

November 10, 2017

To: All

Company Name: Citizen Watch Co., Ltd.  
Representative: Toshio Tokura  
Representative Director and President  
(Code Number: 7762, Tokyo Stock  
Exchange, 1<sup>st</sup> Section)  
Contact: Toshiyuki Furukawa  
Director, Public & Investor Relations  
Department  
(TEL: +81.42.468.4934)

**Notification Regarding the Finding of Improper Activities at the Time of Shipping  
Products to Customer Companies by the Company's Consolidated Subsidiaries  
and the Establishment of a Third Party Committee**

Citizen Watch Co., Ltd. (Headquarters: Nishitokyo-shi, Tokyo; Representative Director and President: Toshio Tokura) (hereinafter the "Company") announces that today the Company has resolved, at a meeting of the board of directors, to establish a third party committee as described below, following a finding of compliance violation by Citizen Electronics Co., Ltd. (Headquarters : Fujiyoshida-shi, Yamanashi Prefecture; Representative Director and President: Yoshihiro Gohta) (hereinafter "Citizen Electronics"), a consolidated subsidiary engaged in the business of manufacturing and selling electronic components, and Citizen Electronics Timel Co., Ltd. (Headquarters : Fujiyoshida-shi, Yamanashi Prefecture; Representative Director and President: Yasuki Kuwabara) (hereinafter "Citizen Electronics Timel"), its wholly owned subsidiary.

According to the Company's group risk management audit (hereinafter "Audit"), it has been found that, although Citizen Electronics made arrangements with its customer companies that where there was a change in the manufacturing location of the products being supplied, an application for such change was to be made to the customer company, such application for change had not been carried out for some of the customer companies, and that thereafter shipment was continued with the products having attached labels which were printed with the lot numbers indicating that the products had been manufactured at the prior manufacturing locations arranged with the customer companies (hereinafter "Improper Activities").

This Audit has been focused on Citizen Electronics and its subsidiary, Citizen Electronics Timel and carried out for the purpose of comprehensively identifying events which have a risk of compliance violation. In parallel with this, the Company has also endeavored to investigate the facts of the Improper Activities. However, relevant departments etc. were widespread, such as these Improper Activities by Citizen Electronics extending across multiple divisions and the shipping work having been carried out by Citizen Electronics' subsidiary, Citizen Electronics Timel. Also, time has been required to confirm the products affected (including products which had been affected but corrected in the past), the time periods, and the scope of the customer companies to which the products were shipped. Therefore, it is expected that still further time will be required to confirm the entire factual background.

Even to the extent that the Company has been able to confirm the facts so far, we take this seriously as compliance violation by our consolidated subsidiaries, and based on the progress status of the above fact confirmation, from now on, we believe that a thorough investigation of the facts and an analysis of the causes etc. by external experts is necessary, and the Company has decided to establish a third party committee.

Also, the products subject to the Improper Activities were incorporated into the products of the customer companies, and therefore the users of the end products were not shown the manufacturing locations of the incorporated products. At present there has been no confirmation of quality problems caused by the Improper Activities.

## 1. Background for the establishment of the third party committee

The Company received a report from Citizen Electronics to the effect that there were suspicions that products had been shipped to customer companies with attached labels indicating manufacturing locations different from the actual manufacturing locations. With regard to this, in and after the first part of June this year, with the purpose of improving the business of Citizen Electronics and its subsidiary, Citizen Electronics Timel, in order to comprehensively investigate, not only the above suspicions, but also events with a risk of compliance violation, the Company has been conducting an Audit of Citizen Electronics and its subsidiary, Citizen Electronics Timel, and along with this, endeavoring to confirm the facts related to the above suspicions.

Meanwhile, time has been required for confirming the facts, including the products affected, the time periods, and the scope of the customer companies to which products were shipped, and the scope of individuals involved at Citizen Electronics and Citizen Electronics Timel, and therefore not all the relevant facts are known, but at present the following facts have been confirmed:

Specifically, from 2011 to 2012, Citizen Electronics, as part of restructuring, terminated contract relationships with external manufacturing subcontractors and promoted transfer of product development and manufacturing to Citizen Electronics and its subsidiaries, Citizen Electronics Timel and Citizen Electronics Funehiki, and a local corporation in China, Jiangxing Electronics Ltd. Before this transfer, Citizen Electronics made an arrangement with some of its customer companies that, with regard to a change in the manufacturing locations, Citizen Electronics would need to apply for such change in advance from the customer company and obtain an approval thereto (hereinafter the "Arrangement").

For some of the customer companies that had this Arrangement, Citizen Electronics carried out the application procedures for the change of manufacturing location. However, for other customer companies, the application procedures could not be completed by the time of completion of the above transfer, and consequently, Citizen Electronics continued shipment of the products to these customer companies with the products having attached labels which were printed with the lot numbers indicating the prior manufacturing locations even after the change in actual manufacturing locations.

