in the SOMPO Sustainability Index (previously known as the SNAM Sustainability Index).

### The 2020 Certified Health and Productivity Management Organization Recognition Program under the large enterprise category

In February 2020, CITIZEN WATCH was recognized under the 2020 Certified Health and Productivity Management Organization Recognition Program under the large enterprise category.

## The CITIZEN Group's business foundation

The CITIZEN Group delivers new value in the others business as well by applying its advanced, proprietary technologies, such as those enabling compact, high-precision products and low-power devices built up through the Watches Business since its founding.



### Watches

Watches represent the starting point of manufacturing in the CITIZEN Group, which has aimed to build watches loved the world over. We continue today to produce a wide range of models equipped with novel features, including innovative products, such as the light-powered Eco-Drive watches that continue to enjoy the support of many consumers around the world.



### Devices & Components

By applying the miniaturization and precision machining technologies that we have built up in the Watches Business to manufacture auto parts used in applications, such as brake units and engine units, in addition to component devices embedded in everyday electronics, such as LED lighting, which helps products to save energy and last longer, smartphone switches, and LCDs, we help to make people's lives more convenient while also lessening the environmental impact.



### Machine Tools

Machine tools are known as "machine making machines" and serve as the basis for all manufacturing industries such as the medical, automotive, and IT industries. Machine tools also support the development of both technologies and society. We strive to meet diversified needs in rapidly changing world with various innovative technologies.



### Electronic Products

Our point-of-sale (POS) systems, barcode printers, and high-resolution digital photo printers produced through the application of precision machining and assembly technologies handed down from the Watches Business are utilized in a wide range of situations in society, including shops and factories. In addition, our healthcare products, centered on electronic blood-pressure gauges and thermometers, help people to live healthy lives by supporting their health management.

### Other Products

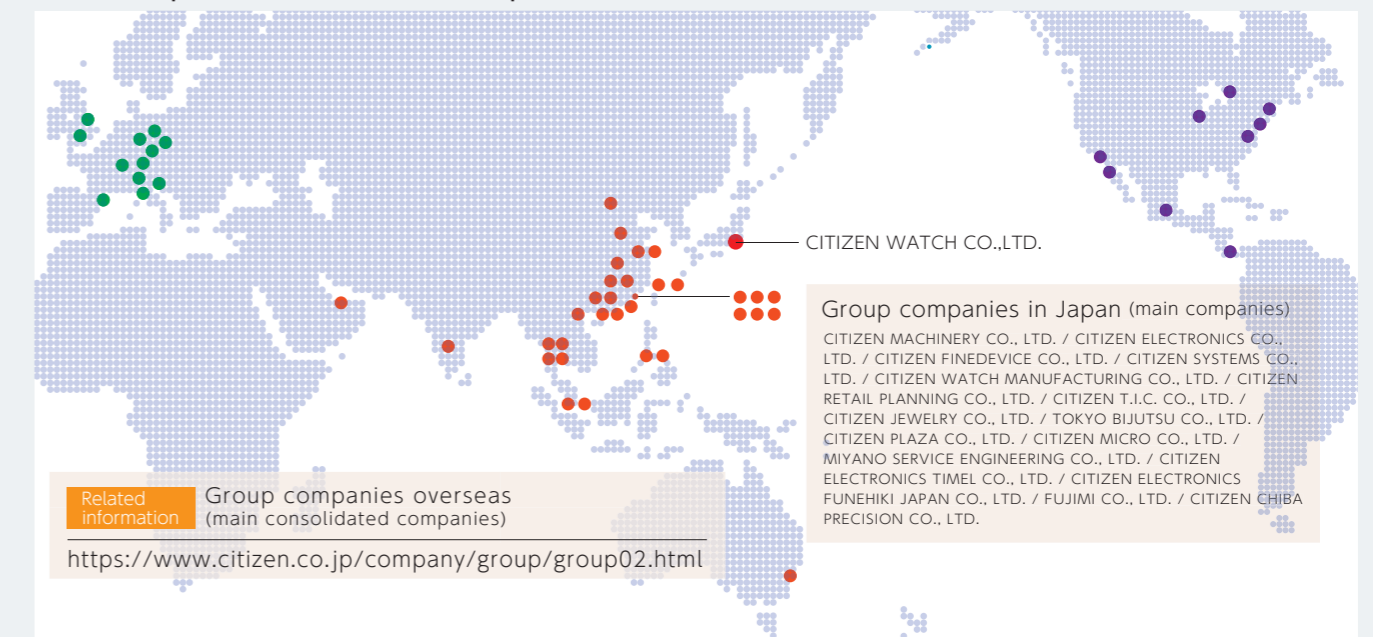
## Company overview (as of March 31, 2020)

Name: CITIZEN WATCH Co., Ltd.  
 Incorporated: May 28, 1930 (established 1918)  
 Headquarters: 6-1-12 Tanashi-cho, NishiTokyo, Tokyo 188-8511 Japan

Capital: JPY 32,648 million  
 Employees: 15,024 (4,569)

Note: The number of employees above represents the total number of employees of the consolidated companies. The figure in parentheses represents the number of temporary employees, not included in the total.

### List of companies in the CITIZEN Group



# CITIZEN

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Published Aug 2020