

# 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.

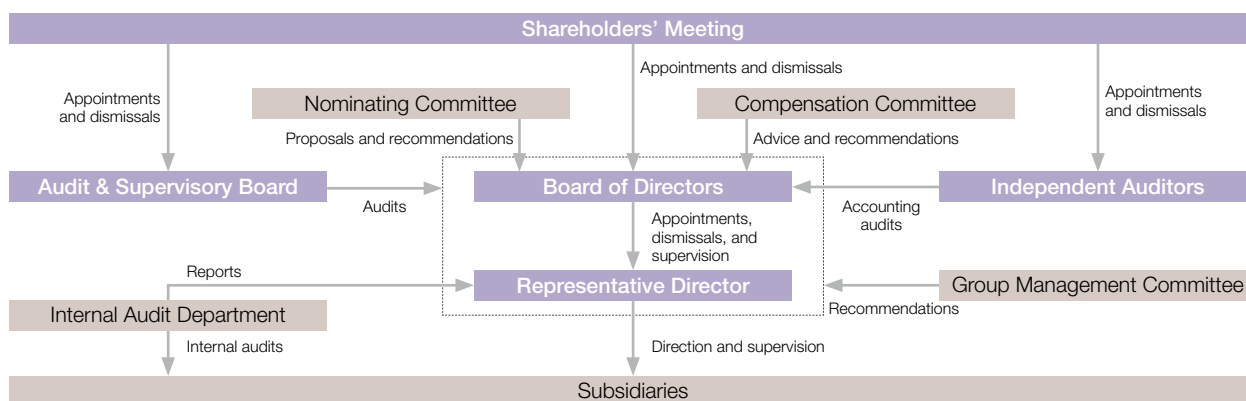
## Corporate Governance

Under the corporate philosophy of “Contributing to and striving to be respected by the citizens of the world,” from which its name derives, Citizen Holdings Co., Ltd. (the Company), endeavors to contribute to society and increase its corporate value through sustainable corporate activities that are in harmony with the local community and the global environment.

We strive to enhance corporate governance in recognition of the importance of ensuring management transparency and effectively supervising management from various angles.

As part of these efforts, we established the Nominating Committee and the Compensation Committee as advisory boards composed of the president and outside directors.

### Corporate Governance Structure of Citizen Holdings



## Overview of Company Institutions

The Board of Directors of the Company comprises five directors, who are familiar with the Company's business lines, and two outside directors, who maintain a high level of independence. The Board supervises and makes decisions related to business execution.

In addition, the Company has adopted the Audit & Supervisory Board, which comprises three auditors, two of whom are outside auditors.

The Company has also established the Nominating Committee and the Compensation Committee, both of which comprise a majority of outside directors, as voluntary institutions to enhance the transparency of its management. The Nominating Committee deliberates matters concerning the appointment of the representative director, the president and CEO, and the chairman of the Board of Directors and makes proposals to the Board of Directors. The Compensation Committee deliberates matters concerning the policies and standards for director compensation and provides advice to the Board of Directors.

Acting in accordance with auditing policies and auditing plans determined at the Audit & Supervisory Board meetings, each auditor attends the Board of Directors' meetings and meetings on Group management as well as inspects various documents from directors, such as reports on business execution conditions and documents regarding important decisions. The auditors also conduct strict audits of the business execution by directors through surveys of work duties and assets. Through these efforts, the auditors are working to further enhance the Company's corporate governance.

In addition, the Company has established the Internal Audit Department, which functions as an internal auditing division. Based on yearly auditing plans, the Internal Audit Department conducts audits to determine if the business execution of the Company and its subsidiaries is appropriate and rational.

Also, the Audit & Supervisory Board, the Internal Audit Department, and the internal control department maintain close communication.



## CSR Activities That Realize the Citizen Group's Corporate Philosophy

Outside Director

**Masaaki Komatsu**

### PROFILE

Mr. Komatsu joined Shiseido Company, Limited, in 1969. In 1996, he assumed the position of president and director of Shiseido International France S.A.S. After returning to the head office in 2003, he assumed the positions of company director and operating officer and then director and senior managing officer. He was appointed as an outside director at Citizen Holdings in June 2015.

