

## Report on Activities Aligned with ISO 26000

# Organizational Governance

The Citizen Group strives to create effective internal systems, with responsibility resting with top management of each of its Group companies, and ensure thorough corporate ethics.

In fulfilling our corporate social responsibility, we endeavor to build and implement systems that provide value to stakeholders, reinforcing our governance to ensure accountability, transparency, and fairness.

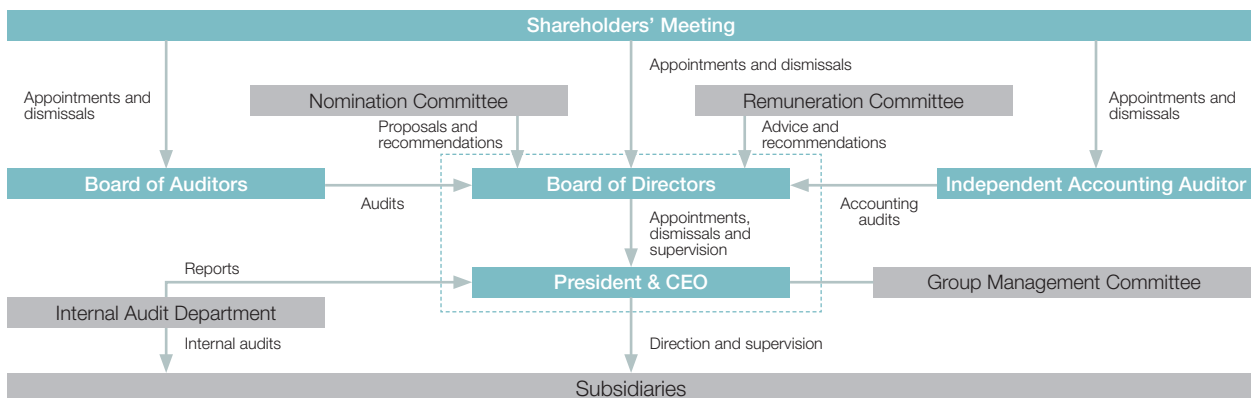
## Corporate Governance

The Citizen Group aims to contribute to society and improve business value through sustained corporate activities that are in harmony with the local community and the global environment, under the corporate philosophy of “contributing to and striving to be respected by the citizens of the world.” It is with this goal permanently in mind that we strive to enhance corporate governance, in recognition of the importance of

ensuring management transparency and effectively supervising management from various different angles.

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

### Citizen Holdings Corporate Governance Structure



### Internal Control System

Having in place a complete internal control system is one of the leading management priorities for the Citizen Group. In addition to ensuring the reliability of our financial reporting,

we fulfill our corporate responsibility by sustaining appropriate operational processes in our principal business. Specifically, the following basic policies for our internal control system have been resolved by the Board of Directors.

### Basic Policies

- 1 Systems to ensure that the execution of operations by directors and employees conforms to the law and our Articles of Incorporation
- 2 Systems related to the storage and management of information concerning the execution of operations by directors
- 3 Regulations and other systems related to the risk of loss
- 4 Systems to ensure the efficient execution of operations by directors
- 5 Systems to ensure the appropriateness of operations by the Citizen Group
- 6 Items related to employees assisting auditors in their duties
- 7 Systems related to reporting to auditors
- 8 Systems to ensure the effectiveness of audits by other auditors

## Message from an Outside Director

# Existing at the Nexus of Society and the Company

### Kenji Ito

Outside Director

[Profile]

Mr. Ito joined TOTO Kiki Ltd. (currently TOTO LTD.) in 1974. In 2000, he was appointed as a corporate officer of the company, later serving as an executive officer and director, and then senior executive officer and director. In 2011, he became executive vice president and director and stepped down in 2013. Currently, he serves as an advisor to the Company.



### Impressions of Citizen

I have been employed as an outside director of Citizen since 2013. One of the things that has impressed me most about Citizen is its wealth of assets. I refer not only to financial assets; the Company also has an abundance of historical assets, meaning accumulated technologies and expertise, as well as superior human resources. I recognize making effective use of these assets to achieve abundance from a long-term perspective as a task for Citizen going forward.

### The Company Name as the Key to Becoming a Truly Global Company

Society determines a company's ongoing existence. For that reason, rather than managing themselves to achieve excessive profits, companies need to strike a balance among all stakeholders, including customers, employees, business partners, and members of the local community. I believe CSR activities and corporate governance are essential to achieving this balance.

As its name suggests, throughout its long history Citizen has made it a practice to grow as a company by providing value to society. As society determines a company's ongoing existence, "contributing to and striving to be respected by the citizens of the world" is both an ongoing corporate responsibility for Citizen and the essence of the Citizen brand. The ability of Group management to ensure that each of the Company's tens of thousands of employees have the same regard for the "Citizen" name is the key to becoming a truly global company.

### CSR Activities That Connect with Society

The "R" of CSR stands for "responsibility," which seems to me too one-sided. I think it would be better to interpret that letter as standing for "relationship." Companies exist on the strength of their connectedness with society, and in that sense CSR refers to the existence of a company itself—an activity that is essential to management.

