

### Initiatives for strengthening Group governance

To ensure the achievement of business targets and sustainable growth at the Group level, we have established the Group Risk Management Committee as a body in charge of collectively controlling and swiftly responding to risks in the Group. The Group Risk Management Committee is tasked with monitoring the progress of activities to strengthen Group governance and quality compliance, which the Committee took over from the Quality Compliance Monitoring Committee. It is also responsible for confirming the implementation status of measures to combat the Group's critical risks and for responding to emerging risks. The Group Risk Management Committee is chaired by the President of CITIZEN WATCH, and it has subordinate risk-themed Committees with appropriate Officers and departments specializing in key risk areas assigned to them, allowing the top management to identify and deal with critical risks related to financial performance as well as ESG risks such as those related to compliance, BCP, intellectual property, information security, labor practices and environmental problems.

In FY2018, the Committee led investigations on the actual status of hosting overseas technical interns and their labor conditions. This risk management system has facilitated the sharing of risk management know-how among the Group companies through sharing information on risks common to the group and specific to each company. The system has enabled consistent, uniform management of risks across the Group. In FY2018, the Group Quality Compliance Committee was newly established. Headed by a Director in charge of Group risk management, the Committee consists of Quality Officers of each Group company. It developed the Citizen Group Quality Assurance Code of Conduct as the Group's universal guideline. The Committee has also been engaged in the establishment of a system to reduce quality-related risks through implementing an organizational change to secure the independence of quality control departments, hosting quality control seminars, and establishing the Group's uniform standards for contract forms and quality inspection. Going forward, the Committee will further reinforce a quality audit function, and conduct monitoring and audits on a regular basis. The CITIZEN Group will continue to implement improvement plans to establish and operate group-wide risk management systems.



### Main Activities by the Group Quality Compliance Committee in FY2018

To share information on quality within the Group, a task force consisting of representatives of quality departments was formed to deliberate on compliance from the quality control perspective. The task force will submit a report to the Group Quality Compliance Committee.

To prevent the recurrence of a quality fraud, like that which occurred previously within the Group and with reference also to incidents at other companies, the Committee is considering a mechanism to regularly conduct audits on the following elements with the potential to trigger improper activities.

- 1 Inspection process**
  - \* Mechanism related to the reliability of inspection data
  - \* Mechanism that focuses on the motivation and opportunity for falsification of inspection data
  - \* Mechanism that enables prevention and detection of falsification
  - \* Mechanism to secure inspection accuracy
- 2 Handling of irregular products**
  - \* Confirmation of rules related to irregular products; mechanism to ensure compliance with quality requirements imposed by customers
  - \* Management of records at the time of occurrence of irregular products; management of records on communication with customers
- 3 Concluding and fulfilling contracts**
  - \* Confirmation of contract-related operations to ensure quality compliance; examination of contracts
  - \* Rules on management
  - \* Mechanism to ensure the fulfillment of processes and contract details; recording and managing contract terms and conditions

### Formulating and Disseminating the Citizen Group Quality Assurance Code of Conduct

The CITIZEN Group ensured thorough compliance by conducting business operations in accordance with the Citizen Group Code of Conduct, which sets forth stricter standards than those required by law. In 2017, however, improper activities were found at a Group company, which forced us to recognize the need to improve our awareness of compliance. To instill a thorough commitment to compliance in each employee, the Citizen Group Quality Assurance Code of Conduct was formulated in FY2018. The Code specifies the principle and value of manufacturing based on the Corporate Philosophy "Loved by citizens, working for citizens." This new Code also sets forth expectations regarding the observance of quality-related laws and contract terms, sharing of information in cooperation with stakeholders, and clarifying functions of each department in terms of quality. We will share the Code of Conduct across the entire Group to fulfill our responsibility as a manufacturing company.

With regard to awareness-raising activities for the Citizen Group Quality Assurance Code of Conduct, seminars were provided to a total of 301 department managers at the Group companies acting as the business headquarter companies on quality compliance status surveys and related topics. In addition, we ensure that the Code of Conduct is widely disseminated and embraced by all group employees through putting up posters, disclosure on the intranet, and carrying feature articles in in-house newsletters. At overseas sites, we held sessions to read the Citizen Group Quality Assurance Code of Conduct together. In FY2019, as awareness-raising activities for new employees, systematic explanations were provided on the Corporate Philosophy, the Citizen Group Code of Conduct, and the Citizen Group Quality Assurance Code of Conduct. Moreover, seminars on such topics as the Quality Policy were held for each business headquarters company.



### Improvement of whistleblower system and internal audit

The CITIZEN Group has worked tirelessly to improve its whistleblower system and enhance its effectiveness. In FY2018, the Group Audit & CSR Liaison Conference was held, where personnel in charge of a whistleblower system at the Group companies met to identify problems in operating the system. Moreover, we formulated new Group Compliance Hotline Rules with reference to the whistleblower guidelines of the Consumer Affairs Agency and the Corporate Governance Code, while providing guidelines for both users of the whistleblower system and personnel operating it in a bid to make this system widely known and increase transparency. In addition, in order to boost recognition of the system throughout the Group, seminars on the compliance hotline were

held for managers of the business headquarter companies. In an effort to make the system more accessible, we make it clear that anonymity is assured and whistleblowers will be protected. In FY2019, we plan to conduct a questionnaire survey on the level of recognition of the compliance hotline. In FY2018, we also reviewed the internal audit system and functions. We interviewed internal audit personnel at each Group company to identify and summarize the current operation status and issues. In reference to international standards of external organizations, we created a roadmap toward improved effectiveness of the Group's internal audit, and we will further reinforce risk management efforts of the Group.