

Citizen Group CSR Report 2013



Contributing to and striving to be respected
by the citizens of the world

Citizen Group CSR Report 2013



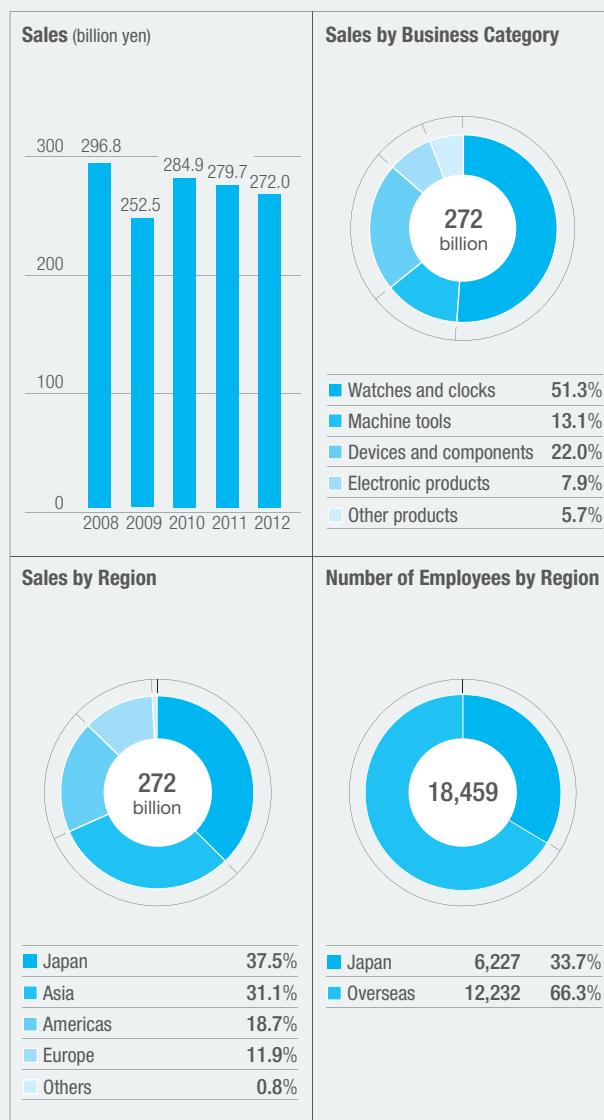
Contributing to and striving to be respected
by the citizens of the world

The Citizen Group

With the corporate philosophy of "Contributing to and striving to be respected by the citizens of the world," the Citizen Group has been launching diverse businesses around the globe making use of the expertise in downsizing, precision, and power efficiency technologies built up in our watch division.

Corporate Profile (as of March 31, 2013)

Name	Citizen Holdings Co., Ltd.	Capitalization	¥32,649 million
Establishment	May 28, 1930	Employees	18,459 (consolidated)
Location of Head Office	6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan	Sales	¥272.0 billion (consolidated)
Representative	Toshio Tokura, President and CEO	Listing	Tokyo Stock Exchange, 1st Section



Organizations Covered in the Report

Economic and social data: 30 domestic and 70 overseas companies (total 100)
Environmental data: 31 domestic and 13 overseas companies (total 44)

Period Covered by the Report

Fiscal 2012 (April 1, 2012 to March 31, 2013)
Some data from fiscal 2013 is also included.

Guidelines Referenced

Sustainability Reporting Guidelines 2006 (GRI)
Environmental Reporting Guidelines 2012 (Ministry of the Environment, Japan)
Environmental Accounting Guidelines 2005 (Ministry of the Environment, Japan)

Date of Publication

June 2013 (Previous report: June 2012/Next report: June 2014)

Disclaimer

This CSR report includes future projections based on the information available when the report was written. The actual results of activities documented may differ from such future projections.



The Citizen Holdings CSR Site

The site provides the same content as this booklet as well as comprehensive CSR information

<http://www.citizen.co.jp/global/social/index.html>

Contents/Editorial Policy

The Citizen Group publishes a CSR report each year. This is an important communication tool for informing our stakeholders about our stance and initiatives on corporate social responsibility (CSR).

01 | The Citizen Group

02 | Editorial Policy

03 President and CEO Toshio Tokura sat down for a talk with One Akiyama about the direction the Citizen Group should go with its CSR initiatives.



A dialogue with the President: "We strive to be a company that is loved, respected and truly needed by society"

Our name “Citizen” and our corporate philosophy are our wellspring

Toshio Tokura × One Akiyama

President & CEO
Citizen Holdings Co., Ltd.

President
Integrex Inc.

07 | Citizen Products and Technology in Use Here, There and Everywhere

The Citizen Group brings out new possibilities that lie dormant in people's expectations and aspirations and gives them new form. Learn more about Group products and services with these photos and illustrations.

09 | CSR in the Citizen Group

A newly systematized look at the Citizen Group's CSR approach and vision.

11 | CITIZEN GROUP CODE OF CONDUCT

Messages from employees

— “What does CSR mean to you?”

The Citizen Group pursues CSR with the participation of all our employees based on the Group Code of Conduct to ensure that we embody our corporate philosophy. Learn about fiscal 2012 initiatives with messages from employees, corresponding to each article of our Code of Conduct.

13

Group Code of Conduct, Article ①

Craftsmanship: How We Craft Ourselves as People



15

Group Code of Conduct, Article ②

Practicing Social Responsibility throughout the Supply Chain

16

Group Code of Conduct, Article ③

Aiming for Thorough Trade Secret Management and Enhancement of Corporate Value

17

Group Code of Conduct, Article ④

Establishment of Medium-Term Environmental Plan 2018

19

Group Code of Conduct, Article ⑤

What We Can Do as Good Corporate Citizens

21

Group Code of Conduct, Article ⑥

Creating Environments Where Diverse Human Resources can Fully Utilize their Individual Skills



24

Group Code of Conduct, Article ⑦

Respond Decisively to Anti-Social Forces

25

Group Code of Conduct, Article ⑧

Striving to be a Company Respected by Employees and Local Communities

28

Group Code of Conduct, Article ⑨

Reinforcing Corporate Governance

30

Third-Party Comments / Response to the Third-Party Comments

Here we publish a third-party comment on our CSR initiatives and report.

A dialogue with the President:
“We strive to be a company that is loved, respected and truly needed by society”



Profile

Graduate of Department of Economics, Keio University. After working as a foreign bond trader at a US-based securities company, she founded Integrex Inc., a business promoting socially responsible investment (SRI) and corporate social responsibility (CSR) in 2001. Among her other roles, she also serves as a managing director of the non-profit Social Investment Forum Japan (SIF-Japan).

Our name “Citizen” and our corporate philosophy are our wellspring

The Citizen Group has adopted a corporate philosophy of “Contributing to and striving to be respected by the citizens of the world.” We pursue CSR with the participation of all our employees to ensure we remain a company that is loved, respected and truly needed by society.

This year we invited Ms. One Akiyama, who has provided third-party comments on CSR initiatives of the Citizen Group for the past five years, to give us her opinion and evaluation of Group initiatives so far and to discuss directions for such activities going forward.

Toshio Tokura

President & CEO
Citizen Holdings Co., Ltd.

One Akiyama

President
Integrex Inc.

Corporate philosophy and CSR

The Citizen Name Reflects an Unchanging Ideal

Tokura: Ms. Akiyama, you have been commenting on our Group's CSR initiatives for the past five years. Looking back on our efforts so far, tell us your opinion and evaluation one more time.

Akiyama: First, your corporate philosophy of "Contributing to and striving to be respected by the citizens of the world" makes an impression. And the name "Citizen" itself seems to express the direction you ought to go. Also, you develop eco-friendly products like Eco-Drive and have a wide range of social initiatives like naming a Citizen of the Year. Yours seems to be a family-like business that values its connection to the community and global environment.

Tokura: I agree; that family-like feel may be one of the Group's biggest pluses. But I also feel that being like a family is a problem to the extent that we are inward-looking. About 60% of Group sales are outside Japan, but we are not truly a global company yet. We need to change some aspects of our organization: the way we look at and consider things, and the way we do our work. The world is changing, and the first step in globalizing is to know our markets and counterparts at all times and understand our own strengths and weaknesses. Under the new medium-term management plan starting in fiscal 2013, this organizational reform is defined as the key to growth and is our basic stance.

Akiyama: The important aspect of globalizing is to localize oneself to the cultures and customs of each country or region. But an important aspect of localizing is to have an axis that brings you back to your center. If this axis is firm, the Citizen Brand will be loved and accepted by the community. This will be so no matter where you are, what business you are running, and what products you are making.

