

# CITIZEN

Citizen Group  
CSR Report 2016





Corporate Philosophy

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

Editorial Policy

The Citizen Group publishes a CSR report to convey to stakeholders the CSR initiatives in which it engages. As a special feature, the *Citizen Group CSR Report 2016* introduces the value creation process of the entire Citizen Group. The report focuses on the value the Citizen Group provides to customers, society, and employees through its business and explains efforts the Citizen Group is making to realize the development of a sustainable society. Furthermore, centered on reporting in accordance with ISO 26000, the Data section includes targets and results of environmental management activities as well as fiscal 2015 data for each management indicator. Also, the Citizen Group’s CSR activities are posted in a comprehensive manner on the Citizen Holdings CSR site. In particular, the site provides details of the various social contribution activities the Citizen Group is undertaking.



**Cover: Citizen Museum**

In March 2016, the Citizen Museum was opened within the Tokyo Head Office of Citizen Holdings as part of a project to commemorate the Company's 100-year anniversary. In addition to Citizen's founding spirit, which has been passed down through the years, and dedication to manufacturing, the museum also introduces the evolution of the Citizen Group, including the historic products and new businesses it has created.



**Website (detailed version)**

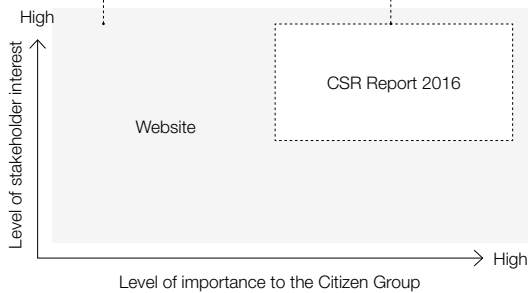
The Citizen Group's CSR-related information is posted in a comprehensive manner on the Citizen Holdings CSR site.

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



**Booklet (digest version)**

In accordance with the core subjects of ISO 26000, the CSR report communicates the Citizen Group's CSR initiatives in an easy-to-understand way.



**Date of Publication** .....

August 2016 (Previous report: August 2015 / Next report: August 2017)

**Guidelines Referenced** .....

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

This report includes information on the standard disclosure items of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).

A GRI G4 guidelines index can be found on the Citizen Holdings CSR site.

**Disclaimer** .....

This publication 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.

**Organizations Covered in the Report** .....

Economic and social data: 27 domestic and  
72 overseas companies (total 99)  
Environmental data: 26 domestic and  
16 overseas companies (total 42)

**Period Covered by the Report** .....

Fiscal 2015 (April 1, 2015, to March 31, 2016)  
Some data from fiscal 2016 is also included.

**Contents**

- 01 Corporate Philosophy / Editorial Policy
- 03 Corporate Profile
- 04 Progress in Implementing Our Medium-Term Management Plan
- 05 Message from the Management

**SPECIAL FEATURE**

- 07 Putting CSV into Practice Group-Wide
- 09 The Citizen Group's Value Creation Process
  - The Value We Offer Our Customers
  - The Value We Offer to Society
  - The Value We Offer Our Employees

- 17 CSR at the Citizen Group
- 19 Report on Activities Aligned with ISO 26000
- 19 Consumer Issues
- 20 Fair Business Practices
- 21 Environment
- 23 Labor Practices
- 24 Human Rights
- 25 Community Participation and Development
- 27 Organizational Governance
- 31 Data (Environment / Employees)
- 32 Third-Party Comments / Response to Third-Party Comments

# Corporate Profile

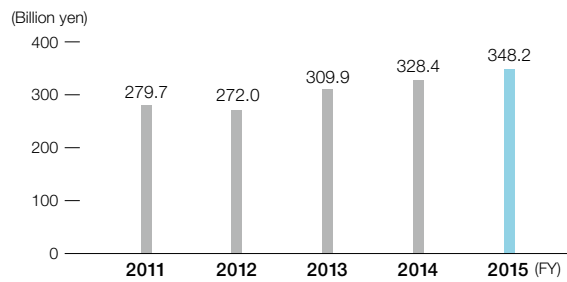
With the corporate philosophy of “Contributing to and striving to be respected by the citizens of the world,” the Citizen Group has been launching diverse businesses around the globe that make use of the expertise in downsizing, precision, and power efficiency technologies it has built up in its watch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

## Corporate Data (Year ended March 31, 2016)

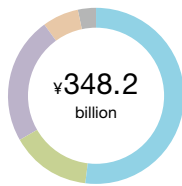
Name	Citizen Holdings Co., Ltd.
Establishment	May 28, 1930
Location of Head Office	6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan
Representative	Toshio Tokura, President and CEO
Capitalization	¥32,649 million*
Employees	17,046 (consolidated)*
Net Sales	¥348.2 billion (consolidated)
Listing	Tokyo Stock Exchange, 1st Section

\* (As of March 31, 2016)

### Net Sales (Years ended March 31)

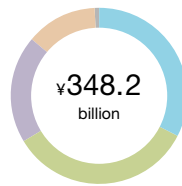


### Net Sales by Business Category



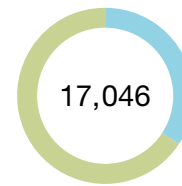
■ Watches and Clocks	52.0%
■ Machine Tools	14.8%
■ Devices and Components	23.2%
■ Electronic Products	6.7%
■ Other Products	3.3%

### Net Sales by Region



■ Japan	32.7%
■ Asia	33.7%
■ Americas	19.8%
■ Europe	13.1%
■ Others	0.7%

### Number of Employees by Region



■ Japan	5,853	34.3%
■ Overseas	11,193	65.7%

## Principal Products

### Watches and Clocks

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



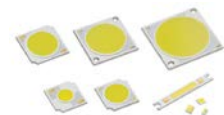
### Machine Tools

We develop machine tools for small-diameter precision parts machining for the automotive, medical, and IT industries as well as 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

This division provides wedding rings and other jewelry as well as ice skating and other leisure services.



# Progress in Implementing Our Medium-Term Management Plan

The Citizen Group is implementing a medium-term management plan called the “Citizen Global Plan 2018.”

In the later three years of this plan, beginning fiscal 2016, we will continue to further strengthen our production capability in order to overcome global competition, which continues to intensify, and improve profitability. At the same time, we will expand our business by proactively undertaking growth investments. In these ways, we aim to become a truly global company by fiscal 2018.

## Aiming to Be a Truly Global Company

A Corporate Group Marked by Speed and Dynamism

**Medium-Term Management Policy**

- We will focus on business domains where we can leverage the strengths cultivated in the watch and clock business, aiming to become a business conglomerate that is a globally competitive category leader.
- We will promote manufacturing innovation and strengthen our earnings power in order to establish a high-profit business structure.

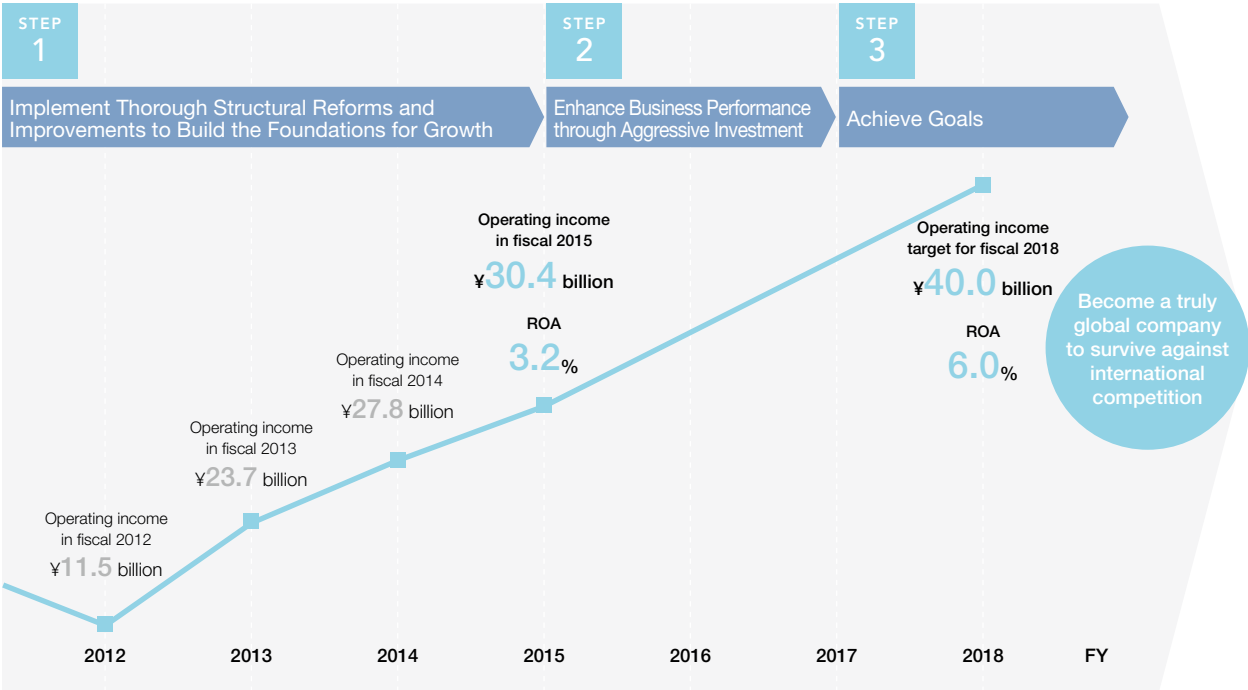
**Tasks to Address**

- Thorough structural improvement/strengthening of production capability
- Aggressive investment for business growth and strengthening of marketing capability
- Selection and concentration of products and businesses
- Enhancement of human resources and promotion of efficiency in productivity