To the extent confirmed so far, the products subject to the Improper Activities were primarily switch components, but some LED components etc. were also included. The identified time period of the Improper Activities is primarily the period from around 2011 until 2017.

As stated above, the products affected were incorporated into the products of the customer companies, and therefore the users of the end products were not shown the manufacturing locations of the incorporated products. At present there has been no confirmation of quality problems caused by the Improper Activities.

The Company takes seriously the fact that the Improper Activities continued for a long period of time without the Company becoming aware of them. The Company has determined that it would be desirable to entrust external experts with the analysis of the facts and causes based on a thorough investigation of the reasons why the Company was unable to comply with the arrangements with customer companies and why the Improper Activities were not found for a long period of time and others, and today the Company has established a third party committee.

Based on the result of the investigation by the third party committee, we will work sincerely to prevent reoccurrences, and strengthen our governance as a group.

## 2. The purpose of establishment of the third party committee

- (1) Investigation of the facts of the Improper Activities
- (2) Investigation of the facts regarding whether there are incidents similar to the Improper

- Activities and the status of compliance with the arrangements with customer companies
- (3) Analysis of causes of the Improper Activities, and consideration of and advice regarding countermeasures for preventing reoccurrences
  - (4) Consideration of legal problems and existence and non-existence of liability etc. in relation to the Improper Activities
  - (5) If recognized as necessary, verification of the quality etc. of the products subject to the Improper Activities
  - (6) Any other items considered necessary by the third party committee

3. Composition of the third party committee (honorifics omitted)

The third party committee is composed of the members below, who do not have any interest in the Company, and therefore there are no factors which would interfere with the independence or neutrality of the third party committee.

Chairman	Norio Munakata	Attorney-at-law	Munakata Norio Law Office, Managing Partner; Special Advisor to the Cabinet
Member	Toshiya Natori	Attorney-at-law	Oh-Ebashi LPC & Partners, Counsel
Member	Shunsuke Yabuuchi	Attorney-at-law	Kitahama Partners, Partner

At the time of the selection of the above committee members, the selection of the committee members was conducted in accordance with the “Third Party Committee Guideline in Corporate etc. Misconduct (revised on December 17, 2010)” issued by the Japan Federation of Bar Associations.

(Reference) Brief Resumes of the Committee Members

Name	Brief Resume
Norio Munakata	1968 Appointed as prosecutor 1993 Tokyo District Public Prosecutors Office, Manager of Special Investigation Department 2000 Supreme Public Prosecutors Office, Manager of Criminal Division 2001 Takamatsu High Public Prosecutors Office, Superintending Prosecutor 2003 Nagoya High Public Prosecutors Office, Superintending Prosecutor 2004 Registered as attorney-at-law Chuo University Graduate School of Law, Professor 2006 Munakata Norio Law Office, Managing Partner (current position)
Toshiya Natori	1989 Appointed as prosecutor 2010 Tokyo District Public Prosecutors Office, Deputy Manager of Criminal Division 2011 Ministry of Justice, Criminal Affairs Bureau, Director of the Public Security Division 2012 Ministry of Justice, Criminal Affairs Bureau, Director of the Criminal Affairs Division Ministry of Justice, Minister’s Secretariat, Director of the Secretarial Division 2015 Morioka District Public Prosecutors Office, Chief Prosecutor 2016 Supreme Public Prosecutors Office, Prosecutor Registered as attorney-at-law Oh-Ebashi LPC & Partners, Counsel (current position)
Shunsuke Yabuuchi	2003 Registered as attorney-at-law, joined Kitahama Partners 2006 Japan Fair Trade Commission, General Secretariat, Investigation Bureau, Management and Planning Division, Investigator (Official with Specified Fixed Term of Office) 2012 Kitahama Partners, Partner (current position)

#### 4. Prior responses and plans for improvement

Regarding the Improper Activities, with regard to the affected products currently identified, we are moving forward with corrective action, starting from what we can, such as shipping products to the customer companies with labels showing the correct manufacturing locations, etc. Also, for the customer companies who have the Arrangement, the application procedures for changes of manufacturing locations are being carried out in turn.

#### 5. How we plan to proceed

The Company and Citizen Electronics will cooperate fully with the thorough investigation of the facts by the third party committee, and strive to clarify the actual situation. We will promptly disclose the result of the third party committee's investigation.

The impact which this incident will have on the business performance is unclear at this point, but we will make announcement when the degree of impact becomes clear.

We sincerely apologize for the great inconvenience and concern that we have caused to everyone involved, including shareholders and investors.

End of Document