### Overview of the Citizen Group's Governance

Among Japanese companies, I believe that Citizen Holdings has been making significant progress in regard to corporate governance (CG). The Company has been operating with a two-person outside director system for nine years. Also, while having adopted the "Company with Board of Company Auditors" system, it has voluntarily established the Nominating Committee and the Compensation Committee. In these ways, the Company has been taking progressive initiatives toward CG.

With that said, although the Citizen Group is fulfilling its disclosure responsibilities to outside stakeholders to improve its CG, I feel that disclosure within the Group, specifically to employees, is less than sufficient. By providing ample disclosure and explanation, the Group can deepen employees' understanding of CG and raise individual awareness. That, in turn, strengthens the Group's cohesiveness and solidarity, which is key in taking on new challenges that lead to further growth. In addition, I believe that the deep understanding and heightened awareness of employees will help realize the underlying goal of CG, which is to enhance corporate value.

### Initiatives to Diversify and Evolve

Within an increasingly diverse society, history proves that if a company does not advance measures to diversify its personnel and internal organization, society will pass by that company and eventually weed it out.

At the Citizen Group, efforts to embrace diversification are surging ahead. It goes without saying, the Group has been promoting diversification within its organization and working structure, as well as in the way it leverages human resources, for many years. I believe that to better leverage its human resources going forward, the Group needs to be

even more proactive in assembling a group of diverse personnel that includes not only people with different levels of work experience and expertise but also people of different age and nationality. With the implementation of the Act to Advance Women's Success in Their Working Life in April 2016, women are expected to play an even more active role at many Japanese companies. I feel confident that the Citizen Group's response to this act will not simply be an extension of the approach it has taken in the past. Rather, the Group will respond in a way that will allow it to realize sustainable growth through an increased number of female managers and significantly more involvement from female employees in the workplace.

### True Nature of Citizen's CSR Activities Lies in the Pursuit of the Corporate Philosophy

If there was one word to describe CSR, it would be "trust." Without trust, a company's business activities will not resonate with society.

Trust, itself, can be perceived as the underlying message of the Citizen Group's corporate philosophy of "Contributing to and striving to be respected by the citizens of the world." By firmly positioning the corporate philosophy and the Citizen Group Code of Conduct, which derives from that philosophy, as its foundation and encouraging each employee to act independently, the Citizen Group will be able to further build upon its CSR activities.

Without forgetting my objective standpoint as an outside director, I intend to assist the Citizen Group as much as I can in accelerating the speed of its evolution and growth.

## ► Risk Management

In order to achieve Group-wide business targets and ensure sound and sustainable development, the Citizen Group assesses, analyzes, and evaluates risk and engages in

activities to appropriately manage risk based on the results of these efforts.

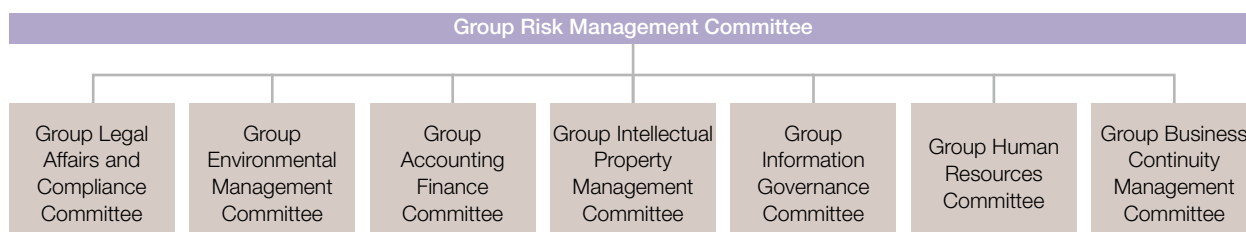
### Group Risk Management Committee

The Citizen Group has established the Group Risk Management Committee, with the president of Citizen Holdings serving as the committee chairman, to promote the establishment, operation, and monitoring of risk management Group-wide.