**CSR Initiatives for Realizing Specific Strategies**

- Develop and manufacture eco-friendly products
- Cultivate human resources
- Embrace diversity
- Build even stronger relationships with local communities

### Overview of Stages in the Medium-Term Management Plan



**We will realize the Citizen Group's CSV\*<sup>1</sup> and resolve social issues.**

**In doing so, we aim to be a company striving to be respected and trusted by the citizens of the world.**



## Entering the Next Stage in Realizing Further Growth

Our medium-term management plan “Citizen Global Plan 2018” commenced in fiscal 2013. With the conclusion of the first three years of the plan, fiscal 2016 represents our entrance into the next stage in realizing further growth under the second half of the plan. During the first half of the plan, we adopted and engaged in thorough initiatives in structural reform and reinforcement, including the integration of our manufacturing companies. However, we have still yet to see the accomplishments of these initiatives from such perspectives as improved profitability. In the next three years, we will make efforts to further reinforce our business structure while conducting aggressive marketing activities. Specifically, we will make efforts in Group-wide cooperation. By managing human resources and infrastructure in a more effective manner, I believe we can enhance the Group’s comprehensive power. To this end, we intend to transition Citizen Holdings to an operating holding company structure, dissolving the current Citizen Watch Co., Ltd., and taking on that name for the new company’s trade name. With this transition, we will promptly enhance Group functions and strengthen Group cohesiveness.

## Providing Solutions with Citizen’s CSV<sup>\*1</sup> Initiatives

In March 2016, Citizen Watch released the ethical luxury watch brand CITIZEN L, the first of its kind in the watch industry. CITIZEN L brand watches not only offer beautiful designs; they are sustainable watches that give consideration to people and society as a whole, which only a manufacture d’horlogerie like Citizen can make. By giving consideration to the environment and human rights, we ensure the CITIZEN L brand’s transparency in terms of responding to conflict mineral issues and disclosing CO<sub>2</sub> emission amounts. As ethical products like CITIZEN L can help lead to the resolution of social issues, the selection of such products provides consumers with a new sense of values.

The creation of such offerings as CITIZEN L that not only satisfy the customer but also raise awareness of social issues and lead to their eventual resolution while, at the same time, contributing to corporate profits is precisely the kind of solution we are aiming for with our CSV initiatives. Furthermore, from the early stages of conception, CITIZEN L was created by female employees who were aiming for CSV. In that sense, as well, CITIZEN L has been a epoch-making project.

CITIZEN L demonstrates our corporate attitude. While CITIZEN L represents a CSV initiative in just one brand, we will leverage the strengths we have cultivated in each of our businesses to promote further CSV initiatives Group-wide going forward.

## Promoting Diversity, an Indispensable Factor in Realizing Further Growth

In March 2016, the Citizen Group welcomed its first female director<sup>\*2</sup>. At Citizen, our ratio of female employees is at a standard level globally, and we have established a welcoming environment for female employees, reflecting, among other factors, the high percentage of female employees who have returned to work after taking childcare leave. However, historically, Citizen has not had a high number of female employees, and we view the low percentage of female employees in managerial positions as a serious issue demanding our prompt attention. As such, we aim to have female employees account for more than 7% of our managerial staff by the end of March 2021. To this end, we will establish an even more welcoming environment for female employees through such means as creating career plans, cultivating a workplace culture that encourages female employees to play an active role, and making reforms to internal systems. I believe that, amid these efforts, welcoming our first female director into the Group will have an extremely positive impact internally.

The Citizen Group will continue to promote diversity as it aims to become an enterprise that generates synergies among diverse human resources.

## Striving to Be Respected and Trusted by the Citizens of the World

Citizen aims to enhance its corporate value and realize sustainable growth as a truly global company. To achieve this aim, we will maintain an awareness of social issues amid constant social change and promote in-depth communication with our customers and society as whole, using our corporate philosophy and code of conduct as our foundation. We will also engage in business planning and development that allows us to be one step ahead of our competitors in offering the products and services customers need. In these ways, we will continue to expand our business together with society. In fact, growing together with society represents the essence of the Citizen Group’s approach to CSV. By further pursuing this kind of growth, we aim to be a company striving to be respected and trusted by the citizens of the world.

June 2016

戸倉敏夫

Toshio Tokura  
President and CEO  
Citizen Holdings Co., Ltd.

<sup>\*1</sup> CSV: Creating Shared Value

CSV represents efforts made by the Citizen Group to create shared value through its core business in order to resolve social issues.

<sup>\*2</sup> The Citizen Group’s first female director is the chief executive officer of Citizen Watches Australia Pty Ltd.

CITIZEN *L*



## Tackling the Challenge of Ethical Manufacturing

Taking action now to build a better future

Citizen has continued to create products that are both people-friendly and environmentally friendly, including its “Eco-Drive” and “Super Titanium™” series of watches. Currently, we are further promoting our CSV initiatives and tackling the challenge of creating ethical watches.



## Creating Watches That Realize an Ethical Spirit

At Citizen, we asked ourselves, what kind of efforts can we make to better connect our products to the resolution of social issues?

The answer to our question was ethical manufacturing.

The word “ethical” implies an approach that attempts to resolve social issues.

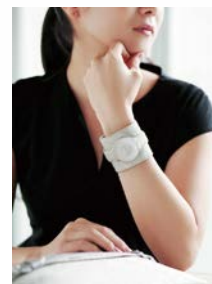
In addition to giving consideration to the natural environment, ethical initiatives work to realize production, distribution, and consumption that bear in mind human rights and social norms.

Ethical initiatives include improving work environments,

resolving poverty issues in developing countries, and engaging in fair trade.

With the spirit of ethical initiatives resonating throughout the Citizen Group,

we have created CITIZEN L Ambiluna, a luxury watch that offers new value and a fresh sensation.



## Providing a New Luxury Watch That Embodies Confidence and Courage

At Citizen, we believe that beautiful things emanate from a beautiful mind.

This belief means that our products have a rich story behind their creation and give consideration to people and society as whole, rather than being just something worn in extravagance.

This belief also reflects our 21st century view on luxury, which is having a product design with universal and timeless beauty.

These days, an increasing number of consumers are selecting products based on the new value they offer, not just their price.

For example, consumers now have the option to choose products that are made through sustainable initiatives that give consideration to people, society, and the natural environment.

These products include cosmetics that were not tested on animals, jewelry that does not use conflict minerals, and fashion apparel that uses organic cotton.

Equipped with the light-powered “Eco-Drive” technology, CITIZEN L Ambiluna is a watch that possesses both beauty and an ethical spirit. Accordingly,

CITIZEN L Ambiluna embodies confidence and courage for women seeking to make the world a better place.

## Assessing Our Current Course of Action as the Culmination of CSV

At Citizen, we give consideration to what we can do now to build a better future.

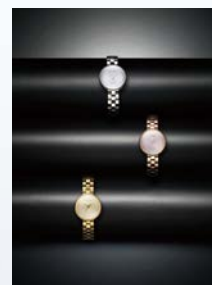
While making superior products that sell is an obvious task for us as a corporate group, these products must also be good for the environment, people, and society itself.

As such, we place equal importance on activities to improve corporate value and initiatives to resolve social issues.

The creation of CITIZEN L Ambiluna represents exactly the kind of efforts we can engage in today to make tomorrow even better.

The passion incorporated into CITIZEN L Ambiluna and the process we use to manufacture the watch embody the culmination of CSV.

Going forward, we will continue to take initiatives to build a better future.



## Promoting the Ethical Commitment of CITIZEN L



### Disclosure of materials

CITIZEN L is completely transparent about the disclosure of the materials—both what and how much—we use for every component.



### Disclosure of CO<sub>2</sub> emissions

We present the total volume of greenhouse gases emitted from the whole product life cycle and receive third-party\* verification, a watch-industry first.



### “DRC conflict-free” mineral audit

We do not use any minerals sourced from smelters linked to illegal mining operations in the Democratic Republic of Congo whose profits go toward financing armed groups. (Tantalum, tungsten, gold, and tin are all examples of conflict minerals.)



### Reduced-size user manual

We eliminated the use of paper for instruction manuals by putting the watch’s nine-language instruction manual online, reducing environmental impact.



### Sustainable packaging

Instead of a disposable box designed solely to protect the watch prior to purchase, we have created an improved package that can be reused for other purposes afterwards.

\* Approved by JEMAI (Japan Environmental Association for Industry) under the CFP (Carbon Footprint of Products) program.

