

Corporate Governance

We are working to enhance corporate governance to ensure management transparency and achieve the optimal allocation of management resources in our multi-faceted business activities.

Basic Approach to Corporate Governance

The Citizen Group endeavors to improve business value and contribute to society through sustained corporate activities in harmony with the local community and the global environment, under the business philosophy of “Contributing to and Striving to be Respected by the Citizens of the World.” In the continued pursuit of this business philosophy, the Group works to strengthen corporate governance toward ensuring management transparency and achieving the optimal allocation of management resources in its multi-faceted businesses.

Based on the transition to a pure holding company system in April 2007, Citizen Holdings adopted a basic policy on the construction of new internal control systems at its Board of Directors’ meeting in March 2008, pursuant to the Companies Act.

Roles of the Pure Holding Company and the Subsidiaries

The Group has clarified the scope of responsibility and authority of Citizen Holdings and each of the subsidiaries. Citizen Holdings formulates management policy and makes investment decisions from the perspective of optimizing groupwide management, and oversees and supervises subsidiaries by monitoring whether their business activities adhere to the management policy and whether their management is transparent.

At the same time, each of the watches and clocks, industrial machinery, electronic devices, and electronics products businesses are governed by their own business controlling companies, which are operated independently in light of the unique features of their respective industries for more expedient management and enhanced profitability.

Furthermore, Group strategy meetings covering such areas as human resources, finance, R&D, intellectual property management, brand management, and risk management have been set up within Citizen Holdings to harmonize groupwide strategies with the policies of the business controlling companies.

Roles of the Directors and the Board of Directors

The Board of Directors of Citizen Holdings consists of 10 members, including 2 independent outside directors. The Board of Directors determines management policies and other important items for Citizen Holdings and the Citizen Group, and supervises execution of directors’ duties. Presidents of important subsidiaries from among the business controlling companies are also appointed as part-time directors, enabling decision-making from a comprehensive perspective in consideration of the views of the business controlling companies.

In addition, the management of the Group reflects the opinions of outside directors with abundant business experience in corporate management and related areas. We have also established the Nomination Committee and Remuneration Committee—consisting of outside directors and the president—to provide advisory support.

Roles of the Auditors and the Board of Auditors

The Board of Auditors of Citizen Holdings consists of 4 members, including 2 outside auditors. Each auditor checks whether the Company is growing in a healthy and sustained manner, whether internal controls are functioning to uphold the trust of the public and whether laws and corporate rules are being followed. They also check execution of the general duties of directors by looking through important financial statements, examining operations and financial status and attending the Board of Directors and various other meetings. Another important role of the auditors of Citizen Holdings is checking the execution of directors’ duties at each business controlling company. To achieve this, the Group Board of Auditors—consisting of full-time auditors of Citizen Holdings and auditors of each business controlling company—meets to share groupwide audit policies to enable consistent auditing functions through cooperation among Citizen Holdings and the business controlling companies.

Internal Control System

To comply with the Financial Products Exchange Law (J-SOX), Citizen Holdings launched a project in November 2006 to construct an internal control system. These activities are currently being expanded from Citizen Holding to the Group’s consolidated subsidiaries, and each company has conducted efficacy assessments as of March 31, 2008. Also, to ensure legally required submission of reports on internal controls in the fiscal year ending March 31, 2009, we have been conducting internal audits of each company’s internal control development and operational status since April 2008, as part of continuing efforts to enhance internal controls. To win trust in our financial statements, which is the main intent of the law, we will continue to conduct internal control activities not only based in management but as a concerted effort of all concerned parties within the Group.

Corporate Governance Quotient by ISS

Institutional Shareholder Services, Inc. (ISS), which evaluates functions related to corporate governance at over 7,500 companies around the world and provides the results to institutional investors and others, has ranked Citizen’s Corporate Governance Quotient (CGQ) in the top 3.6% of Japanese companies as of April 1, 2008.

The Citizen Group Corporate Governance Structure (as of July 1, 2008)

