

### Basic concept

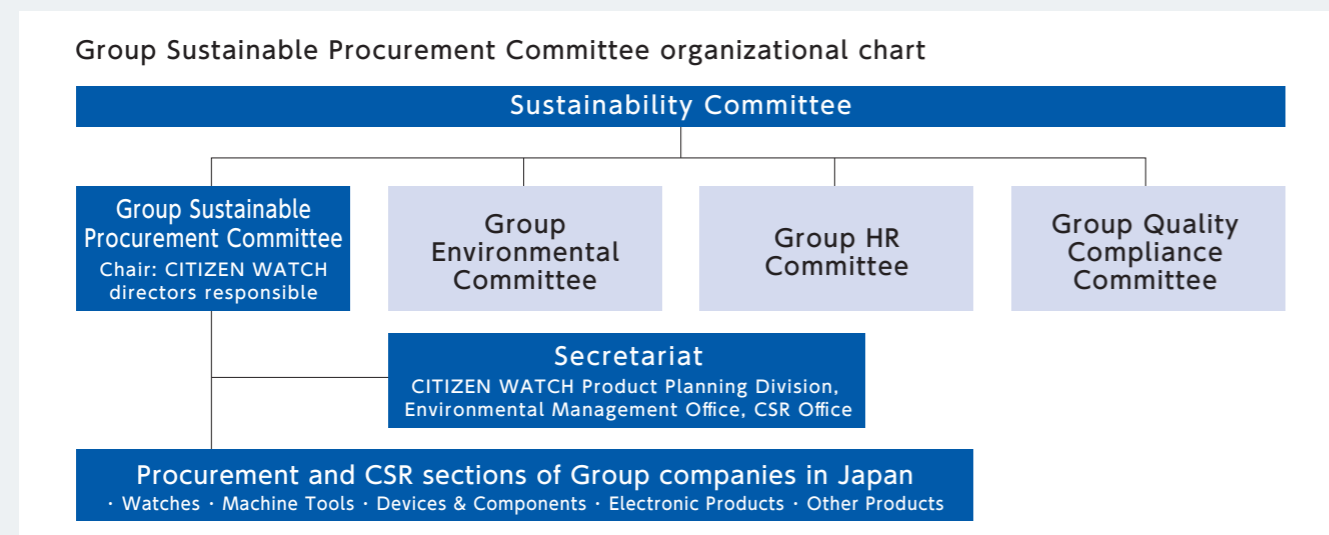
The CITIZEN Group advocates the concept of "Sustainable factory" based on consideration for not only its own factories but also their manufacturing processes as one important pillar of sustainable management. This is intended to ensure that the entire value chain, including suppliers, is based on sustainable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