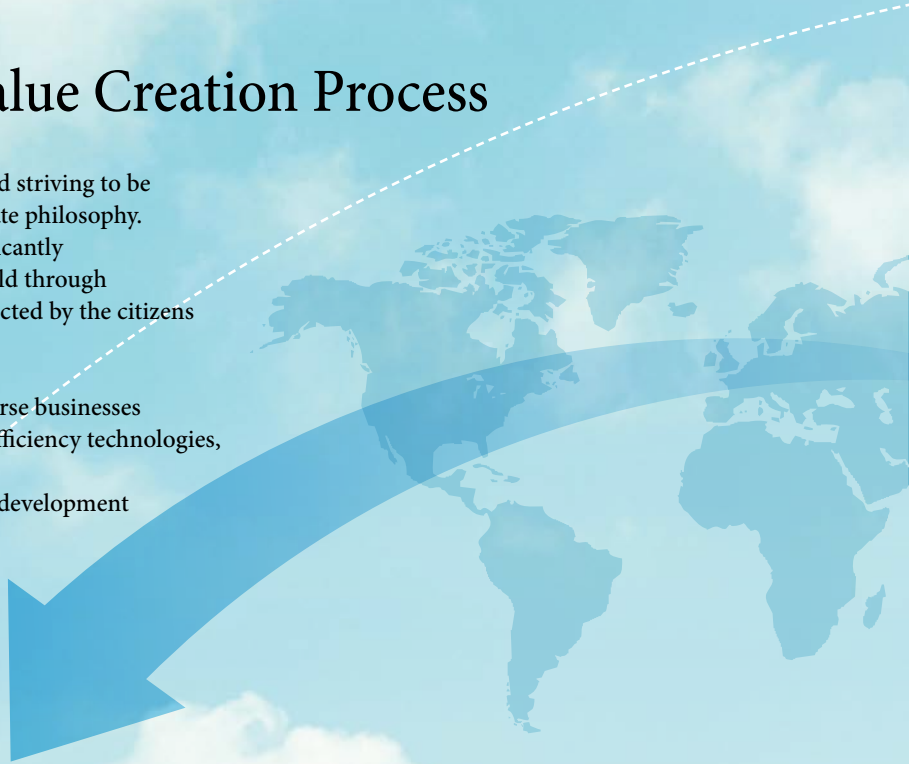
The Citizen Group's Value Creation Process

# The Citizen Group's Value Creation Process

The Citizen Group has adopted “Contributing to and striving to be respected by the citizens of the world” as its corporate philosophy. Guided by this philosophy, we are working to significantly contribute to the lifestyles of people around the world through “a manufacturing style that is well-known and respected by the citizens of the world.”

By investing the various capital it possesses, the Citizen Group has been globally expanding diverse businesses that leverage its downsizing, precision, and power efficiency technologies, which it has cultivated in its watch business.

Amid this global expansion, we aim for sustainable development by creating new value for our customers and employees as well as for society as a whole.



## Accumulated Advantages

### Citizen's Invested Capital

**Financial capital** Funds from shareholders and other investors

**Manufacturing capital** Downsizing and precision technologies, environmental impact reduction technologies, internally developed manufacturing equipment

**Intellectual capital** Improvement of business competitiveness and brand value

**Human capital** Inventors of the Future, Diligent Artisans, People Who Strive for Ongoing Improvement

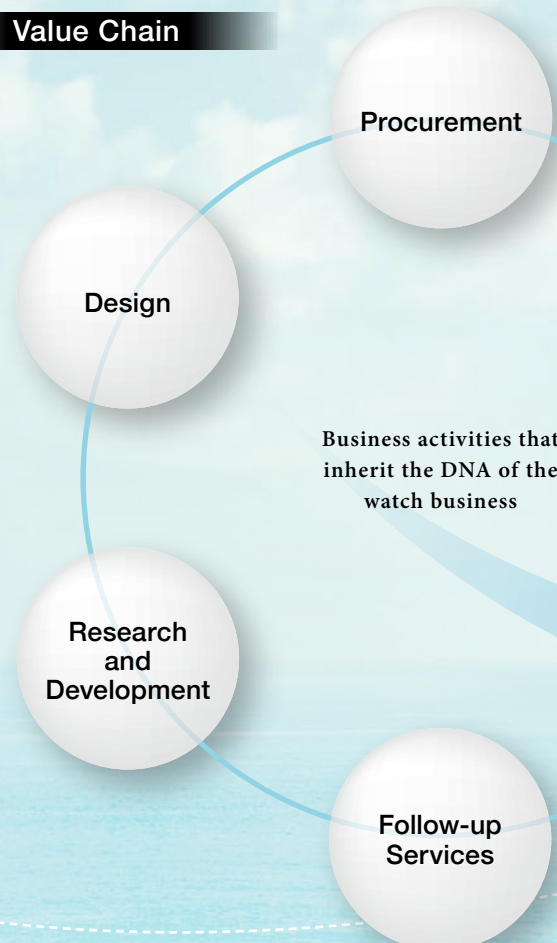
**Social capital** Relationships with all stakeholders, CSR procurement, social contribution

**Natural capital** Secure and safe raw materials, water

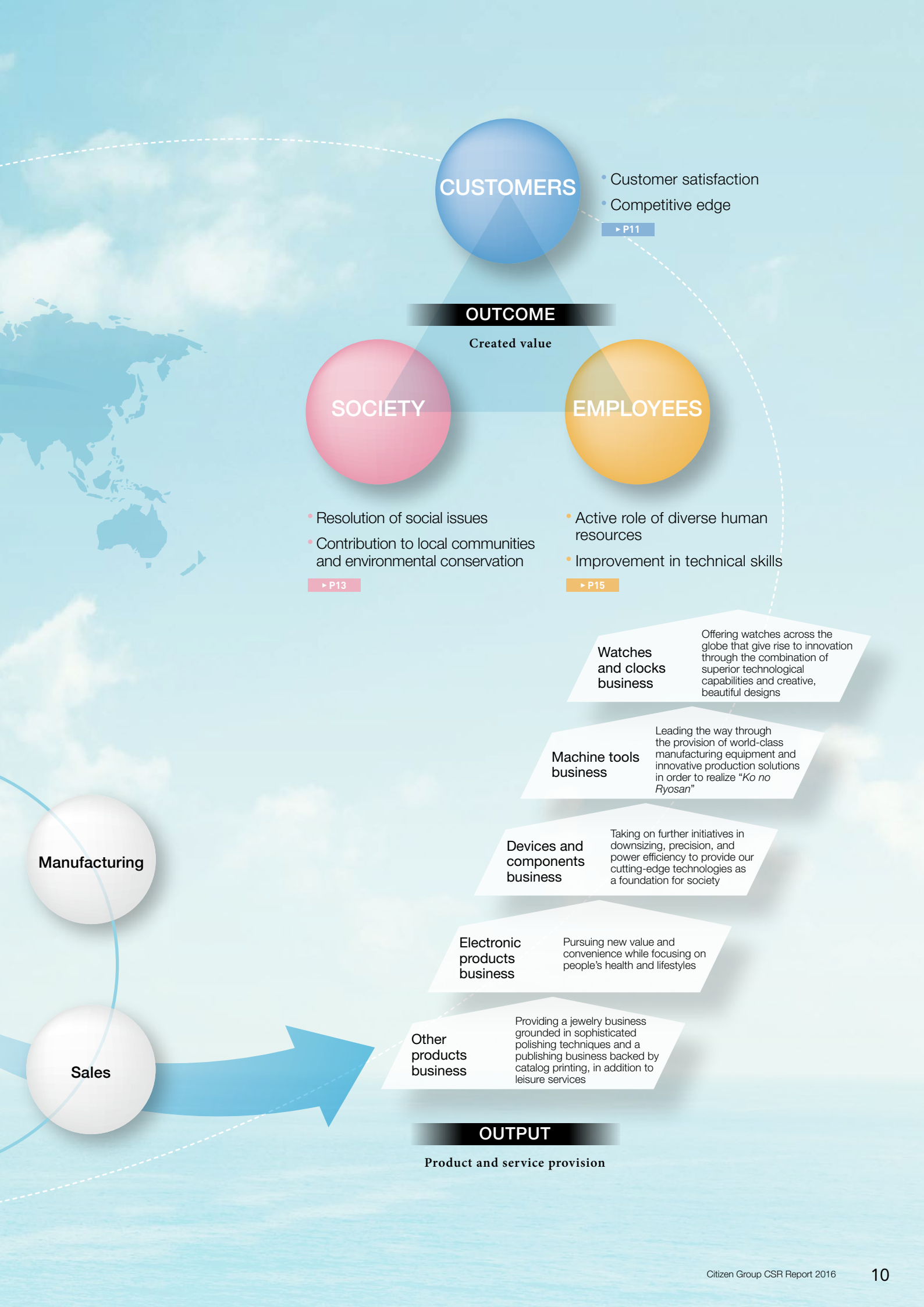
Corporate Philosophy

Citizen Group Code of Conduct

## Value Chain



Business activities that inherit the DNA of the watch business



## CUSTOMERS

- Customer satisfaction
- Competitive edge

▶ P11

## OUTCOME

Created value

## SOCIETY

- Resolution of social issues
- Contribution to local communities and environmental conservation

