

CITIZEN Group’s Corporate Governance

CITIZEN Group endeavors to improve corporate value and contribute to society through sustained activities that are in harmony with the local community and the global environment. This is part of its corporate philosophy, after which the company was named: “Loved by Citizens, Working for Citizens.” To continuously further this goal, we strive to reinforce corporate governance in recognition of the importance of ensuring management transparency and supervis-

ing management from various angles.
CITIZEN Group is striving to further enhance its corporate governance to ensure sustainable growth through the achievement of the Group’s overall business goals. With the global economy and society changing at an unprecedented rate, CITIZEN WATCH is playing a central role in managing and supervising the entire Group to respond to the various social issues we face.

Corporate Governance Structure

CITIZEN WATCH has a Board of Directors comprising five directors knowledgeable about its business content and three highly independent outside directors. The Board of Directors makes decisions on the execution of business and oversees the execution of business.
In addition, we have adopted the Board of Corporate Auditors system; the Board of Corporate Auditors consists of three members, including two outside corporate auditors.
We have established the Nominating Committee and the Compensation Committee as voluntary bodies to enhance management transparency.
The main duties of the Nominating Committee are to deliberate and propose to the Board of Directors matters concerning the selection or dismissal of the representative director, the president and CEO, and the chairman of the Board of Directors; to deliberate and report in consultation with the Board of Directors or the president and CEO or other directors concerning the selection or dismissal of officers; and to deliberate and report in consultation with the Board of Directors or the president and CEO or other directors concerning succession planning for the president and CEO and directors.
The Compensation Committee discusses matters

related to the policy and the standards for and compensation received by the directors, and its main duty is also to provide advice and counsel to the Board of Directors.
Each committee is composed of three or more directors, who are appointed by a resolution of the Board of Directors. The majority of committee members are outside directors and at least one of them is a representative director. The chairperson of each of the committees is an outside director and is elected by the members of the respective committee.
In accordance with the audit policy and audit plans prescribed by the Audit & Supervisory Board, in carrying out initiatives for the further enhancement of corporate governance, each auditor attends the Board of Directors meetings, Group management meetings, and management meetings, inspects important documents such as authorization documents and reports from the Board of Directors, etc. concerning the execution of duties, and implements rigorous audits on the conduct of affairs by directors through means such as examining business operations and assets. We also receive reports on accounting audits from the accounting auditor, Nihonbashi Audit Corporation, and cooperate with the accounting auditor to efficiently perform audit work and other tasks for CITIZEN WATCH and its subsidiaries.



The frame is an institution under the provisions of the Companies Act.
* 8 Directors (including 3 Outside Directors) / 3 Corporate Auditors (including 2 Outside Corporate Auditors)

Board Composition and Diversity

CITIZEN WATCH is committed to ensuring that the Board of Directors effectively fulfills its roles and responsibilities in achieving management strategies, taking into consideration diversity, including gender and internationality. To this end, we have identified essential knowledge, experience, and abilities in areas such as “corporate management/management strategy,” “sales/marketing/DX,” “R&D/Technology,” “finance/accounting,” as well as “global business,” “HR

development/diversity,” and “ESG/sustainability,” and these are the roles we expect from directors.
The appointment of directors and officers is based on the Companies Act and other laws and regulations, and the individuals selected must possess the requisite character and insight as well as the qualifications for directors and officers.

Assessment of Board Effectiveness

CITIZEN WATCH conducted an evaluation and analysis of the effectiveness of the Board of Directors to further strengthen its functions. The evaluation results indicated

that the Board of Directors is effectively functioning, with a focus on operations, agenda, and structure, and that its effectiveness is ensured.

