

# 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.

## Roles of the Pure Holding Company and the Subsidiaries

We have clarified the scope of responsibility and authority of Citizen Holdings and each of the subsidiaries that make up the Citizen Group.

Citizen Holdings is responsible for formulating management policies and making investment decisions in the interests of optimizing Group-wide management and oversees and supervises subsidiaries by monitoring their business activities to ensure that they adhere to management policies and their management practices to ensure that they are transparent.

All of the Group's lines of business – watches, electronic devices, electronic products and industrial machinery – are governed by individual operational management companies, which are operated independently based on the nature of the relevant industry so as to enable more expedient management and increased profitability.

Operations within the framework of Citizen Holdings, in areas such as human resources, finance, R&D, intellectual property management and brand management, have been configured so as to ensure that operational management company policies coincide with Group-wide policies.

## Roles of the Directors and the Board of Directors

The Citizen Holdings Board of Directors consists of ten members, including two independent outside directors (as of March 31, 2009).

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 Citizen Holdings Board of Auditors consists of three members, including two independent outside auditors (as of March 31, 2009).

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 group-wide audit policies to enable consistent auditing functions through cooperation among Citizen Holdings and the business controlling companies.

## Internal Control System

Having set out a basic policy on the construction of internal control systems to enable Citizen Holdings to fulfill its social responsibilities as a company, we are now working to enhance internal control systems on behalf of the Citizen Group as a whole in an effort to achieve our objectives in terms of sound, sustainable management.

As the first fiscal year in which the internal control reporting system under the Financial Products Exchange Law (J-SOX) came into effect, in fiscal 2008 we established a new Internal Control System Coordination Committee consisting of supervising personnel from Citizen Holdings and consolidated Group companies so as to ensure that our internal control systems function adequately and effectively and guarantee the reliability of financial reports. We are currently in the process of establishing, operating and evaluating internal control systems in conjunction with an outside auditing organization.

To cater to the diverse needs anticipated as part of the internal auditing process, we have set up new internal auditing departments in the form of Auditing Offices at three other companies in addition to our four operational management companies and have appointed internal auditing managers at eight major subsidiaries. We intend to build up a Group-wide auditing network between individual companies' auditing departments in order to maintain and improve levels of corporate governance and risk management.

## Assessment from outside organizations

### ●ISS Corporate Governance Quotient

Institutional Shareholder Services Inc. (ISS) evaluates corporate governance

capabilities at over 7,400 companies around the world and provides the results to institutional investors and other such organizations. As of April 1, 2009, ISS ranked Citizen's Corporate Governance Quotient (CGQ) in the top 1.2% of Japanese companies.

The Citizen Group Corporate Governance Structure (as of April 1, 2009)