Tokura: I guess the company name is that axis for us. The name "Citizen" is like a wellspring for us, indicating the very significance of our existence. The Group's corporate philosophy of "Contributing to and striving to be respected by the citizens of the world" contains the ideals from our founding, when very few people had watches, and we wanted everyone to have one. We are citizens before we are a business. If at all times we judge from the point of view of a citizen, we can find the answers for ourselves, and the business will grow as a result. I hope to keep this concept alive by making sure every member of the Citizen Group, in Japan and abroad, shares this sense about the "Citizen" name and our corporate philosophy. And I want to spread this concept so that employees can work with energy and imagination.

"It All Began with One Wish"



Kamekichi
Yamazaki
First Chairman



Yosaburo
Nakajima
First President



The watch named "CITIZEN"

In 1924, Citizen's predecessor, the Shokosha Watch Research Institute, developed its first pocket watch. Reflecting its desire to build a made-in-Japan watch, the institute named it the "CITIZEN." Credit for the name goes to Mr. Shimpei Goto, then-Mayor of Tokyo, who was close friends with Kamekichi Yamazaki, our first Chairman. Their wish was that the watch would be "loved by citizens." Six years later, Yosaburo Nakajima founded Citizen Watch Co., Ltd. (today's Citizen Holdings Co., Ltd.).

The need for diversity

Diversity Can Create Value

Tokura: If we want to be truly global, I think another important thing is diversity. Earlier, I said that we need to change our organization. To do that, we need to diversify our personnel.

Akiyama: Diversity is very important. It applies to more than just gender and nationality. Diversity means we provide an environment where people of all backgrounds, even those caring for small children or family members, can put their full talents to work. This would make the workplace more vital. A business mustn't think of diversity as a burden. Rather, they should take a positive point of view and ask how to make people most productive. We need to look at the big picture, and think about how to create a net benefit for the enterprise and for society.

Tokura: For diversity, it's essential to recognize our differences and then accept each other. Put another way, this means being aware of social changes and social issues and responding flexibly. This fosters sensitivity in our employees and makes us more socially adaptable. So diversity is something we will be working on going forward.

Akiyama: To ensure that employees accept this diversity, it's crucial that they actively get outside and encounter many people and situations that will enhance their sensitivity and give them many experiences. I think your social initiatives, for example, have this aspect. When employees take part in social initiatives and so forth, they notice new things and bring it with them to the job. This creates a chain of positive benefits, including more work motivation. It gives new depth to your CSR programs and helps employees grow.

Tokura: That's right. When employees get out of the company and relate to other parts of society, and then share their experiences with each other, it may encourage growth. Diversity can potentially create all sorts of value.

Akiyama: Speaking of potential for creating value, I suspect there is potential for new business. As the concept of CSV (creating shared value) implies, keeping a close eye on social issues is an opportunity for new businesses that create a net benefit for society and for the enterprise. CSR is changing now, towards trying to effect this kind of



innovation. I really encourage Citizen Holdings to create this kind of unprecedented value.

Directions for Citizen Group CSR

Business That is More Aware of Social Relationships

Akiyama: For the Citizen Group to keep developing, it's so important to share information internally and disclose it within and beyond the Group. Lots of enterprises publish CSR reports in Japan. If you ask them who it is they most want to read their reports, many would answer, "Our employees." Often, it is surprising how little employees know about their company's activities, even though they work there every day. If employees read the CSR report, they realize, "My company is doing these good things," or "This product is providing this public good." When they understand their employer's strengths, they have more pride and motivation. I hear this all the time.

Tokura: There are probably many cases where employees don't know what any department other than their own is doing and don't realize their company's own strengths. In that respect, when there is common awareness internally of a company's strengths and the direction it is aiming for, and when there is ongoing information disclosure, it may in some sense enhance internal diversity and help people encounter differences.

Akiyama: Particularly in these times, an enterprise's social sensitivity is critical to its sustained growth. Both the company and its employees have to heighten their relationships with and sensitivity to society. Through your future CSR initiatives, this will lead to sustained growth for both the company and



society. In future, it's going to be very important to ask what society needs and what is necessary to solve social problems, especially when starting a new business. This is essential for the sustainability of both society and the enterprise, and is an act of CSR in itself.

Tokura: Yes, I think so. It's just not possible for us to live as an enterprise alone. We are in so many kinds of relationships with society, and we have to do business in a way that recognizes the common core to our personal growth, the company's growth, and the sustainable growth of society. The Citizen Group has already practiced CSR in so many areas, but at a time of greater globalization, we hope to have even greater dialogue and trusting relationships with the stakeholders that have supported us all along.

Citizen Products and Technology in Use Here, There and Everywhere

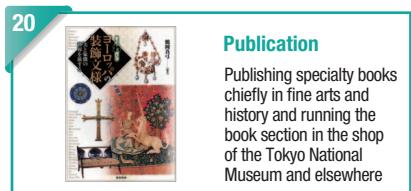
Citizen products and services play a crucial role behind the scenes of our day-to-day lives.

We harness world-leading miniaturization and precision technologies to continually offer true value and fulfill people's expectations and aspirations.



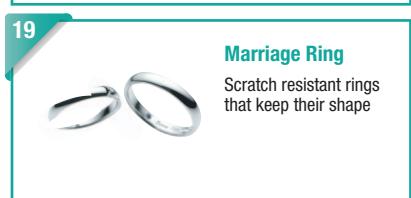
Leisure Facilities

Providing multipurpose entertainment venues, from sports facilities to culture schools



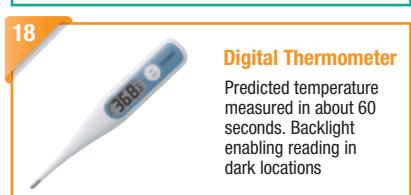
Publication

Publishing specialty books chiefly in fine arts and history and running the book section in the shop at the Tokyo National Museum and elsewhere



Marriage Ring

Scratch resistant rings that keep their shape



Digital Thermometer

Predicted temperature measured in about 60 seconds. Backlight enabling reading in dark locations



Digital Blood Pressure Monitor

Easy to use health management support tools with clear displays



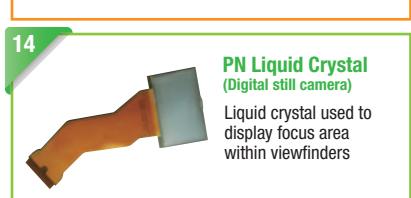
POS Thermal Printer

Used for issuing receipts, tickets, and coupons



Photo Printer

Enabling easy photo printing at locations such as supermarkets and photo stores



PN Liquid Crystal (Digital still camera)

Liquid crystal used to display focus area within viewfinders



Automotive Components

Manufacturing components for use in ABS brakes, airbags, engines, etc.



Zirconia Ceramic Parts for Optical Communicator (Optical Network)

Used in connectors for fiber optic cables



Measuring Instruments

Instruments used to accurately measure small components



Electronic View Finders (Camcorders for professional use)

High resolution viewfinders capable of catching even fast movements during sporting events

Watches and Clocks

"The fusion of technology and beauty." We create new value by blending the latest technology with delicate beauty.

Machine Tools

We develop machine tools for small-diameter precision parts machining for the automotive, medical and IT industries and medium-diameter and short part machining for the oil and air hydraulics and construction equipment industries.

Devices and Components

With miniaturization and precision production technologies developed through watch manufacturing, we provide a variety of electronic components that are used in products that support society.

Electronic Products

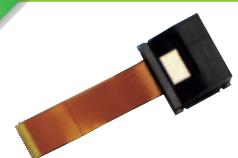
We create new comfort and convenience all over, in business and daily life, from health management to information equipment.

Other Products

We independently do business in amusement equipment systems and more, while offering jewelry (marriage rings, etc.), publishing art books, and running bowling and other leisure services.



9



LCOS* (Digital still camera)

Incorporated in electronic view finders that are more compact and slimmer than optical versions

8



Quartz Crystal Devices (Home Electronics)

Reference signals used to ensure that electronic equipment is functioning correctly

7



Compact Switch (Smart Phones)

Used as switches on side surfaces of mobile devices

1



Watch

Eco-Drive watches: the first watches to be granted Eco-Mark certification in 1996

2



Time Control System

Clocks fitted to buildings or other exterior surfaces, often cherished as symbols representing the local area

3



Sports Timer

High visibility magnetic reversal displays, essential during marathon broadcasts

4



NC Automatic Lathe

Machinery used to grind metal to make high-precision components

5



LED (Lighting)

Low-energy consumption, long life, mercury free, environmentally friendly lighting

6



LED Backlight Unit (Car navigation)

Used in the development of slimmer, energy saving car navigation systems

* Short for "Liquid Crystal on Silicon," LCOS are LCD panels that use silicon substrates.

CSR in the Citizen Group

CSR in the Citizen Group

By embodying our corporate philosophy, the Citizen Group seeks to achieve sustainable development for society and growth for itself, being a company that is loved, respected, and truly needed by society. In conducting our business, we pursue CSR with the participation of all our employees based on the Citizen Group Code of Conduct, itself inspired by the spirit of the United Nations Global Compact. Moreover, to maximize the value we bring to society, we think it important to incorporate our stakeholders' wishes and expectations into our management and to respond accurately to them. Therefore we strengthen communication with stakeholders.