▶ P13

## EMPLOYEES

- Active role of diverse human resources
- Improvement in technical skills

▶ P15

### Watches and clocks business

Offering watches across the globe that give rise to innovation through the combination of superior technological capabilities and creative, beautiful designs

### Machine tools business

Leading the way through the provision of world-class manufacturing equipment and innovative production solutions in order to realize "Ko no Ryosan"

### Devices and components business

Taking on further initiatives in downsizing, precision, and power efficiency to provide our cutting-edge technologies as a foundation for society

### Electronic products business

Pursuing new value and convenience while focusing on people's health and lifestyles

### Other products business

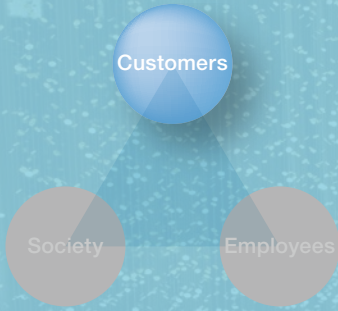
Providing a jewelry business grounded in sophisticated polishing techniques and a publishing business backed by catalog printing, in addition to leisure services

## OUTPUT

Product and service provision

Manufacturing

Sales



# The Value We Offer Our Customers

The Citizen Group always lends an ear to the voices of its customers. By not only developing technology-driven products but also creating value together with customers to meet the changing needs of society, we aim to continue to be an enterprise that evolves with its customers as their valued partner. We believe that this aim is embodied in our CSV initiatives.



## ▶ Providing the Manufacturing Industry with Solutions for New Value

Citizen Machinery Co., Ltd., provides the “alkapplysolution” service, a collection of solutions that meld the functional and technological know-how the company has long accumulated with ICT\*1 and IoT\*2.

Notwithstanding the trend of automating factories to the greatest extent possible, which was strongly advocated in the 1980s, we pushed for “Human Oriented Factories” (1990, CFA\*360). We did so under the belief that people are not tools to raise efficiency but rather represent the foundation for the creation of quality products, and, by virtue of that, the presence of people on the factory floor is indispensable. The “alkapplysolution” service was created out of this support for “Human Oriented Factories.”

As an initiative to advance “Human Oriented Factories,” we began to advocate for “Impressive Value Production” (2000, CFA70), which shares added value with customers in addition to the value provided through manufacturing. Through the promotion of the idea of “Impressive Value Production,” we implemented “*Ko no Ryosan*”—the creation of many different products—at CFA85 in 2015. The “alkapplysolution” service supports this concept. Further, the

service has helped Citizen Machinery evolve its ICT infrastructure and realize the establishment of e-learning programs, the visualization of machine conditions, and cloud-based support for program creation.

By strengthening the partnership it has with its customers and continuing to provide solutions to the issues they face, Citizen Machinery will contribute to the evolution of manufacturing around the world.

\*1 ICT: Information & Communication Technology

\*2 IoT: Internet of Things

\*3 CFA: An abbreviation for Citizen Factory Automation, an event that presents Citizen’s vision for metalworking factories with a focus on factory automation



## ▶ Promoting Product Development That Pursues “Quality of Light”

Citizen Electronics Co., Ltd., has manufactured and sold LEDs for lighting since 2003 and has developed various technologies that enhance brightness and reduce environmental impact of its products.

In recent years, customer needs have been changing, related to not only power consumption, efficiency, and brightness but also the value of the “quality of light.” Customers now desire products that focus on details and tones of objects, such as high color-rendering LEDs, which closely reproduce natural colors, and high coloring LEDs, which vividly illuminate objects. Citizen Electronics properly

responds to the changing needs of its customers and further pursues the value of the “quality of light.”



Kitaguchi Hongu Fuji Sengen Shrine’s Fujisan Ootori

## ▶ Taking on the Challenge of Developing New Hybrid Machines to Respond to Customer Needs

Citizen Machinery has been responding to needs for medical parts centered primarily on its “Cincom” sliding headstock type automatic lathes. However, the company faced challenges in regard to micromachining for stents that dilate blood vessels.

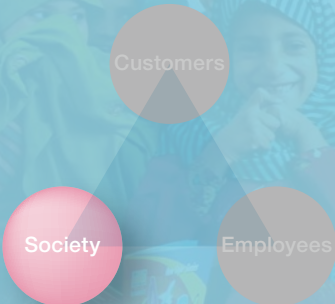
To overcome these challenges, we developed a hybrid machine equipped with a laser device suitable for micromachining, the first machine of its kind.

When cutting and laser machining is carried out with one machine, extremely precise machining is able to be performed with stents and endoscopy forceps. Medical parts made with this hybrid machine help reduce the physical burden on patients.

Even when processing costs are high, using one machine is less expensive than introducing multiple machines for separate processes. In addition, this hybrid machine conserves space and contributes to reductions in equipment costs and increases in productivity.

Through collaboration with a third party that possesses technology featuring system integrator functions, we will continue to cooperate with our customers and develop technology that meets their potential needs. In doing so, we aim to create further value together with our customers.





# The Value We Offer to Society

The Citizen Group bears in mind the impact its products have on society. As such, we promote R&D with a constant awareness toward contributing to environmental conservation and the resolution of other social issues. Not only do we make efforts to reduce our environmental impact, we provide value to society through new branding in our advertising and sales activities. In these ways, we aspire to further improve our corporate value.

by  
 e Community members, in partnership with Plan Pakistan  
 for the girls of District Diامر, with a generous donation from  
**Citizen Watch Co. Ltd**  
 Date 2015



## ▶ Endorsing the “Because I am a Girl” Campaign

Citizen Watch Co., Ltd., has endorsed the “Because I am a Girl” Campaign. Promoted by the NGO Plan International, the campaign supports girls and women in developing countries. Citizen Watch is providing support for the campaign in such ways as donating a portion of the proceeds from sales of its “Citizen xC” watches.

By lending its support in this way, Citizen Watch helps raise awareness of social issues among a great number of people through product advertising and sales. In addition, the purchase of “Citizen xC” watches allows customers to personally get involved with activities to resolve social issues.

Donations in 2015 were put to meaningful use in an educational program for girls in Pakistan as well as a project to improve the livelihood of women in Mali. Citizen Watch will

continue to promote participation in activities to resolve social issues through its support of the “Because I am a Girl” Campaign.

At the same time, the company will move forward with a variety of initiatives under the aim of establishing brands that provide social value.



Because I am a Girl x xC  
<http://citizen.jp/product/xc/girl/index.html> (Japanese only)

## ▶ Promoting CSR Development and Responding to the Issue of Conflict Minerals

Grounded in the spirit of the Citizen Group Code of Conduct and the U.N. Global Compact, the Citizen Group gives consideration to social issues related to human rights, labor, the environment, and anti-corruption.

Citizen Watch and Citizen Electronics have established CSR procurement guidelines and are working to clarify the guidelines’ stance on human rights, the environment, and ethics with their business partners. Specifically, the companies are making efforts to clarify the important items of the guidelines with their suppliers. Furthermore, Citizen Watch and Citizen Electronics conduct inspections in response to customer requests to determine whether or not their products contain conflict minerals—namely, tantalum, tin, tungsten, and gold—mined in the Democratic Republic of Congo and adjoining countries and disclose the results of these

inspections. In addition, these companies request that their business partners do not use conflict minerals. In these ways, Citizen Watch and Citizen Electronics aim to eventually eradicate the source of funds for armed groups in these countries. More information on the initiatives these companies are taking toward conflict minerals is posted on the Citizen Holdings CSR site.



Children selecting minerals at a cobaltite mine in the Democratic Republic of Congo  
©Amnesty International

## ▶ Building on 40 Years of “Eco-Drive” (Light-powered Technology)

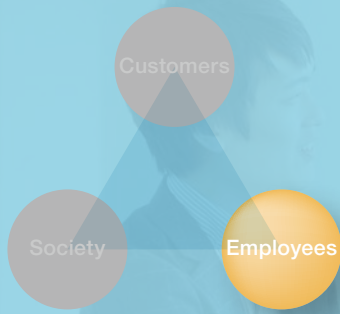
In 1976, 40 years ago this year, Citizen Watch launched the world’s first light-powered analog watch. From only a small amount of light, the technology used in this watch can harness enough power to allow the watch to continue to run. The technology’s name “Eco-Drive” represents the technology’s benefits to people, society, and the environment, as well as the fact that this light-powered technology allows watches to continue to run over a long period of time.

“Eco-Drive” promotes non-polluting clean energy as there is no need to periodically change batteries. Accordingly, “Eco-Drive” has received high praise for its environmentally friendly qualities. In 1996, the “Eco-Drive” watch became the first wrist watch to receive the Eco Mark product certification. Furthermore, in 2014, Citizen Watch became the first watch company to receive a gold prize at the “Eco Mark Award 2014.” This award recognized the company’s

contribution to improving consumer awareness about the environment through the widespread use of its “Eco-Drive” series of watches.