In addition, the Group has stationed risk management officers and established the risk management department at its

Head Office in accordance with the specific risks that the Group faces. The Group has also set up committees to respond to each major risk theme in an effort to support Group-wide risk management activities.

### Risk Management Structure of Citizen Holdings



### Crisis Management

To prepare for and respond to major crises, including accidents, terrorist attacks, natural disasters, scandals, and other incidents, that could occur in any area in which it operates, the Citizen Group is working to establish a crisis management structure on a global basis.

With the aim of collecting, evaluating, and disclosing crisis-related information in a swift and appropriate manner, the Group has taken steps to clarify standards for making

reports to Head Office. Further, in the event of a crisis, measures have been put in place to convene emergency meetings to evaluate its severity. The Group has also established the Crisis Task Force, which examines specific ways to respond to risk. In these ways, the Group has put in place a system to minimize the impact risks have on its business and stakeholders.

### Business Continuity Plan (BCP)

To prepare for an event where management resources are significantly impacted by a large-scale natural disaster and a business must be halted or suspended, or an event that the possibility of business suspension is high, the Group has determined the necessary systems, tasks, and procedures to continue or quickly restore business operations. In addition, the Group has formulated a BCP that will allow it to continue the supply of products and services, or realize a prompt recovery should that supply be suspended, in the

occurrence of such events.

While aiming to be able to respond to changes in risks and improve the effectiveness and sophistication of its BCP, the Group implements training exercises to prepare for disasters and promotes BCP maintenance.

In fiscal 2015, Citizen's first ever overseas BCP training exercises were carried out at the production bases of the Group's watch business in China and Thailand.



BCP training exercise at a production base in China



BCP training exercise at a production base in Thailand

## 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 with the foundation of legal compliance.

### Internal Reporting System

We have set up the 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 established an external contact office 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
2013	17
2014	28
2015	37

20 major Group companies in Japan

### CSR Awareness Surveys

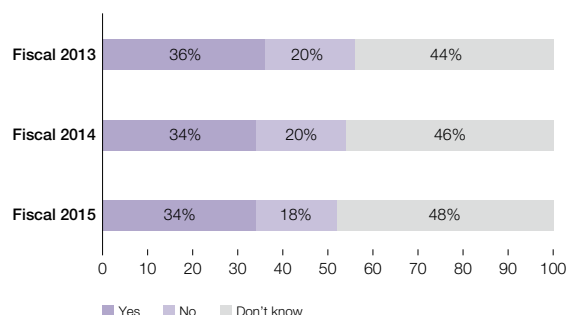
To determine the state of CSR and corporate ethics and how to better promote future CSR activities, the Citizen Group conducts annual CSR awareness surveys of the executives and employees of its 41 Group companies, including temporary employees. Survey responses reveal that although awareness of the Corporate Ethics Hotline (CSR Hotline) is gradually increasing year to year, the number of people indicating they are not sure whether they would use the hotline has not changed.

Issues that were identified in the 9th CSR Awareness Survey were as follows.

- Improving the level of trust in the hotline
- Further developing harassment education
- Improving educational activities and raising comprehension of ISO 26000

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



8,153 / 9,253 people (response rate of 88.1%)

### Training for Corporate Ethics Hotline Respondents

The Citizen Group called in an outside instructor to provide training for its Corporate Ethics Hotline respondents. Going forward, we will continue with efforts to improve training for hotline respondents, raise awareness of the hotline, and increase trustworthiness in its reporting process.

### Promotion of Mental Healthcare

Following revisions to the Japanese Industrial Safety and Health Law in December 2015, offices with more than 50 employees are now required to implement stress checks of every employee. However, at Citizen's Tokyo Office, we have been carrying out checks of occupational stress via simple questionnaires since 2004. As these checks allow employees to evaluate the amount of stress they are experiencing on their own, they provide employees with an opportunity to consider the methods for managing health and eliminating stress that best suit them. Further, since 2007, we have been collecting data and performing analyses by employee group based on these questionnaires and making efforts to improve each workplace. In addition to these questionnaires, we have also set up internal and external hotlines where employees can easily receive consultation 24 hours a day.