CSR promotion

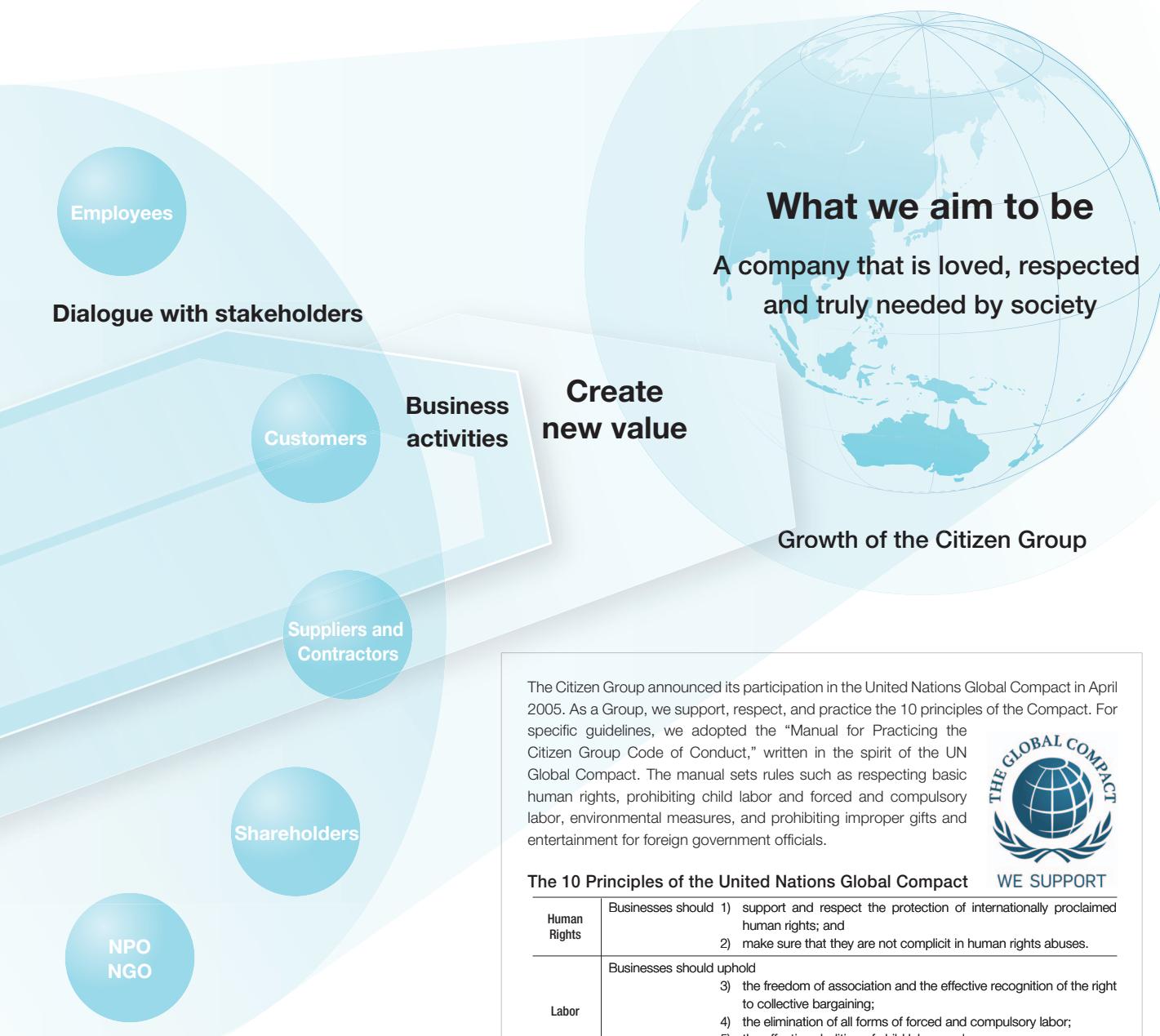
The Citizen Holdings CSR Committee, with the President of Citizen Holdings providing ultimate oversight, sets policies and drafts and proposes measures for the Citizen Group. Additionally, it partners with the auditing departments of Group companies to improve their CSR and risk management programs. Together, they perform audits and evaluations on program effectiveness and efficiency, focusing on governance. The committee also gives rank-based CSR training and whole-Group CSR/compliance training among other programs for raising awareness of these issues.



CITIZEN

Micro HumanTech

Sustainable social development



The Citizen Group announced its participation in the United Nations Global Compact in April 2005. As a Group, we support, respect, and practice the 10 principles of the Compact. For specific guidelines, we adopted the "Manual for Practicing the Citizen Group Code of Conduct," written in the spirit of the UN Global Compact. The manual sets rules such as respecting basic human rights, prohibiting child labor and forced and compulsory labor, environmental measures, and prohibiting improper gifts and entertainment for foreign government officials.



The 10 Principles of the United Nations Global Compact

WE SUPPORT

Human Rights	Businesses should 1) support and respect the protection of internationally proclaimed human rights; and 2) make sure that they are not complicit in human rights abuses.
Labor	Businesses should uphold 3) the freedom of association and the effective recognition of the right to collective bargaining; 4) the elimination of all forms of forced and compulsory labor; 5) the effective abolition of child labor; and 6) the elimination of discrimination in respect of employment and occupation.
Environment	Businesses should 7) support a precautionary approach to environmental challenges; 8) undertake initiatives to promote greater environmental responsibility; and 9) encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Businesses should 10) work against corruption in all its forms, including extortion and bribery.

CITIZEN GROUP CODE OF CONDUCT

Messages from employees

— “What does CSR mean to you?”

Citizen aims to pursue its corporate social responsibility (CSR) with the participation of all employees as a “corporate group contributing to and striving to be respected by the citizens of the world.”



CITIZEN GROUP CODE OF CONDUCT

WE WILL OBSERVE ALL LAWS AND COMPANY REGULATIONS AND WILL ACT ACCORDING TO THE CODE OF CONDUCT.

In keeping with a corporate philosophy stating that Citizen contributes to and strives to be respected by the citizens of the world, we will:

- ① Provide our customers with products and services that demonstrate our concern for safety, quality, and the environment.
- ② Engage in fair, transparent and open competition in business transactions, and maintain healthy relationships with our suppliers and government regulatory authorities.
- ③ Work to communicate with the general public, taking the initiative in making corporate information openly available, while at the same time practicing responsible data management.
- ④ Recognize that environmental issues are a common concern of mankind and a crucial issue for management in terms of the survival and activities of the company, and engage these issues in a voluntary, proactive manner.
- ⑤ Value symbiosis with local communities, and strive to contribute to society as a good corporate citizen.
- ⑥ Ensure a safe and pleasant working environment and encourage the development of our employees' abilities and energies while respecting their characters, individuality, and diversity.
- ⑦ Respond to anti-social behavior by individuals and organizations in a decisive manner.
- ⑧ Value and respect the different cultures and customs of foreign countries, and contribute to the development of local communities.
- ⑨ The top managements of the Citizen Group recognize that implementing this Code of Conduct is their personal responsibility, and that they must take the lead not only in enforcing it within the company, but in conveying it to our business partners and suppliers. In addition, they must always be conversant with opinion within the company and outside it, develop an effective internal system for compliance with the Code of Conduct, and work to ensure a thorough adherence to corporate ethics.

The company and its employees will make untiring efforts to observe this Code of Conduct. If a situation that contravenes this Code of Conduct arises, the company will strive to resolve it and prevent its recurrence, and make an appropriate public report. The company will also take strict disciplinary measures upon determining the responsibility and authority of those involved.

Effective April 6, 2007





Businesses are expected to contribute to the development of sustainable societies by developing and providing products and services that meet the needs of society and help solve social problems. The Citizen Group aims to provide products and services that demonstrate our concern for safety, quality, and the environment and to continue building trusting relationships with customers.

Craftsmanship: An Ideal That Remains Unchanged Since Our Founding

In 1924, very few people in Japan owned a watch. But that year the CITIZEN brand was born out of our founder's desire that everyone should have one.

Then in 1976, focusing on light energy, the Citizen Group developed a ground-breaking mechanism for keeping time with energy from light. No matter where the user is, as long as there is light, the watch continues to work. In other words, it was "the watch that anyone on earth can use equally." It could even be used in places where batteries were not widely available.

The ideal and the dream that existed at our founding remains in the heart of each employee today, whether they are assembling watches, developing or designing products, or working in any other capacity.

"We try to help enrich people's lives around the world by producing products that are loved and favored by worldwide citizens." By taking this corporate philosophy and the "Citizen" name to heart, the Citizen Group will continue to create new value for society.