The manufacture of products incorporating the environmentally friendly “Eco-Drive” technology has helped change the way employees of the Citizen Group think about the environment and encourage initiatives toward environmental conservation as well as cosponsorship and philanthropy.





# The Value We Offer Our Employees



As a basic principle, the Citizen Group maintains the belief that fostering employee growth and development is directly concomitant with improvement in corporate value. Based on this belief, we conduct educational training to encourage employees to improve their careers on their own initiative.

To create a corporate culture that not only allows employees to improve their technical skills but also grow on a personal level, we provide opportunities for employees to actively communicate with each other regardless of whether they are general staff or managers.





## ▶ Aiming for All Employees to Acquire the QC Certification

Since its establishment in 2013, Citizen Watch Manufacturing Co., Ltd., has worked to improve the professional capabilities of all employees by aiming to achieve a 100% acquisition rate for the Quality Control (QC) Certification.

In addition, through the establishment of an in-house certification system for contract employees, we have sought to improve the level of employee expertise group-wide.

In fiscal 2015, three years after the establishment of Citizen Watch Manufacturing, we were able to reach an 80% acquisition rate for the QC Certification. We also proactively implemented the in-house certification system at such locations as Guangzhou Most Crown Electronics LTD. in China,

achieving a 100% acquisition rate for rank four in April 2016.

How our employees will leverage their acquired certification in their daily work will be a major issue for us going forward. As such, we will continue to promote initiatives to improve the professional capabilities of our employees. In doing so, we will make group-wide efforts to continue pursuing our goal of "Building the World's Foremost Watch Factory."



## ▶ Promoting Diversity and the Active Role of Women in the Workplace

Toshio Tokura, President and CEO of Citizen Holdings, has declared that Citizen will promote diversity and vigorously create a work environment that embraces diversity.

By exercising the individual capabilities of diverse human resources, diversity helps maximize the accomplishments the Citizen Group can make as an organization. The Group will be able to develop superior personnel and achieve its management targets by having all employees utilize their individual strengths and work in an outgoing manner.

In order to raise employee awareness toward diversity, Citizen Holdings invited an external instructor to come to its offices to hold a seminar. At the seminar, the instructor gave lectures on the importance to realizing one's own unconscious bias and prejudice as well as on the kind of merits the active role of women in the workplace can bring to

a company. Participants in the seminar made such comments as, "I became aware that some of my views were narrow-minded, making it difficult to accept diversity" and "Diversity is an important, long-term theme that I hope we can make well-known throughout the Company." These lectures provided employees with an opportunity to recognize the importance of diversity on an individual level.

Going forward, the Citizen Group will engage in specific initiatives toward enhancing diversity, including efforts in response to the Act to Advance Women's Success in Their Working Life.



### VOICE

#### A Message from Citizen's First Female CEO

I feel that the Citizen Group has in place a welcoming work environment for female employees. However, for the future promotion of diversity, I believe it is important to take a broader approach that establishes a comfortable work environment from the perspective of not only female employees but also employees of different nationalities, mid-career employees, and employees who are providing nursing care. In addition, I feel there is a need to put in place a structure that allows all employees, not only female employees, to fully comprehend what kind of abilities they possess and how they should develop their careers going forward.

I believe that if all employees of the Group continue to maintain their own personal vision when confronted with various difficulties, opportunities to grow on a personal level will present themselves. I also believe that constantly being respectful to others and expressing gratitude can lead to future career opportunities.

The level of responsibility for me as the representative director and chairperson of Citizen Watches Australia is higher than ever before. While I of course feel some pressure, I am excited to tackle the challenges I will face in this position.



**Shiori Takahashi**

Chief Executive Officer, Citizen Watches Australia Pty Ltd.

# CSR at the Citizen Group

## ▶ Supporting the United Nations Global Compact

By realizing its corporate philosophy, the Citizen Group strives toward the sustainable development of society and Group growth, while aiming to be a company that is loved, respected, and truly needed by society. In 2005, we joined the U.N. Global Compact\*, and we develop our business in accordance with the precepts of the Global Compact and through CSR activities based on the Citizen Group Code of Conduct. We consider conducting our management in keeping with stakeholder requests and expectations essential to maximizing the value we provide to society, and we are reinforcing stakeholder communications accordingly.



### The 10 Principles of the U.N. Global Compact

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

\* U.N. Global Compact: By demonstrating responsible and creative leadership, companies and other organizations behave as good members of society and participate voluntarily in an international framework to realize sustainable growth. Joining the compact indicates a company's dedication to initiatives to achieve the 10 principles, based on a commitment by top management.

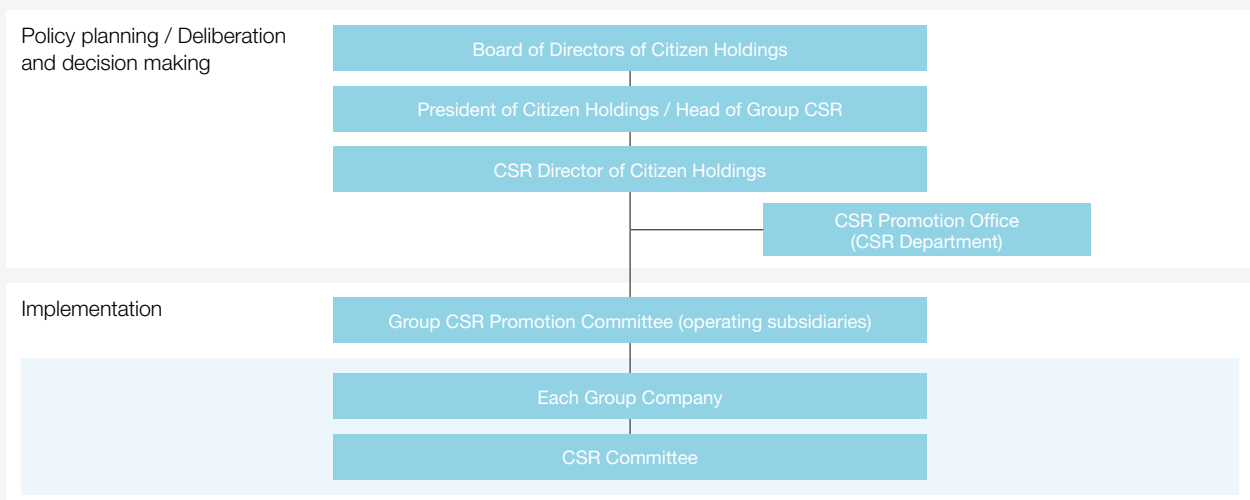
## ▶ CSR Promotion System

The Citizen Group has established the Group CSR Promotion Committee where the president of Citizen Holdings provides ultimate supervision and the CSR director acts as a committee member. In addition, the CSR Department acts as the CSR Promotion Office.

The Group CSR Promotion Committee determines policies and drafts measures for the Citizen Group and oversees their implementation. In addition, the committee conducts seminars and CSR training with the aim of promoting and

enhancing the CSR activities of each Group company. At the same time, the committee conducts CSR awareness surveys of all employees, including executives, to evaluate the Group's CSR activities and identify potential issues.

### Schematic Diagram of Our CSR Promotion System



## ▶ Citizen Group Code of Conduct

### CITIZEN GROUP CODE OF CONDUCT

- 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 all countries and regions, and contribute to the development of local communities.
- 9 The top management 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

Enacted by the Corporate Strategy Committee of the Citizen Group

### CSR Seminars for Employees

In the 9th CSR Awareness Survey, employees expressed a desire to deepen their understanding of ISO 26000. In response to this feedback, we invited outside instructors to provide lectures on ISO 26000 and our CSR activities as well as integrated reporting. Participants' comments included, "How to go about enhancing the quality of our daily CSR activities is an issue we must address, and these lectures gave me a chance to once again consider the role of my division in overcoming this issue" and "The discussion on how the disclosure of non-financial information is gaining the attention of institutional investors as a means to ensure the credibility of corporate activities in general was extremely interesting." In this way, this seminar provided employees with an opportunity to consider the relationship that a company's business activities has with the development of a sustainable society.



Seminar conducted by the Group CSR Promotion Committee

## Consumer Issues

The Citizen Group provides products aimed at resolving issues that customers face and making their lives more enjoyable. The products the Citizen Group manufactures take safety, quality, and the environment into consideration. In addition, rather than considering our responsibilities to be complete once products are sold, we offer thorough product support and follow-up services in an effort to develop long-term customer relationships.

### Activities to Ensure Customer Loyalty

At Citizen Watch Co., Ltd., we are promoting initiatives that aim to improve “Customer Experience Value\*.”

At the Citizen Customer Service Desk, we are responding to customer needs by performing prompt and thorough repairs and maintenance on the watches of customers.

In addition, we are taking initiatives to enhance our service system so that our customers can receive the same level of service from anywhere across the world with peace of mind.

Going forward, we will continue our efforts to build relationships with our customers in order to ensure their loyalty.

\* “Customer Experience Value” refers to not only the physical value of product function and performance but also the value of inspiring and impressing customers when they purchase our products and use our services.