1. Evaluation method	To analyze and evaluate the effectiveness of the Board of Directors, we conducted a questionnaire regarding the Board of Directors for all directors and corporate auditors annually, using an effectiveness evaluation tool developed by an external organization. The questionnaire was administered using questions developed by an external organization, and the results of the analysis and evaluation were reviewed by the Board of Directors. <ul style="list-style-type: none">• Target: All directors and corporate auditors (11 persons)• Time: February 27 – March 9, 2024• Questions: 15 questions in total<ul style="list-style-type: none">1st set of questions: Questions related to the operation of the Board of Directors (2 questions)2nd set of questions: Questions about the agenda of the Board of Directors (8 questions)3rd set of questions: Questions about the structure supporting the Board of Directors (2 questions)4th set of questions: Questions about self-assessment (3 questions)
2. Summary of the results	Regarding the results of the questionnaire evaluating the effectiveness of the Board of Directors, each director and each auditor generally gave a high evaluation, confirming that the Board of Directors is functioning effectively, and its effectiveness has been ensured. The ratings for each question were as follows. The operation of the Board of Directors meetings The materials are sufficient for questions and opinions to be formed, and if there is a shortage, information is provided separately. The response was that the prior provision of information can be considered sufficient, as a certain period of time is ensured to confirm the contents of the information. The agenda for the Board of Directors meetings Important agenda items are explained in advance through discussions, etc., and sufficient time is used for discussion and decision-making without restrictions by the Board of Directors. KPIs, including capital costs, are set for each business, and are managed, evaluated, and supervised appropriately and in a timely manner through progress reports on plans. The respondents also stated that the committee reports regularly on sustainability, a dedicated department has been established for DX, and that the entire group is promoting DX-oriented business improvement and human resource development. System to support the Board of Directors The business environment is reported monthly, and market trends and competitive information are reported as appropriate. Shareholder and investor opinions are also shared with directors during IR activities. Regarding training, respondents indicated that they are provided with opportunities such as attending executive training sessions, and that they have opportunities to acquire knowledge and raise awareness through online learning and study sessions with invited lecturers.

CITIZEN WATCH strives to appoint outside directors or outside corporate auditors who are free from any possibility of conflict of interest with general shareholders, emphasizing their abundant experience and broad insight as managers or their advanced knowledge and insight in corporate

finance, corporate legal affairs, and other areas.
In addition, the knowledge, experience, and abilities required to effectively fulfill the roles and responsibilities of the Board of Directors in achieving management strategies are defined and disclosed in the skills matrix.

Strengthen Risk Management

Basic Concept for Risk Management

CITIZEN Group assesses, analyzes, and evaluates risk and engages in activities to appropriately manage risk based on the results of its efforts in order to achieve Group-wide business targets and ensure sound and sustainable development.

Key Initiatives for Significant Risks

In FY2024, we reviewed significant risks that may affect the business of the entire CITIZEN Group and society, and formulated 11 risks (accounting/finance, information systems, human resources, general affairs, fair trade, safety assurance trade, intellectual property, environment, information management, CSR, and quality). Top management will now address the issue while incorporating the opinions of third-party experts. In addition, we aim for uniform risk management across the Group by sharing information on important risks common to the Group and risks specific to each company across the Group and sharing knowledge and know-how, for example, by incorporating into Group-wide risks (human resources) the violation of the duty of care for safety related to the working environment.

CITIZEN Group considers risk management to be a management concept that combines two processes: risk management to prevent crises from occurring and “crisis management” to minimize risks when crises do occur.

In addition, in FY2024, among the significant risks, we regard the two items of “environment” and “information management” as the most important risks, and work to expose these risks and strengthen countermeasures. Regarding the environment, we will strengthen measures such as introducing a process safety management system to thoroughly prevent unexpected leaks and large-scale disasters in the handling of hazardous chemical substances. Regarding information management, in response to the increasing risk of violations of the EU General Data Protection Regulation (GDPR) and personal data protection regulations in each country and region, we will review the event-specific criteria for information security incidents, focusing mainly on leaks of personal information.