Craftsmanship: How We Craft Ourselves as People



Etsuko Hashiba (photo, right)

Watch Manufacturing Division
Citizen Heiwa Watch Co., Ltd.

Hashiba is dedicated to the accurate assembly of finished watches, but aligning the second hand to the markings on the watch face is a very difficult part of assembling radio-controlled watches. Hashiba standardized the procedure, which has greatly helped to popularize radio-controlled watches. She has energetically trained younger technical staff, and also helped in community activities to expose people to the joy of craftsmanship. In 2005, Hashiba became the only recipient of Citizen's highest internal honor, called "Super Meister." She received the government's "Medal with Yellow Ribbon" in autumn 2012.

Hiroko Arai (photo, left)

Watch Manufacturing Division
Citizen Heiwa Watch Co., Ltd.

Arai has worked on assembly ranging from watch movements to finished products for many years, picking up outstanding skills for watch assembly in general. She trains younger technical staff as a teacher in our internal Watch School, and has also energetically helped in community activities to demonstrate the joy of craftsmanship. In 2004, she was the first person selected for a Meister award, and in 2012 received the "Shinshu Craftsman" award.



Craftsmanship Lets Each Person Shine

Production of Citizen watches takes place at Citizen Heiwa Watch, located in Iida City, Nagano Prefecture between the Minami Alps to the east and Chuo Alps to the west. Its slogan is “Smaller size, brighter shine,” and its basic concept is “‘Micro-size’ technology, ‘meister’ your skills.” These principles guide Citizen Heiwa Watch’s quest to give high added value to its business. “Micro-sizing” refers to the “smaller size” mentioned in the slogan. It represents the domain of the Citizen Group that has continuously invented high-precision detail technology by pursuing the miniaturization and precision technology that started with watches. It also includes craftsmanship that cares for the environment (saving energy, resources, and space) and production efficiency (reducing work steps, inventory, and waste). “Meistering” means pursuing craftsmanship with “brighter shine”—further enhancing skills and reliably passing them down, so that no other can imitate them. “Brighter shine” includes our hope that all our customers and employees, as well as the local community and global environment, will shine more brightly as a result of our business activities. Meister Arai says, “I really like the phrase ‘brighter shine’ and the idea behind it. It makes our work more motivating and attractive, and that’s why we give it our best every day.” In this manner, the Citizen Group seeks to perform craftsmanship that gives all persons concerned the chance to shine.

People are the Foundation of Technology

In addition to listening to our customers, the Citizen Group is committed to developing our employees’ craftsmanship. This enables us to offer products and services that take full consideration of safety, quality, and the environment. We opened a Watch School at Citizen Heiwa Watch in the 1990s. Here, employees learn and enhance the skills essential for watchmaking, and we make sure such skills are passed down to a new generation. We have made a number of innovations since the school opened to improve participants’ skills and raise employees’ skill awareness.

But just as we develop skills, we are continually developing our people. Super-Meister Hashiba, who is actively working to foster a new generation, says, “Craftsmanship is how we craft ourselves as people. To craft something good, you have to have not just skills but also a habit of doing the basics, like greeting people properly and cleaning up.” To make things that are loved and favored by customers, we try to develop people that are loved and favored by others.



Watch School Initiatives and Participation in National Skills Competition



The Watch School truly believes in a cycle of passing on learned skills from one generation to the next. First we learn skills, but we do not really embody them until we can teach them to another. The key point to personnel development is to figure out how to develop people who can teach. We also take part in the National Skills Competition* to ensure that young employees are conscious of the importance and necessity of skills. The Citizen Group will continue its efforts to enhance and pass on skills.

*National Skills Competition

An event for young people (under age 23) to compete in various vocational skills, including craftsmanship and service. The 2012 competition in Nagano included demonstrations of watch repair for the first time in 24 years. Nine members of the Citizen Group took part.

TOPICS

It's Not Technology If It's Not Beautiful

Fusion of Technology and Beauty

Eco-Drive watches, which run by transducing light into electric energy, are designed for more than ease of use. Citizen's unique technologies (lighter components, motor drive efficiency, and so forth) cut waste to the very minimum so these watches run on little power. For example, 100 million Eco-Drive watches could run on the same amount of power needed to illuminate a 100 W light bulb. We were also the first in the world to use titanium in wristwatches to prevent allergic reactions to the metal. Developing products healthful to those who wear them is another technology that shows Citizen's commitment.

Our watch craftsmen believe that "it's not technology if it's not beautiful." We will continue to advance design and technology for watches of the future.



AIRSHIP prototype watches were a hit during a presentation at Tokyo Designers Week 2011.



Takayuki Takahashi

Citizen Brand Head Office
Citizen Watch Co., Ltd.

Tokyo Designers Week 2012

I've been participating in Tokyo Designers Week since 2010. My goal is to show the public the attractiveness and possibilities of Eco-Drive watches from a design perspective. The theme in 2012 was "Look into the Designers' Brains." The intent was to give people a sense of how designers visualize their ideas and turn them into watches. I think this event has helped me convey the attractiveness of the Citizen Brand from a different point of view than before. I hope to create more Citizen fans by showing people the brand's attractiveness and possibilities from a variety of angles.

Practicing Social Responsibility throughout the Supply Chain

As economic activity becomes more globalized, enterprises are expected more than ever, in their own countries and abroad, to practice fair, transparent, and sound business. The Citizen Group aims to practice social responsibility in every purchase. We do so by selecting products and services in consideration not only of economic rationality but also compliance with the law and social norms, protection of human rights, occupational safety and health, and environmental protection.

Promoting CSR Procurement

The Citizen Electronics Group promotes CSR procurement to fulfill its social responsibility throughout the supply chain. Specifically, it asks suppliers to comply with the CSR Procurement Guidelines, a statement of requirements concerning observance of human rights, environmental protection, occupational safety and health, fair trade, and so on in accordance

with the United Nations Global Compact and the Citizen Group Code of Conduct.

We will continue strengthening partnerships with our business partners to ensure social responsibility is practiced throughout the supply chain and our craftsmanship is loved and favored by customers.

With information and communication technologies expanding so rapidly, enterprises need more than ever to manage their trade secrets. They must guard, for example, against unintentional leaks of the source of their strength: their technologies and know-how. To maintain and enhance our competitiveness, the Citizen Group has an in-depth program to manage its trade secrets, including intangible management resources like technology and know-how.

Importance of Teaching Need for Initiatives

Citizen Machinery Miyano, which leads the machine tools business for the Citizen Group, in fiscal 2011 launched a Committee to Promote the Building of a Trade Secret Management System. The committee set right to work, and the system began operating in fiscal 2012. As it oversaw the building of the system, the committee wrote "Five Points to Trade Secret Management" (see box at lower right) and aimed to conduct down-to-earth initiatives. Committee members and department managers worked to gain a common understanding of the unique conditions and individual issues of each department. In ways like this, they put the focus on "thinking together."

As they tried to establish this system in their company, the members emphasized above all "making sure that all employees are aware of why this activity is necessary." In other words, employees had to clearly understand the objectives of trade secret management. This made everyone at Citizen more aware that to practice trade secret management concretely is to

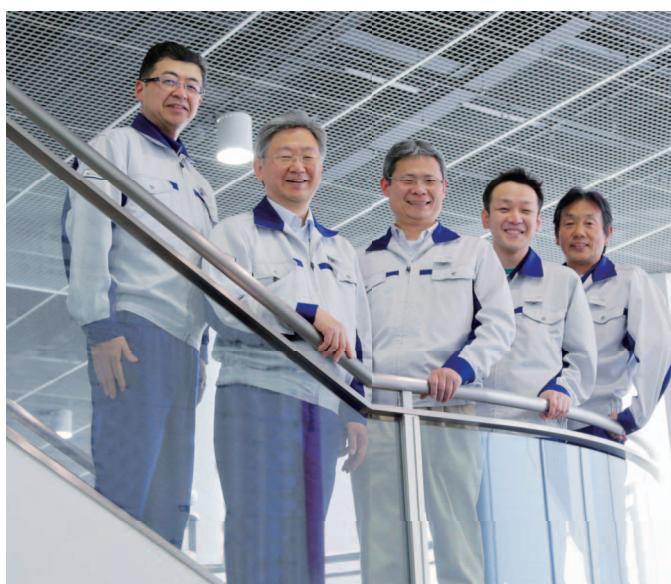
grasp and build up our strengths, and managing trade secrets is essential if we are to maintain and enhance our competitiveness as a global enterprise.

Going forward, we aim to increase our corporate value by practicing management of trade secrets relating to product development, manufacturing, sales, service, management, and so on. But going beyond this, we will also practice thorough management of information that is the source of added value for new business models that arise from these secrets.