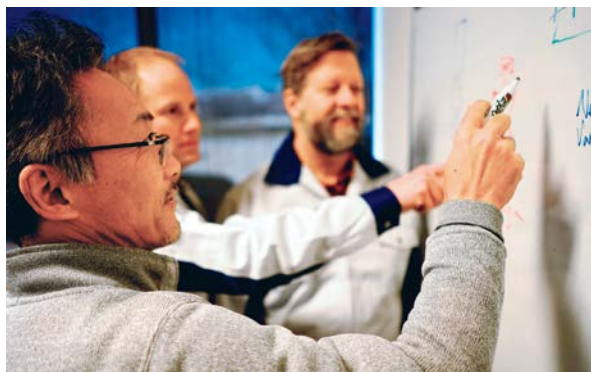
Citizen Customer Service Desk

### Contributions to the Safety and Security of In-Vehicle Product Use (LCOS\* Module)

Compared with conventional products, the ferroelectric liquid crystal panels offered by Citizen Finedevice Co., Ltd., have a higher level of responsiveness and allow for displays with high resolution, definition, and brightness. Also, these panels are small and light due to the fact that all of their drive circuits are embedded into a single silicon backplane.

When used in a vehicle’s heads-up display, these ferroelectric liquid crystal panels project turn signals, vehicle speed, and other important information on to the vehicle’s windshield. By eliminating the need for drivers to change their line of vision, these panels help increase driving safety. In doing so, they contribute to the creation of an even safer and more secure society.

\* LCOS: Liquid Crystal on Silicon



Discussion on development stages

### Devoted Attention to “Genuine Customer Feedback” and the Resolution of Customer Issues

At Citizen Systems Japan Co., Ltd., a Group company that deals with healthcare products, 70% of feedback that the company’s customer service center receives comes from the elderly, and an even more considerate and warm approach is essential in responding to such feedback. We leverage the accumulation of this kind of “genuine customer feedback” as a source for developing new products that resolve customer issues.

The CTE707 Digital Thermometer, launched in October 2015, was developed in response to such “genuine customer feedback.” Going forward, we will endeavor to improve our levels of customer satisfaction in order to offer exciting products that exceed customer expectations.



Customer service center

# Fair Business Practices

To promote sustainable business activities, the Citizen Group engages in fair, transparent, and open competition in business transactions, and it maintains healthy relationships with suppliers and government regulatory authorities. Our intellectual property activities respect the intellectual property rights of third parties, and we protect our own intellectual property, which is essential for creating customer value. We also promote an intellectual property strategy to protect the Citizen brand and gain competitive advantage.

## Intellectual Property Activities That Secure a Competitive Edge for Our Business

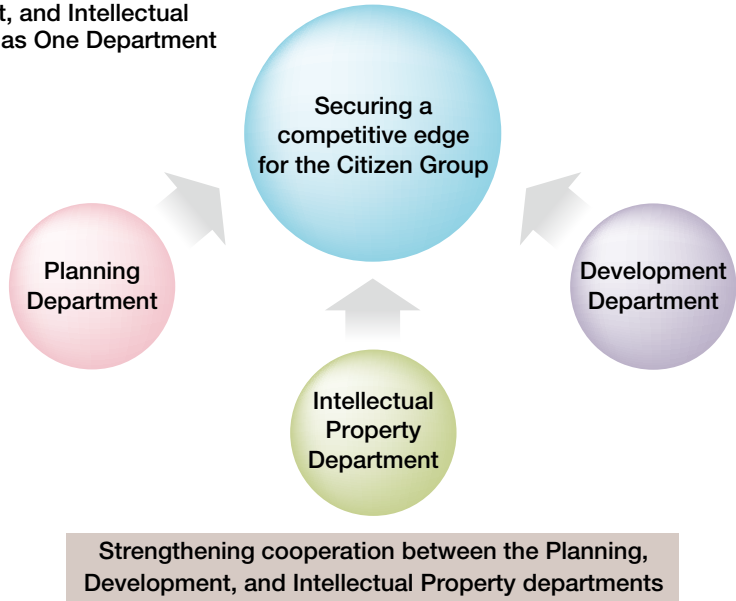
The Citizen Group respects the intellectual property rights of other companies and makes efforts so as not to infringe upon them. Furthermore, we acquire intellectual property rights for our proprietary core technologies and peripheral technologies and work to establish barriers to deter entry by our competitors. At the same time, we take strict measures to counter the infringement by third parties.

The most important aspect of our intellectual property activities is having the Planning, Development, and Intellectual Property departments engage in efforts as one department. From the stage of initial planning, if another company already has a barrier in place to prevent other

companies from acquiring intellectual property rights for an idea or a technology, the Intellectual Property Department is able to promptly inform the Planning Department of that barrier, allowing us to move the development of an idea or a technology in a different direction. In other words, by being able to switch the direction of development at an early stage, we are able to increase the possibility for us to secure advantageous intellectual property rights.

To continue to be successful in our intellectual property activities, we will work to swiftly establish a system that further enhances the quality of methods to provide information on intellectual properties.

### Intellectual Property Activities That Unite the Planning, Development, and Intellectual Property Departments as One Department



## Appropriate Business Transactions

The Citizen Group's business is supported by a large number of business partners at every level of the value chain. Without the cooperation of these business partners, we would not be able to realize business sustainability.

With the aim of establishing a win-win relationship between an orderer and a subcontractor, we created the Appropriate Transaction Guidelines to be used across the entire Group. These guidelines introduce specific examples of ideal transactions, thereby allowing the Group to engage in beneficial negotiations by referencing these examples.

To realize an ideal transaction with a subcontractor, it is important to make attempts to revise the transaction method used. There are cases where the best transaction method may not be in place even though we have been conducting transactions with a certain subcontractor for a long period of time.

To ensure that fair transactions are being carried out in accordance with laws, regulations, and social norms without exception, we are working to raise employee awareness by conducting classes on the Japanese Subcontract Act using the Appropriate Transaction Guidelines.

# Environment

We recognize that environmental issues are a common concern for humankind and of topmost importance to companies. The Citizen Group strives to reduce environmental impact through its products and services. Extending beyond the production stage, these efforts include proactive measures to lower the environmental impact of our products during use by customers.

## Efforts Aimed at Strengthening the Citizen Group's Environmental Policies and Management

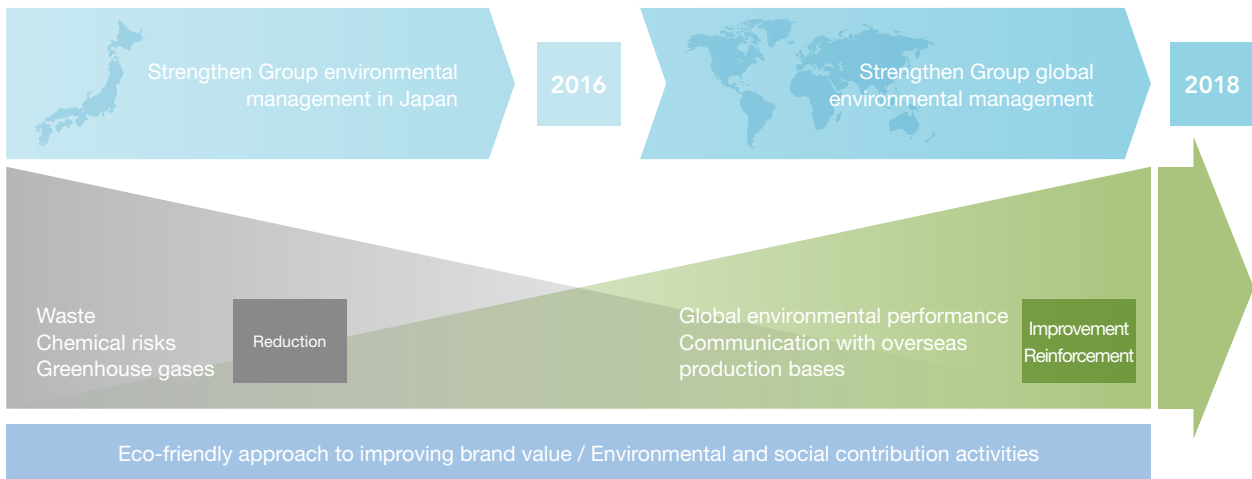
Our environmental initiatives are based on the Citizen Group Medium-Term Environmental Plan 2018, which was established in 2013 with the aim of enhancing environmental management from a global perspective. The first three years of the plan focus on strengthening the Group's environmental management in Japan, and the last three years of the plan focus on strengthening the Group's environmental management globally. In addition, we are promoting environmental initiatives under our action plan Citizen Eco-Action 100.

In the middle of fiscal 2015, we launched a subcommittee to compile our Environmental Management Manual, which is

aimed at integrating environmental management with the business management consistent with the ISO 14001:2015 revision. We make efforts to ensure Group-wide activities through the leadership of our top management to realize an efficient environmental management system. Outside Japan, as we have already established a framework to assess environmental performance and environmental risks, we believe that we can achieve our plan for the reduction of global environmental loads.