FY2024 Group Significant Risks

Field	Group Significant Risks
Accounting / Finance	<ul style="list-style-type: none">• Errors and Fraud Risks of Disclosed Information (1) Accounting Standards for Overseas Subsidiaries• Errors and Fraud Risks of Disclosed Information (2) Development of Internal Controls• BEPS Compliance / Taxation Risk due to Transfer Pricing
Information Systems	<ul style="list-style-type: none">• Software License Violation• Damage Caused by Business Email Fraud• Information Leakage due to Internal Fraud• Suspension of Operations due to Information System Outage• Information Leakage due to Cyber-attacks
Human Resources	<ul style="list-style-type: none">• Violation of Laws and Regulations Concerning Foreign Technical Internship Programs and Specified Skilled Workers• Discriminatory Treatment regarding nationality, LGBTQ, etc.• Violation of safety consideration obligation
General Affairs	<ul style="list-style-type: none">• Response to Business Suspension Risk (BCM System)
Fair Trade	<ul style="list-style-type: none">• Violation of Bribery Regulations• Violation of Antitrust Laws• False Contracting
Safety Assurance Trade	<ul style="list-style-type: none">• Violation of the U.S. Economic sanctions Act• Violation of Import/Export related Regulations
Intellectual Property	<ul style="list-style-type: none">• Infringement of Intellectual Property Rights by the Company
Environment	<ul style="list-style-type: none">• Delayed Response to Climate Change• Leakage or Spillage of Hazardous Substances from Plant Facilities, and Environmental Violations• Violation of Control of Chemical Substances contained in Products (RoHS, REACH, etc.)
Information Management	<ul style="list-style-type: none">• Violation of privacy regulations including EU General Data Protection Regulation (GDPR), and data breaches
CSR	<ul style="list-style-type: none">• Violation of the Modern Slavery Act• Violation of the California Transparency in Supply Chanis Act• Failure to Fulfill Social Responsibilities
Quality	<ul style="list-style-type: none">• Quality Compliance Violations

Through Compliance

Basic Concept for Compliance

CITIZEN Group has been a participant in the United Nations Global Compact since April 2005, and in addition to endorsing the ten principles in four areas and continuing efforts to realize them, we have also established our corporate philosophy of “Loved by Citizens, Working for Citizens,” with the CITIZEN Group Code of Conduct as specific action guidelines for this philosophy, and we always consider what we should do as a good corporate citizen. Article 3 of the CITIZEN Group Code of Conduct calls for the Group to “engage in business practices that are fair, transparent, open to competition, and responsible.” Through these and other means, we strive to act not only

in compliance with laws and regulations but also in line with a high level of ethics overall. In addition, as our businesses are growing increasingly complex from day to day amid growing globalization, in April 2020, we formulated the CITIZEN Group Anti-Corruption Policy, which systematically describes the Group’s thinking and position toward the elimination of corruption in its various forms, including improper acts and bribery. Based on these policies, we strive to build sound relationships of trust with customers, suppliers, and other stakeholders, with each and every employee in the Group maintaining a high level of compliance consciousness.

The Compliance Hotline, an Internal Whistleblowing System

To comply with laws and regulations and to prevent, quickly identify, and eliminate improper acts,*1 including bribery and corruption, CITIZEN Group has established internal whistleblowing systems, incorporating the Speak Up system, to enable and Group employees to submit reports, request consultation, and make suggestions anonymously to CITIZEN WATCH, other Group companies, and external agencies.

Furthermore, we have established the new Group Compliance Hotline Rules in reference to the internal whistleblowing guidelines established by the Consumer Affairs Agency and to the Corporate Governance Code covering matters such as the protection of user confidentiality and the prohibition of disadvantageous treatment. We have also formed guidelines for users and managers as part of continual efforts to make the system easier to use through the standardization of the responses of those receiving calls, including for those who left the company less than a year ago.

This system is also compatible with the revised Whistleblower Protection Act that came into effect on June 1, 2022. In addition, to enhance the effectiveness of the system, it is essential that whistleblowers, including the prohibition of any prejudicial treatment of whistleblowers.

84.0% of employees were aware of the hotline in the FY2022 survey. In 2023, in addition to the traditional training for managers and announcements on the intranet page, we implemented measures such as placing QR code-based reporting window guides in break rooms and other locations throughout the company. As a result, awareness increased to 87.0%, marking the fifth consecutive year of improving awareness of the system.

The number of whistleblowing reports in FY2023 was 30, consisting of 24 received internally, 5 received by external contact points and 1 from auditors*2. As a result of investigations and corrective actions taken on all reports, there were no cases of serious human rights violations of violations or the Anti-Corruption Policy.

As the Group will continue to promote awareness of the hotline, we plan efforts to create working environments to enable even more thorough compliance through means such as reflecting opinions received and developing rules concerning the new work style of remote work.

*1 Our approach to the prevention of improper acts is established in Article 3 of the CITIZEN Group Code of Conduct, which calls for the Group to “engage in business practices that are fair, transparent, open to competition, and responsible” (fairness, transparency, openness to competition, responding to government agencies etc., export/import controls, prohibition of contact with antisocial forces, prevention of money laundering, responsible and sustainable procurement).

*2 As a result of investigations and corrective actions taken on all reports, there were no cases of serious human rights violations or violations of the anti-corruption policy.