Five Points to Trade Secret Management

- 1) The Company's important information shall be appropriately protected
- 2) Appropriate management of trade secrets is a precondition to being legally protected
- 3) It is important that trade secrets be effectively managed
- 4) Trade secrets entrusted to us by other companies shall be protected just like our own information
- 5) Reliable management, use, and expansion of this system to sites outside Japan are indispensable

Aiming for Thorough Trade Secret Management and Enhancement of Corporate Value



Shigeo Hagiwara
Seinosuke Matsuo
Hiroshi Kishimura
Atsuki Otake
Naofumi Yamagishi

Members of Committee to Promote the Building of a Trade Secret Management System (from left)
Citizen Machinery Miyano Co. Ltd.

Establishment of Medium-Term Environmental Plan 2018

How to deal with environmental problems is the biggest issue facing all humanity. Solving these problems requires proactive efforts that are long-term and global. The Citizen Group sets environmental objectives and targets based on the Group Environmental Policy, then works toward continuous improvement.

Environmental Action as a Unified Group

As of fiscal 2012, the companies of the Citizen Group had earned ISO 14001 certification, and each was pursuing environmental management initiatives taking advantage of their unique business conditions. We have also shared environmental data within the Group and considered our collective issues together. In April 2013, we revised the Citizen Group Environmental Policy and established Medium-Term Environmental Plan 2018 based on this policy. Here, our purpose was to promote environmental action with a global point of view and further strengthen Group environmental management.

To bolster Group governance and promote efficient and effective environmental initiatives, each company is taking the Citizen Group Environmental Policy as its own environmental policy, and we are transitioning to consolidated group certification under ISO 14001, as a single system for the whole Group. With this new Group environmental management system, the Group is joining its forces on efforts to “build brand value with an eco-angle,” “help to prevent global warming and achieve a recycling-oriented society,” “respond to global environmental laws and regulations,” and so forth.



Responding to Global Environmental Laws and Regulations

The RoHS Directive and REACH Regulation regulate the chemical content of products sold in Europe. We confirm compliance with the RoHS Directive by asking our business partners to submit a “Guarantee of Non-Content of RoHS Substances” as prescribed in the “Citizen Green Procurement Standard.” We use a fluorescent X-ray analysis machine to double-check compliance of some components and packaging materials that we suspect may still contain regulated substances. As for REACH Regulation compliance, at consumers’ request, we provide plenty of information so they can use our products safely. Regulations on chemical content will only get stricter in the future, so we are setting up a system to convey information more efficiently through the supply chain.

TOPICS

Tatsuo Tsuchiya (photo, left)

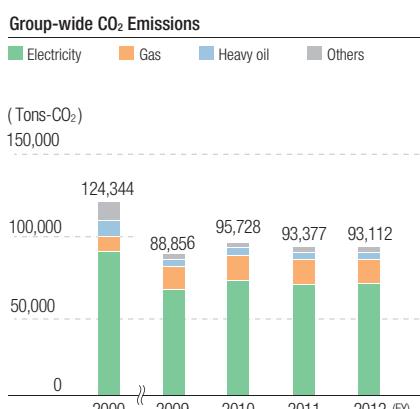
General Manager, Environmental Management Department
Citizen Business Expert Co., Ltd.

Takeshi Toyota (photo, right)

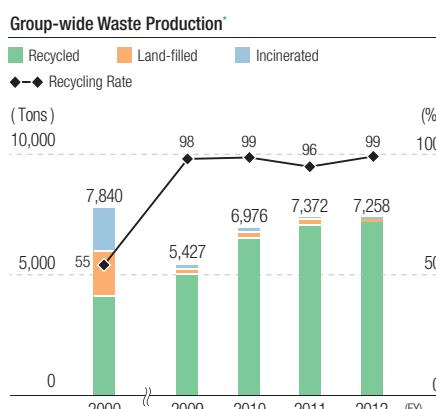
Deputy Manager, Environmental Management Department
Citizen Business Expert Co., Ltd.

Citizen Group Medium-Term Environmental Plan 2018 (excerpt)

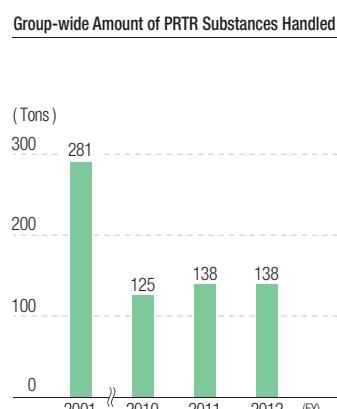
Promote environmental management	First half			Second half		
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
	Strengthen Group environmental management			Strengthen global environmental management		
Consolidate Group environmental management system	Get consolidated Group environmental certification Strengthen Group environmental management system			Get consolidated global environmental certification Strengthen global environmental management system		
Provide eco-friendly products and services	Study how to build brand value with an eco-angle Practice green procurement and expand eco-friendly products			Create products with outstanding environmental performance Strengthen global green procurement		
Respond to environmental laws and regulations	Respond to global environmental laws and regulations, including chemical regulations			Strengthen global environmental auditing		
Help create low-carbon society and recycling-oriented society	Control greenhouse gas emissions and help prevent global warming Reduce waste and promote recycling Reduce chemical risks			Strengthen control of greenhouse gas emissions globally Strengthen "zero waste emissions" Strengthen initiatives to reduce PRTR substances		
Protect nature and conduct community activities	Conduct nature protection and regional environmental initiatives			Strengthen biodiversity protection and regional environmental initiatives		



(Note) CO₂ emissions attributable to energy use



* Waste production = industrial waste + general waste + valuable resources



(Note) Chemicals subject to PRTR Law
354 chemicals in 2001
462 chemicals in 2010

Business Activities and Environmental Impact

INPUT		Japan	Overseas	OUTPUT	Japan	Overseas	OUTPUT	Japan	Overseas
		Total energy input (GJ)	Water resource input (km ³)		Total energy input (GJ)	Water resource input (km ³)		CO ₂ emissions (tons-CO ₂)	Water drainage (km ³)
	Total energy input (GJ)	2,332,583	1,186,929					93,112	1,305
	Water resource input (km ³)	1,737	1,351					45,010	952
	Repeated use of water within the organization (km ³)	47	37					6	2
	Chemical substance handled (tons)	138	1,896					4	2
	Containers and packaging used (tons)	617	1,194					31	3,683

Input and output data does not include environmental impact at the distribution/sales, usage or procurement stages. Period: April 1, 2012 to March 31, 2013 Scope: 31 domestic companies, 13 overseas companies

What We Can Do as Good Corporate Citizens

Companies are expected to contribute a portion of their management resources and specialized skills to the development of a better society. The Citizens Group conducts numerous social-contribution programs such as environmental and volunteer programs based on the sense of pride and responsibility incorporated into its name.

Environment

Walking for Health and the Environmental

Citizen Watch (China) Co., Ltd. has planned and held an annual event called "Walk for Health, Walk for the Environment" since 2007. In 2012, the event was held on Beijing's Garden International Avenue on June 5, which was World Environment Day, with about 80 people participating. By taking part in the walk, the participants raised awareness of the environment and reaffirmed the importance of staying healthy and preserving the global environment.



Environment

Butterfly Protection

The Kitanimaki Works of Citizen Finetech Miyota Co., Ltd. is a natural habitat for *Shijimiaeoides divinus* (the Japanese large blue butterfly), a Class I endangered species. As a member of a local organization dedicated to protecting the butterfly, the Works has grown and protected sophora, a legume that the butterfly larvae eat, and taken measures to eliminate harmful insects since 2003 in an effort to prevent the butterfly's extinction. The Works also cooperates with tours for parents and children and opens the grounds and facilities to the public to increase understanding. In 2012, a total of 154 employees and family members participated in this program.



Citizen Volunteer Club

Toothbrushes Donated to Children in the Philippines

As a participating company of the United Nations Global Compact, the Citizen Group carries out programs to eradicate global poverty. In 2012, officers and employees from 34 Group companies participated in the Hello Alson Philippines Health Care Support Association, an organization that provides dental healthcare in slum districts in the Philippines, collecting 3,710 toothbrushes and other items for donation in the Philippines. Individual employees will continue participating on their own initiative, conducting activities that focus attention on social issues.



* Citizen Volunteer Club

An organization established in 2008 to support social contribution programs within the Citizen Group.

Citizen of the Year

Supporting Individuals Who Inspire Others

Citizen of the Year is an annual award program that recognizes citizens who have inspired local residents and made significant contributions to the development, happiness, and all-around enhancement of their local communities. Prompted by a lack of wide-ranging recognition for deserving citizens, the program was established in 1990 to mark Citizen's 60th anniversary, tying in with the spirit of the company's name. In 2012, the following individuals were selected for recognition.

 For more information about Citizen of the Year, please see our website at:
<http://www.citizen.co.jp/global/>



Developed Software that Supports PC Operation and Provides it Gratis to the Disabled and Persons with Serious Illnesses

Mr. Takaki Yoshimura, who has impaired limb function and speech impediments caused by cerebral palsy, taught himself programming and developed Hearty Ladder, a program that supports PC operation by inputting characters without using the keyboard or mouse. He later added My Voice, a revolutionary function that reads text in the user's own pre-recorded voice, for users with serious illnesses who will lose the use of their voice as the disease progresses. The two programs, which are available free of charge, provide hope to the disabled and persons with serious illnesses.