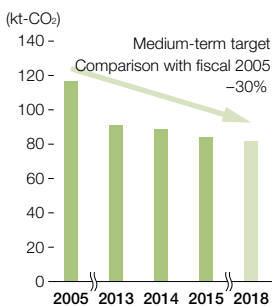
### Citizen Group Medium-Term Environmental Plan 2018

#### Promote environmental management

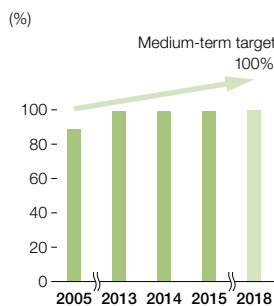


### Domestic Results and Medium-Term Targets through Fiscal 2015

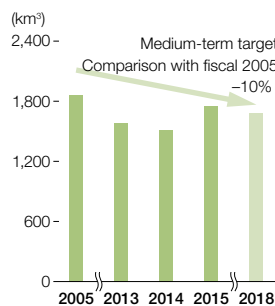
#### Amount of Greenhouse Gas Emissions



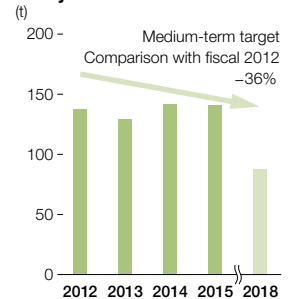
#### Recycling Rate



#### Amount of Water Used



#### Transaction Volume of Chemical Substances Subject to the PRTR Act\*



\* Chemical substances subject to the PRTR Act 2001: 354 substances; 2010: 462 substances

## ▶ Results of Specific Initiatives

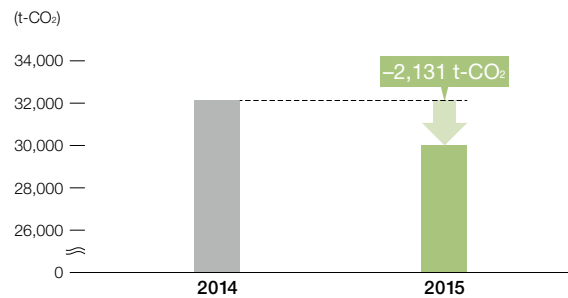
### Reduction of CO<sub>2</sub> Emissions at Watch Manufacturing Plants

Citizen Watch Manufacturing Co., Ltd., adopted the reduction of CO<sub>2</sub> emissions as one of its environmental targets in fiscal 2015. To achieve this target, the company is working to reduce the consumption of electric power, which accounts for nearly 91% of energy the company uses, primarily at its five major manufacturing plants in Japan. The company has established an extensive action plan for improving the efficiency of plant facilities, including the replacement of lighting with LEDs and the introduction of highly efficient air conditioning units, compressors, and unit control systems. On the production floor, the company has steadily promoted initiatives for preventing air leaks from lines connected to air compressors and adjusting the optimal air pressure levels for plant operation. Furthermore, on some windows, so-called green curtains made of vines for shielding from direct sunlight have been set up for lowering the air conditioning power. As a result of these efforts, Citizen Watch Manufacturing was able to realize a 6.6% reduction in CO<sub>2</sub> emission amounts; in terms of volume, that represents a 2,131 t-CO<sub>2</sub> reduction. As the CO<sub>2</sub> emission amounts of Citizen Watch Manufacturing account for nearly one-third of the entire domestic Citizen Group's emissions, the company will continue to improve its environmental performance going forward.



Air leak inspection

### Results Achieved in Reducing CO<sub>2</sub> Emission Amounts



### Initiatives to Strengthen Global Environmental Management

After the Group consolidated ISO 14001 certification in 2014, each Group company and the Group Environmental Headquarters joined forces to conduct environmental inspections at overseas plants, assessing environmental management implementation and environmental

performance at each plant. In this way, we have facilitated better communication with local staff. We will make an effort to create a truly global environmental management system along with our overseas Group companies, who will lead these activities.



On-site inspections of overseas production bases

# Labor Practices

The Citizen Group endeavors to provide true value to stakeholders by ensuring a safe and pleasant working environment, encouraging the development of its employees' abilities and energies, and invigorating each of its workers. We conduct a variety of educational and training programs to augment skills and foster an environment where employees can further their personal growth.

## Support of Activities for Employees with Disabilities

At Citizen Watch Goodrington (China) Ltd., 13 employees with disabilities are fulfilling various roles on the production floor. Each of these employees participates actively as part of the company's valued workforce. We are innovating and improving operations so that employees with or without disabilities can further enhance their potential. In doing so, we are making concerted efforts to create a welcoming work environment for all employees.

The Citizen Group regards the employment of people with disabilities as a social responsibility of a public entity to secure a valuable addition to its workforce and does not do so simply because it is stipulated by law. Under this belief, we aim to be a lively enterprise where all employees have a proper understanding of disabilities and diversity and are

able to work together by leveraging the strengths of others while fully exercising their own abilities.



Innovations being made to the work environment

## An Invigorating Work Environment

Citizen Watch Goodrington listens carefully to the opinions of its employees. With the aim of it becoming an even more competitive company that works hand-in-hand with its employees, we are strengthening our communication with labor unions. In addition, we are making efforts to establish a work environment where employees can voice their opinions and suggestions at any time, not just during deliberations on important projects. The content of these efforts is shared between the company and labor unions.

Furthermore, we are enhancing our employee welfare programs and taking initiatives to deepen exchange among employees by holding athletic meets and basketball tournaments. In these ways, we are focusing our efforts on establishing a welcoming work environment where employees can

better understand each other and carry out their duties with peace of mind.



Basketball tournament

## IkuBoss Conference

The term *IkuBoss* refers to managers or supervisors who are understanding of male employees and subordinates' participation in raising children and work to establish an environment where employees can balance their work life with parenting through the promotion of childcare leave and other means.

Citizen Electronics Co., Ltd., held visiting lectures on *IkuBoss* sponsored by the Fujiyoshida City Gender Equality Promotion Council. At these lectures, employees who are raising children engaged in discussion with their supervisors on establishing an environment that is conducive to maintaining a work-life balance. While these employees are highly satisfied with the company's childcare leave, many expressed the need for the company to make it easier to

take regular paid leave as well as the need to control over-time hours. Through such discussion, these lectures offered an opportunity for us to reconsider the current state and future outlook of the workplace.



*IkuBoss* lecture



# Human Rights

Recognizing itself as a member of international society, the Citizen Group values and respects the different cultures and customs of other countries and seeks to eliminate discrimination in all forms. Meanwhile, we accept and respect employees' characters, individuality, and diversity in our efforts to achieve further increases in corporate value.

## ▶ Initiatives to Prevent Harassment

In June 2015, Citizen Holdings, Citizen Watch, and Citizen Business Expert Co., Ltd., established regulations related to the prevention of sexual harassment and power harassment, which have become major social issues. In conjunction with the establishment of these regulations, we invited Yasuo Mikami, an attorney, to conduct a seminar on harassment prevention at our offices in September 2015. This seminar served as a way to raise employee understanding and awareness of harassment as well as to ensure compliance with in-house regulations. The seminar targeted management personnel who held a position above section head and shared practical and specific details on harassment, focusing primarily on situations during day-to-day work where harassment often occurs. In doing so, the seminar provided our management personnel with an opportunity to deepen their understanding of harassment prevention and in-house regulations.

Going forward, we will continue to make efforts to establish a healthy work environment by further enhancing employee understanding toward harassment prevention and thoroughly enforcing in-house regulations.



Seminar on harassment prevention

## ▶ People-Friendly Corporate Management

The Citizen Group has made a swift entrance into Thailand, with several production bases already established. We position the country as a primary location for our manufacturing bases following China.

In 2001, Keiichi Nakajima, the current president of Citizen Machinery Co., Ltd., set up Citizen Machinery Asia Co., Ltd., with only three employees. At a time when most companies considered local hiring to be only for the purpose of providing manpower, Mr. Nakajima respected and valued his employees as important business partners. Due to the success of that approach, Citizen Machinery Asia became a model for Japanese companies' entrance into Thailand and was publicly honored by the country's king.

Carrying on this tradition of respecting and valuing employees, we hold regular events to communicate to our employees the excitement and importance of working

together as a team as well as to encourage them to act independently.



Citizen Machinery Asia employees

## ▶ Response to the Act to Advance Women's Success in Their Working Life

To create an employment environment where women can play an active role, the Citizen Group is taking steps to enhance career training and has established various action plans, including plans to reform work habits to place greater emphasis on maintaining a work-life balance. In addition,

Citizen Holdings, Citizen Watch, and Citizen Business Expert, which are scheduled to merge into one company in October 2016, have set a target to have more than 7% of female employees working as managers by fiscal 2021; as of fiscal 2015, the percentage of female managers was 5.7%.

# Community Participation and Development

Based on its corporate philosophy of “Contributing to and striving to be respected by the citizens of the world,” the Citizen Group values a peaceful co-existence with local communities and strives to contribute to society as a good corporate citizen. We endeavor to address social issues through our business activities and, by fulfilling our responsibility as a member of the international community and growing together with local communities, strive to help create a sustainable society.