My role as an outside director is to stand back from the nexus between society and the Company. To make certain the Company is not headed in the wrong direction, I see my responsibility as being to offer a variety of information from outside the Company and create opportunities to know and learn. By providing all types of outside information, such as case studies and a sense of the market, without differentiating between "right" and "wrong" information, I consider my role as helping to create balance within the Company and encourage consideration for its connection with society.

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### Risk Management

The Citizen Group encounters a variety of risks in the course of its business activities, and it conducts activities designed to appropriately identify and manage these risks.

#### Stance on Risk Management

The objectives of risk management activities are, in addition to compliance, practicing corporate ethics and undertaking initiatives to prevent corporate misdeeds. Through activities of this nature, we aim to fulfill our social responsibilities and achieve ongoing increases in corporate value.

Citizen Holdings gathers risk information from each of its companies in accordance with the Basic Risk Management

Regulations. The Citizen Holdings CSR Committee deliberates this information, which is shared with each company through the Group CSR Promotion Committee. This committee also makes proposals to the Group Management Committee, as needed.

#### Fiscal 2014 Initiatives

In fiscal 2014, we confirmed the status of our risk management system throughout the Group. Through surveys, we identified and evaluated the risks for individual companies, formulated and introduced countermeasures, and conducted monitoring activities. Thanks to these efforts, we worked to determine whether our current activities were having the expected results. Having undergone this exercise, going forward we will work to improve the structures we build and operate, as we create a framework for stable and sustainable business operations.

#### Business Continuity Plan (BCP\*)

In addition to the conventional focus on countermeasures in the event of a large-scale disaster, such as ensuring the safety of employees, protecting factories, and restoring the affected region, the Citizen Watch Group has formulated a BCP that concentrates on either continuing to provide products and services or recovering quickly if disaster strikes.

In April 2015, Citizen Holdings, Citizen Watch, and Citizen Watch Manufacturing conducted an emergency response drill with a focus on confirming information-gathering and reporting procedures, which are an important part of our BCP.

\* BCP: Business Continuity Plan



Three-company joint drill

#### Overseas Subsidiary Management Manual

In an effort to standardize management operations at its overseas subsidiaries, the Citizen Watch Group has created a manual for local managers. The manual is intended to strengthen governance at manufacturing locations and create and reinforce risk management systems.

By issuing this manual, the Group has redefined the roles and responsibilities of headquarters and subsidiaries in relation to managing local subsidiaries' operations to promote more standardized and sophisticated management of these companies.



Handbook for managers of production bases

## Compliance

The Citizen Group undertakes compliance measures based on the Citizen Group Code of Conduct as a priority issue within its CSR activities. We aim to act in accordance with ethical and moral principles as the foundation of legal compliance.

### Internal Reporting System

We have set up a Corporate Ethics Hotline in accordance with the Internal Reporting System Rules, both for prevention or early detection of legal violations or misconduct stemming from dishonest actions and for improvement in the levels of self-regulation. Our Internal Reporting System Rules state that the reporting party's privacy must be respected. They also state that the subject of the report must be given the opportunity to refute claims made against them and that the reporting party must not be subjected to unfair treatment. Since 2008, we have had an external reporting hotline in place to allow employees to file reports anonymously. This example is just one of the ways in which we have created and operated an environment that encourages employees to report misconduct.

### Internal Reporting System Usage Frequency

| Fiscal year | Times |
|-------------|-------|
| 2012        | 24    |
| 2013        | 17    |
| 2014        | 28    |

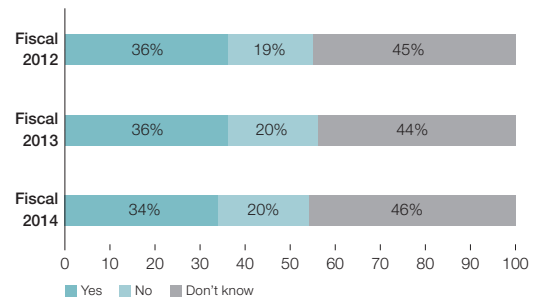
### CSR Awareness Surveys

To determine the state of CSR and corporate ethics, each year the Citizen Group conducts CSR awareness surveys of the executives and employees of its 39 Group companies, including temporary employees. Responses reveal that although awareness of the Corporate Ethics Hotline is gradually increasing, the number of people indicating they are not sure they would use the hotline has not changed. Responses to the current survey, which was undertaken for the eighth time, were as follows.

- Increasing level of trust in the hotline
- Additional harassment education
- CSV\*-related requests (See page 18 for details.)

\* CSV: "Creating shared value." Initiatives for creating new value shared by the Company and society.

**Q** Would you use the Corporate Ethics Hotline (CSR Hotline) if you detected a legal violation that was difficult to discuss with your superior?



7,132 / 8,472 people (response rate of 84.2%)

### Training for Corporate Ethics Hotline Respondents

Citizen Watch Manufacturing brought in outside instructors to provide training for hotline respondents. We plan to continue with efforts to raise awareness of the hotline and increase its trustworthiness.



### Initiatives to Prevent Harassment

The Citizen Group works to prevent harassment in the workplace. In one such effort, Citizen Systems held a workplace harassment seminar taught by outside instructors that was attended by executives, upper-level managers, and all general employees. Going forward, we will continue disseminating information to cultivate an accurate understanding of and awareness for preventing harassment.