Mr. Takaki Yoshimura

Set Record for Oldest Woman to Climb Everest Twice

Despite a number of accidents, Ms. Tamae Watanabe stood at the peak of Mt. Everest, the world's highest mountain, at 7 a.m. on May 19, 2012, re-establishing the record that she herself set 10 years earlier (in 2002 at the age of 63) as the oldest woman to climb Everest. After descending from the peak, she resumed her normal activities. Watanabe has been climbing mountains for 50 years, but "Everest was a natural extension of my daily life working in the fields." She plans to continue mountain climbing while valuing her day-to-day work.



Ms. Tamae Watanabe

Obtained Certification as a Prosthetist and Provides Free Prostheses to the Disabled in Rwanda

While studying Kenyan, Ms. Rudasingwa heard from her future husband Gatera about the war in Rwanda and the plight of the disabled there. After returning to Japan, she obtained certification as a prosthetist. She later went to Rwanda and they built with their own hands and now operate a prosthesis clinic and a job training facility. In the past 15 years, they have provided free prosthetic limbs to approximately 6,000 people. In addition to providing the prosthetic limbs, they train prosthetists and provide employment assistance to create jobs for the disabled.



Ms. Mami Rudasingwa

Citizen Group encourages the formation of a corporate culture that respects the individuality and diversity of employees, supports the development of human resources who can thrive in global business, and teams with energy and a spirit of tackling new challenges. Citizen Seimitsu Co., Ltd. and Citizen Watch Kawaguchiko Co., Ltd. have many highly skilled and enthusiastic employees of both sexes despite manufacturing being thought of as a man's industry, and it is under this environment that female managers of these companies gathered to discuss what the Group will need to make even greater advances in the future such as the development of work environments where women can thrive as well as existing programs.

The Road Continues Behind Us. That's Why We Want to Move Forward.

The year after I got married, my supervisor at the time provided a recommendation, and I decided to take the manager test. I became a technical manager, and I worked very hard to manage the skills of each of my supervisees. I also became the first manager to make use of the maternity leave program. I hope to lead the way and serve as a role model for others who come after me.

Naoko Nakano

Deputy Manager
Movement Technology Department
Movement Production Division
Citizen Watch Kawaguchiko Co., Ltd.

Creating Environments that Encourage to Tackle Challenges and Support Growth

For women to thrive in their work, it is essential that they have the drive to try things and tackle challenges. Internal programs and a work environment that support this type of attitude are key points. It is also important to create a system for assigning outstanding personnel to posts according to their skills. I hope to create systems that can properly evaluate and enhance the qualities of each individual that become apparent from their work.

Tomiko Shinohara

Manager
Administrative Department
Measuring Instrument Division
Citizen Seimitsu Co., Ltd.

Creating Environments Where Diverse Human Resources Can Fully Utilize their Individual Skills

Women Managers Roundtable Discussion

Photo, from the left: Naoko Nakano, Tomiko Shinohara, Sachiko Nakanishi, Naoko Miura, Midori Kashiwagi



Fully Utilizing Women's Skills Creates New Value

For me, the presence of women who had balanced raising their children with their work before me was extremely encouraging. Looking back on times that were difficult for me, I am trying to make it possible for my colleagues to take advantage of these programs without any constraints.

Two of the four deputy senior managers at offices in China are women. Seeing them in those positions makes the low level of employment of women in Japan even more apparent. As globalization advances, creating work environments that support the development of diverse new ideas for providing new value on an ongoing basis and empowering women in particular will be crucial. I believe that the Citizen Group needs to encourage the empowerment of women to accelerate realization of the national government's target of having women fill 30% of leadership positions by 2020.

Sachiko Nakanishi

General Manager
Accounting Division
Management Center
Citizen Seimitsu Co., Ltd.

Understanding from My Family Makes it Possible to Balance Childcare with Work

I think the most important point in balancing work and childcare is having the understanding of your family. My parents, who live with me, and my children understand and cooperate with my work, which is a major factor in being able to do my best work. I feel that understanding and supporting the work that I do as well as support from the company on the same level and the understanding of my family are essential elements for continuing to work.

Naoko Miura

Manager
Management Department
Printer Division
Citizen Seimitsu Co., Ltd.

Incorporate Perspectives from Both Men and Women to Create Effective Systems

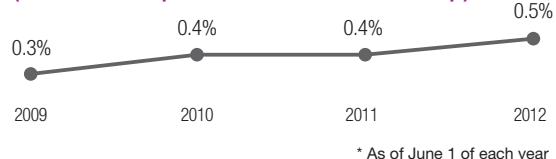
I believe that if the number of women in management increases, men and women will be better able to complement one another from their unique perspectives. Ideally, a system will be created to steadily employ highly skilled human resources regardless of sex, and women will proactively seek management positions within that system. To achieve this, we will need the understanding and cooperation of men, but a desire on the part of women to develop their own careers will also be essential.

Midori Kashiwagi

Management Planning Division
Citizen Seimitsu Co., Ltd.

comment

Percentage of Women in Management Positions as a Percentage of All Full-Time Employees (18 main companies of the Citizen Group)



* As of June 1 of each year

During this first roundtable discussion, the desire was expressed for the creation of opportunities to exchange information. If there were more opportunities to hold casual talks and to share thoughts and ideas within the Group, even greater synergy effects can be created.

All of the participants shared an awareness that empowering women will be crucial for the further development of the Citizen Group.



Fujiko Yamada (moderator)
Internal Audit and CSR Department
Citizen Holdings Co., Ltd.



Creating Work Environments Where Diverse Human Resources Can Work to Their Full Potential

Companies are expected to create work environments where employees who respect the cultures and practices of each country and region and have diverse values can work safely and enthusiastically. The Citizen Group works to create a corporate culture that fosters the development of human resources and the effective handing down of skills and has abundant vitality and a spirit of tackling challenges so we can achieve continuous growth and maintain and enhance our competitiveness.

Handing Down Skills

I want to hand down the joy of owning one's skills to my successors

When I first joined the company, every day was a process of trial and error, and I was able to gain skills only by observing others. Observing, listening, and feeling are important for cylindrical grinding skills, and initially I wasn't able to do it according to the manual, but as I gained skill and mastered the technique over time, my work became more meaningful and I enjoyed going to work every day. I was recognized as a "Yamanashi Craftsman" thanks to the company. To repay this benefit, I plan to ensure that my skills and experience are handed down to my successors.

Skill Succession Charts

At Citizen Seimitsu, which boasts a diverse range of technical skills such as high precision scraping on the order of 1 μm, something that is not easily replaced, "master" veteran technical workers take systematic measures to ensure that their skills are handed down. The Company creates skill succession charts for workers (teachers) with skills that need to be handed down to quantitatively manage the handing down of skills from teacher to student.



Hisayoshi Hayashi

Automobile Equipment
Business Department
Citizen Seimitsu Co., Ltd.



Kazuo Sawada

Watch Manufacturing Division
Citizen Heiwa Watch Co., Ltd.

Competing in the Abilympics

The Ability to Undertake This Challenge Was the Treasure of a Lifetime

I competed in the Abilympics* machinery CAD category, and I learned more than I can express in words including the fact that I still have a long way to go in honing my skills, the joy of doing my best in competition, and again noticing that I receive support from many people. The lessons that I learned from this experience will remain a valued treasure throughout my life and I will never forget the gratitude that I feel towards my family and my coworkers. I will continue to do my very best in working towards my goals.

* **Abilympics:** A national skills competition of disabled individuals

The word Abilympics was coined by combining ability and Olympics. The Abilympics is a skills competition that seeks to enhance the work skills of disabled individuals through competition, raise understanding and awareness among the general public concerning the work skills of disabled individuals, and encourage employment.

Men Take Childcare Leave

Participating in Childcare Taught Me the Importance of Family

After the birth of our fifth child, I took three months of childcare leave at the time when my wife went back to work, when the baby was five months old. I spent my time with the five children and experienced firsthand the difficulties of childcare and housework, but I was also able to enjoy spending time with the children on a daily basis. I will never forget my gratitude towards my wife, who raised four children while balancing work and home life, as well as the many workplace colleagues who covered for me while I was on leave. I will work and interact with my family with a sense of consideration.



Katsura Yuzawa

Watch Manufacturing Division
Citizen Heiwa Watch Co., Ltd.

In-House Childcare Facilities: Bakke Nursing Room

Citizen Tohoku Co., Ltd. established and operates the Bakke Nursing Room at the worksite. The nursing room was established so fathers and mothers can work nearby their children with a sense of security and with the aim of promoting interest in manufacturing among the children, who can see their parents at work, to foster future generations of Citizen workers. The full complement of five children who attend the nursing room are able to have some degree of interaction with workers, providing positive stimulus for both.



Employment of Disabled Persons (as of June 1, 2012)

	FY2010	FY2011	FY2012
Employment Rate	1.91%	1.89%	1.88%

Use of Childcare Leave Program (as of March 31, 2013)

	Men	Women	Total
FY2010	3	42	45
FY2011	4	39	43
FY2012	3	48	51

Use of Nursing Care Leave Program (as of March 31, 2013)

	Men	Women	Total
FY2010	0	0	0
FY2011	0	1	1
FY2012	0	1	1

* 18 main Citizen Group companies

Group Code of Conduct, Article 7

Respond Decisively to Anti-Social Forces

The activities of anti-social forces are becoming increasingly opaque and devious and are a threat to the sound activities of the public and businesses. The Citizen Group has declared a policy of dealing decisively with anti-social forces and takes measures in collaboration with relevant external organizations.

Responses to Anti-Social Forces

The Citizen Group has a fundamental policy of responding decisively to demands for inappropriate gains from anti-social forces and organizations, and we establish and reinforce systems to completely eliminate all interactions with anti-social forces such as including

exclusion provisions in all contracts entered into by Group Companies. We also maintain regular contact with local companies and outside organizations such as the police to exclude anti-social forces.

Striving to be a Company Respected by Employees and Local Communities

Companies are expected to comply with the laws and regulations of each country and region and to contribute to the development of local communities. The Citizen Group strives to create appropriate work environments and develop human resources according to the circumstances in each country and region where it conducts business and works to localize its operations and contribute to the development of communities.

Taking on the Challenge of Creating Workplaces with Vitality

At Citizen Watch Goodrington (China) Ltd. (GRT), which assembles wristwatches and produces cases, the entire company is working together to reform its corporate culture with two core aims—making a transition to high added-value production and creating workplaces with vitality—based on the corporate principle of “mutual assistance for mutual benefit.” With the understanding that employees are the foundation of the company, GRT is working to create workplaces with vitality by strengthening communications with employees, introducing programs that will raise employee enthusiasm, performing human resource development, improving environments, and enhancing work benefits. In the background to GRT’s ability to undertake these measures quickly and effectively is effective communication between the company and

*gonghui.** GRT has approximately 2,000 employees, and it can be difficult to engage in frequent communications with each employee. The *gonghui* acts as a bridge between the company and employees, and the presentation of employee comments and opinions as well as frequent consultation with the company has produced significant results.

Creating workplaces with vitality is sure to increase employee motivation and facilitate the shift to high added value manufacturing. GRT will continue its efforts to reform the corporate culture in cooperation with employees.

* *gonghui:*

An organization made up of employee representatives including senior employees that is similar to a labor union.



Working to Enhance Employee and Local Community Safety

Safety in the area around the company is an important element in creating a worker-friendly workplace and becoming a company with high employee retention. GRT cooperated with the local police department to establish a branch police station adjacent to the company. This contributed substantially to security in the area as well as company and employee safety. Also, there were frequent incidents of theft of cash at a post office ATM in the vicinity, so GRT negotiated with the regional postal department headquarters, and since the branch police station was present, an ATM was installed. There have been no incidents involving this ATM since its installation.

Currently, the creation of a small park in front of the company for the benefit of children, seniors, and others is under consideration with the local government. GRT will continue to take proactive

measures to make contributions to employee and local safety as well as local residents with the aim of becoming a company that is trusted by the public.



The branch police station adjacent to the GRT building (right) and post office ATM (left)

Making the Company into a “Big Family” for its Employees

As indicated by GRT's corporate principle—mutual assistance for mutual benefit—I believe that mutual benefit can be achieved in all relationships including between the company and its employees, between the company and its trading partners, among work sites, and among employees, and the desire for cooperation and collaboration is incorporated into all of those relationships. If this ideal can be shared by the company and employees, the company is sure to be beneficial to both the employees and the company. It is from this perspective that we are also putting greater effort into employing disabled persons and have set a goal of hiring 30 people.

Employees are the foundation of the company, and without employee growth, the company cannot grow. This is why I believe that my mission is to create worker-friendly workplaces and create work sites where employees can perform meaningful work, use their skills and abilities to their fullest, and pursue their dreams.

Many GRT employees have come from far-off areas to work here. I want to the company to be like a big family that employees can rely on. Some additional time will be required before this can be achieved, but we are working towards our dreams and ideals one step at a time.



Takao Nagata
President
Citizen Watch Goodrington (China) Ltd.

Striving to be a Company Respected by Employees and Local Communities

Services Developed According to Chinese Culture and Practices and Local Needs

Citizen Watch (China) Co., Ltd. (CCW), which sells watches in China, established a Customer Satisfaction Department in 2007 to raise customer satisfaction levels in response to calls for higher sales as well as customer expectations and demands towards Citizen products and services. The Department performs unique services tailored to Chinese culture and practices and local needs to raise customer satisfaction and brand value.

CCW created the industry's first call center as an organization that can listen to customer comments and accurately solve problems. The call center has made it possible for specialized personnel to provide uniform responses in accordance with shared rules and to use valuable customer opinions and comments in steadily improving products and services. In the Chinese market, the widespread sale of counterfeit products has given rise to consumer unease. In response, CCW introduced management of individual products using bar codes in 2009 to protect consumers and raise brand value. CCW is committed to raising customer satisfaction even higher and creating more Citizen fans.

Human Resource Development and Active Promotion of Women

CCW believes that human resource development is essential for continuous corporate growth and is implementing human resource development programs with a focus on reforming employee awareness to raise employee autonomy, motivation, and creativity.

One of the key features of these efforts is the active promotion of women. Of the company's total workforce of 165 employees, 99 are women. The average age is 31 years, and many of the women are married and have children. Considering that approximately 60% of the female workforce is balancing their jobs with raising children and that women fill a majority of the 22 team leader and higher positions, it can be seen that CCW has established a women-friendly working environment.

Demand for repair services is expected to grow in conjunction with higher sales in China, and training of



The Chengdu flagship store, Citizen's 40th store in China



Li Ting

Manager, Customer Center
Citizen Watch (China) Co., Ltd.

Striving to be a Brand Loved by Customers

Citizen's customer service systems in the Chinese watch business are praised for putting the customer first and are currently seen as trustworthy. A three-year longest warranty, which is the longest in the business, as well as the creation of a customer call center and management of individual products using bar codes are far ahead of other brands and create clear distinctions in service. CCW is committed to maintaining its customer-first policy throughout its operations and improving services to become a brand that is loved by customers.

watch technicians has become an urgent issue. CCW established an internal watch school and is focusing its efforts on training skilled technicians.



Reinforcing Corporate Governance

As a company's business activities expand on a global scale, the company must carry out effective corporate governance to raise corporate value from a long-term and comprehensive perspective, taking into account the laws and regulations and the culture and practices of each country and region where it does business as well as its own role as a public organization. The Citizen Group works to continuously strengthen its corporate governance and practices strict corporate ethics to ensure that it achieves transparency in management and optimal allocation of management resources among its various businesses.

Basic Approach

The Citizen Group endeavors to improve business value and contribute to society through sustained corporate activities in harmony with local communities and the global environment under the corporate philosophy of "Contributing to and striving to be respected by the citizens of the world." In the constant pursuit of this goal, we strive to reinforce corporate governance in recognition of the importance of ensuring management transparency and effectively supervising management from various perspectives.

Roles of the Pure Holding Company and Subsidiaries

We have clarified the scope of responsibility and authority of Citizen Holdings and each of the individual operating subsidiaries that make up the Citizen Group. Citizen Holdings sets business strategies and directs and supervises subsidiaries from the perspective of overall optimization of group operations. Individual operating subsidiaries in turn operate independently based on the nature of their segments in the interests of more effective management and increased profitability.

Roles of the Board of Directors and the Board of Auditors

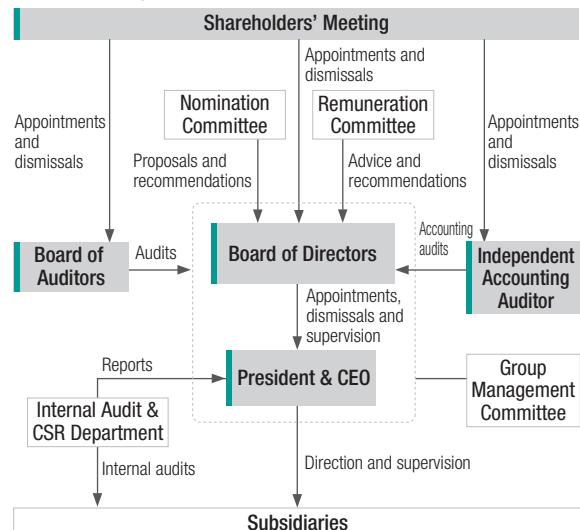
The Citizen Holdings Board of Directors consists of 10 members (as of March 31, 2013), including two outside directors (registered as independent officers with the Tokyo Stock Exchange). The Board of Directors determines management policies and other important matters for Citizen Holdings and the Citizen Group and supervises the execution of directors' duties.

The Citizen Holdings Board of Auditors consists of three members including two independent outside auditors (as of March 31, 2013). In addition to checking the execution of directors' duties in general through activities such attending meetings of the Board of Directors and other bodies, auditors are also

responsible for auditing the implementation and management of internal control systems.

We have also established a Nomination Committee and Remuneration Committee—consisting of outside directors and the president—as an advisory board.

Citizen Holdings Corporate Governance Structure



Internal Control Systems

Having set out a basic policy on the establishment of internal control systems at Citizen Holdings, we are now working to further enhance our internal control systems. Citizen Holdings and each group company examine the details of improvements, collaborate with outside audit organizations, and work to better establish, operate, and assess internal control systems annually in order to ensure the proper and effective functions of internal control systems and the reliability of financial reporting.

Also, Citizen Holdings collaborates with internal auditors at each subsidiary to ensure that the various needs expected of internal audits are satisfied.

Compliance and Risk Management

Compliance Measures

The Citizen Group undertakes compliance measures based on the Group Code of Conduct as a priority issue within its CSR activities. Each group company periodically conducts compliance training and e-learning and encourages employees to act in accordance with ethical and moral principles as the foundation of legal compliance. To prevent legal violations and improper conduct and improve self-regulation, internal and external corporate ethics hotlines were established, rules adopted to protect the confidentiality of reporting parties and ensure that they do not suffer any detriment, and a reporting environment that ensures anonymity was created.

Example of Measures

Measures to Improve Reporting Hotline Functions

The CSR awareness survey conducted each year of all group employees including temporary employees reveals that a majority of employees respond to the question "Do you make use of the corporate ethics hotline?" by answering "I do not use it/I don't know if I will use it." Many of the respondents indicate that the reason for this is they are insecure whether confidentiality will be ensured. In response to this result, the Group is continuing its efforts to raise awareness of and confidence in the ethics hotline.

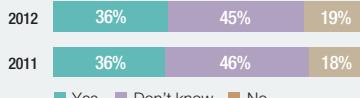
Results of the CSR Awareness Survey (excerpts)

Q.1 Do you know about the corporate ethics hotline?



█ I know about it. █ I do not know about it.

Q.2 If you discovered a violation of law, would you use the corporate ethics hotline?



█ Yes █ Don't know █ No

Response rate 2012: 81/1% (7,540 out of 9,297 employees)
2011: 75.3% (6,849 out of 9,097 employees)

Security Trade Controls

Citizen Machinery Miyano installs relocation detection functions on all products and is reinforcing export controls to prevent improper use of machine tools. It will continue to comply rigorously with the Foreign Exchange and Foreign Trade Act and to take measures to prevent improper export of machine tools and improper resale or re-export overseas.

Risk Management Measures

The Citizen Group conducts risk management with the objectives of putting into practice its corporate principles, properly managing risks that could become factors preventing the implementation of management plans, meeting the Group's corporate responsibilities, and contributing to higher corporate value. In 2012, the Group continued its work from the previous year on business continuity planning (BCP) to prepare for disasters and on implementation and establishment of management of confidential information (see page 16). Individual subsidiaries conducted risk management that takes into consideration regional characteristics and business formats, and overseas business sites took measures to ensure safety in response to emergency situations.

Example of Measures

Disaster-Response Business Continuity Planning

In response to its experiences following the Great East Japan Earthquake, the Citizen Group is working to establish more effective disaster response BCP systems. In fiscal 2012, the results of the BCP diagnoses conducted group-wide last year were reported in the Group Management Committee, and individual subsidiaries were called on to address issues. Periodic confirmation by the Citizen Group CSR Promotion Committee supports steady implementation. Subsidiaries are located in various regions around the country, which makes it important to take measures that give specific consideration to individual business formats, scale of operations, types of potential natural disaster, and the degree of damage. The Group is also working to improve functions for sharing information within the Group concerning measures that can serve as reference for other subsidiaries.

Reinforcing Measures Against Counterfeit Products

Citizen Holdings is putting significant efforts into measures against counterfeit products as a part of increasing corporate value. Ignoring counterfeit Citizen products would not only harm the Citizen brand and public confidence in the company, there is a risk that customers will purchase low-quality products. Accordingly, Citizen Holdings is working with public agencies in various countries to provide warnings to manufacturers, distributors, and retailers of counterfeit products and detect counterfeits in accordance with the law. We also investigate and demand cessation by major online sellers of counterfeit products and are working to exclude counterfeit products by eliminating imports and exports at customs in various countries and regions.

Third-Party Comments



Tomohiro Tokura

Lead Auditor
Sustainability Services Division
SGS Japan Inc.

The report conveys that the corporate principle of "contributing to striving to be respected by citizens of the world" incorporated into the group name has taken hold among employees and is put into practice in work sites. The Citizen of the Year Program, conducted annually since 1990, not only embodies this corporate principle, but is noteworthy for its scrupulous and fair screening process.

The reported examples from Chinese subsidiaries include measures to create worker-friendly workplaces, efforts to improve internal communications, and organizational measures such as reform of human resource programs as well as the establishment of a branch police station adjacent to the company to improve safety, the installation of a postal ATM to enhance convenience, and consideration of the creation of a park. These social contribution measures designed to enhance community development taken in collaboration with local governmental bodies are noteworthy examples of pioneering activities.

In contrast, reporting on these types of pioneering measures overseas is fragmentary, and it is difficult to get an overall picture. The overseas subsidiaries of many companies, particularly in Asia, face uncertainty in measures addressing issues of the environment, human rights, and labor practices, and understanding these issues and controlling them is an urgent matter. The Citizen Group has a high percentage of overseas employees—just under 70 percent—and overseas sales account for more than 60% of total sales, and consequently, comprehensive reporting of overseas CSR activities is vital. I look forward to seeing this in the future.

I conducted interviews to write this opinion. From these interviews, I learned that risk management is given a prominent position in the performance of CSR activities and that PDCA is performed by the Management Committee to deal with management risks and by CSR divisions to deal with operational risks. I can imagine that there are action plans and targets based on these activities, but this report includes information only on the Medium-Term Environmental Plan 2018, which focuses on environmental activities. As a result, it is difficult to understand the progress of CSR activities as a whole. The status of implementation of individual programs is well understood, but there is a sense that the degree of attainment of targets with respect to current activities and issues that need to be addressed in the future cannot be seen. I think it would be advisable to consider disclosing medium to long-term action plans and reporting on their progress.

Also, under Citizen's CSR programs, issues relating to the Group Code of Conduct are identified by taking into consideration stakeholder needs and priority issues, but how reporting topics are selected is not indicated, giving rise to the question whether there are important issues that were not reported. Reporting about this topic selection process too will not only contribute to deepening reader understanding, I believe it will also lead to higher confidence in the report content. I have high expectations for improvement in this area in the future.

The Carbon Disclosure Project is a symbol of the demands placed on companies to make accurate disclosures of information concerning environmental issues as well as the importance of raising reliability. I recommend that the company consider third-party verification of the appropriateness on the range of activities in environmental, economic, and social data as well as accuracy and reliability in data calculation methods.

* These comments do not indicate whether measurements or calculations in this report were performed accurately and in compliance with preparation standards for environmental reports recognized as fair and proper or whether matters are reported without omission.

Response to the Third-Party Comments

I would like to thank Mr. Tokura for his valuable opinions. The Citizen Group is undertaking business activities with the aim of becoming a truly global company as described in the Citizen Global Plan 2018 medium-term plan. We are aware that in addition to legal compliance, building trust with the public and creating new value through dialogue with society are important. With regard to the overseas business development that was pointed out, we are currently conducting systematic investigations of key risk management issues and making improvements, and the next step will be undertaking comprehensive management of Group-wide activities including environmental activities.

Junji Nagasawa

General Manager, Internal Audit & CSR Department
Citizen Holdings Co., Ltd.





CITIZEN HOLDINGS CO., LTD.

Internal Audit & CSR Department at Citizen Holdings Co., Ltd.

6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan

Tel: +81-42-468-4776

Fax: +81-42-466-1280

Website: <http://www.citizen.co.jp/global/>

Published: June 2013

Citizen is a registered trademark of Citizen Holdings Co., Ltd.



CITIZEN HOLDINGS CO., LTD.

Internal Audit & CSR Department at Citizen Holdings Co., Ltd.
6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan
Tel: +81-42-468-4776
Fax: +81-42-466-1280
Website: <http://www.citizen.co.jp/global/>

Published: June 2013

Citizen is a registered trademark of Citizen Holdings Co., Ltd.