## Activities That Hand Over Dreams to the Next Generation

In its contributions to local communities, the Citizen Group holds various events for children and people with disabilities to experience the excitement manufacturing and work life has to offer. These events include short-term educational courses, work experience programs, tours of Group plants, and classes on manufacturing. The events are undertaken with the aim of not only cultivating the human resources who will oversee the future of the Citizen Group but also supporting the development of manufacturing in Japan by educating the next generation.

Employees at Citizen Watch Manufacturing’s Tohoku Kitakami Plant have been participating in “Oni Job Fair for Kids,” an event that aims to teach elementary school children in Kitakami-shi, Iwate, about society while having them enjoy games and other activities.



Children enthusiastically participating in activities

We will continue to encourage children of local communities to take an interest in watches and how they are manufactured.

## Donation of an Automatic Lathe to Engineering School in Thailand

In August 2015, Citizen Machinery Asia donated a company-manufactured automatic lathe to the Saraburi School of Technology, a school from which many of its employees have graduated.

For some time, we have been facing difficulty in employing people that have technical experience with automatic lathes. Until now, there has not been a school in the Saraburi region that owned an automatic lathe and where students could study the theory of metal cutting. However, by making this donation of an automatic lathe, not only have we increased our chances of employing promising students in the future, we are contributing to increasing the number of students in Thailand with sophisticated technical expertise, which in turn can help lead to continued economic development for the country. Taking advantage of the opportunities this donation presents, we have also set up a system to accept student interns from the Saraburi School of Technology, thereby expanding our employment base.



Donation ceremony

Going forward, we will strive to enhance the Citizen brand value by establishing solid relationships with the local communities in which we operate.

▶ Fiscal 2015 “Citizen of the Year” Awards

“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. The program was established in 1990 in accordance with our corporate philosophy and is tied in with the spirit of our company name.

Thus far, the “Citizen of the Year” Awards have honored 79 people (groups) involved in a wide variety of activities related to social contribution, international contribution, self-expression, life-saving acts, and environmental conservation.

Guided by our corporate philosophy of “Contributing to and striving to be respected by the citizens of the world,” we will continue to support socially significant activities of local citizens.



Fiscal 2015 “Citizen of the Year” Awards

Fiscal 2015 Award Recipients

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

- Japan Hair Donation & Charity, a specified NPO that provides wigs free of charge to children fighting illness or receiving medical treatment
- Mitsuaki Yamazaki, who has been managing for 10 years *Osakana Post*, a facility that handles aquarium fish in order to preserve the ecosystem surrounding the Tama River
- Yoshikazu Shiraishi, who engages in initiatives to support the self-reliance and employment of young people that have stopped attending school or are dealing with social withdrawal

▶ Local Networking Events of the Citizen Table Tennis Club

The Citizen Table Tennis Club is a corporate table tennis team with 50 years of history and tradition. As one of the pioneers of corporate table tennis, the club consistently competes at the top level of corporate sports in Japan.

To communicate the fun of sports through table tennis and deepen our exchange with the local community, we hold table tennis events every year at cities across Japan where our offices are located. In fiscal 2015, we visited Kitakami, in Iwate, where Citizen Watch Manufacturing’s Tohoku Kitakami Plant is situated, and Kawajima-machi, Saitama, where Citizen Logistics Service Co., Ltd., is based. These events gave participants an opportunity to witness the skills of top-level table tennis players and actually compete with them. Participant comments included, “I was extremely happy to have the chance to experience first-hand table tennis techniques that I had not seen before.”



Networking event in Kitakami

Citizen Table Tennis Club  
<http://www.citizen-tabletennisclub.jp/>

# 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.

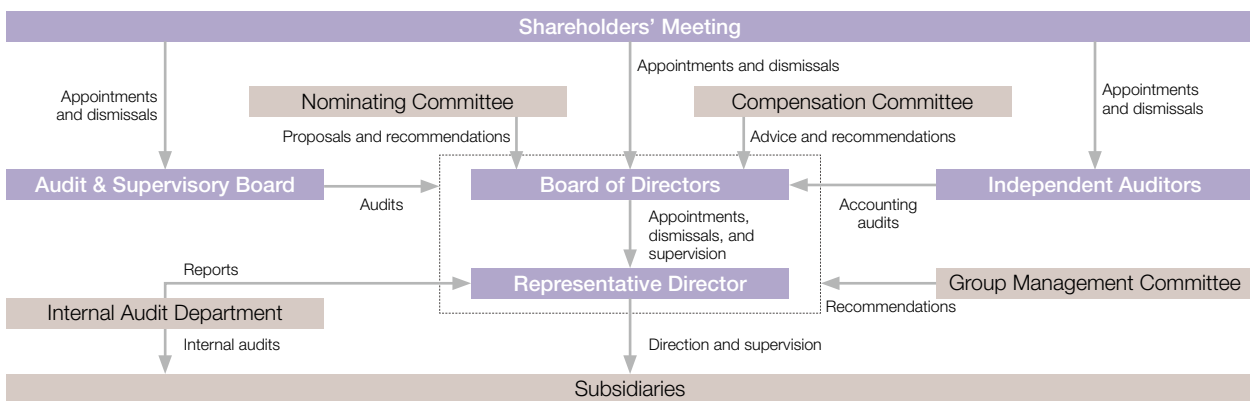
## Corporate Governance

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.

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.

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

### 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.

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.

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

### 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

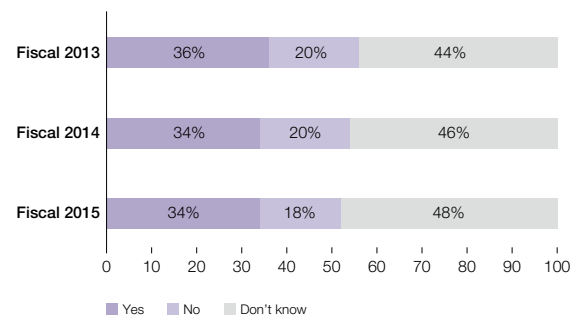
### CSR Awareness Surveys

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

**Q** 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.

# Data

## Environment

### Results for the First Half of the Citizen Group Medium-Term Environmental Plan 2018 (Excerpt)

Evaluations ○: Achieved △: Partly achieved ×: Not achieved

	Target			Results	Evaluations
	FY2013	FY2014	FY2015		
Promote environmental management	Consolidate Group environmental management system	• Obtain consolidated Group environmental certification • Strengthen Group environmental management system		<ul style="list-style-type: none"> <li>Acquired consolidated Group environmental certification</li> <li>Implemented internal Group audits and compliance audits</li> <li>Increased precision of overseas environmental data and regularly implemented activities to reduce environmental burden</li> </ul>	○
	Provide eco-friendly products and services	• Eco-friendly approach to improving brand value • Practice green procurement and expand range of eco-friendly products		<ul style="list-style-type: none"> <li>Received "Eco Mark Award Gold Prize"</li> <li>Acquired third-party certification for carbon footprint</li> <li>Issued Group Green Procurement Guideline</li> </ul>	○
	Respond to environmental laws and regulations	• Respond to global environmental laws and regulations, including chemical regulations		<ul style="list-style-type: none"> <li>Responded to RoHS Directive revisions and implemented CE marking</li> <li>Strengthened response to restricted substances of REACH regulation (Ni, Pb, Cr<sup>6+</sup>)</li> <li>Bolstered management systems for chemical substances</li> </ul>	○
	Help create low-carbon society and recycling-oriented society	<ul style="list-style-type: none"> <li>Control greenhouse gas emissions and help prevent global warming</li> <li>Reduce waste and promote recycling</li> <li>Reduce chemical risks</li> </ul>		<ul style="list-style-type: none"> <li>Received external recognition for energy-conserving activities</li> <li>Responded to revised Fluorocarbons Law</li> <li>Implemented recycling governance for waste</li> <li>Established targets to reduce handling volumes of chemical substances covered by PRTR Law</li> </ul>	○
	Protect nature and conduct community activities	• Conduct nature protection and regional environmental initiatives		<ul style="list-style-type: none"> <li>Implemented environmental activities deeply rooted in local communities</li> <li>Carried out greening initiatives at Group offices, giving consideration to biodiversity</li> </ul>	○

### Business Activities and Environmental Impact

		Japan	Overseas
INPUT	Total energy input (GJ)	2,136,797	1,148,626
	Water resource input (km <sup>3</sup> )	1,757	995
	Repeated use of water within the organization (km <sup>3</sup> )	55	85
	Chemical substance input (tons)	141	2,239
	Containers and packaging used (tons)	77	1,631
OUTPUT	CO <sub>2</sub> emissions (tons-CO <sub>2</sub> )	83,875	42,953
	NO <sub>x</sub> emissions (tons)	4	0
	SO <sub>x</sub> emissions (tons)	2	0
	Water drainage (km <sup>3</sup> )	1,177	574
	BOD emissions (tons)	15	7
	COD emissions (tons)	8	17
	Waste generated (tons)	6,662	7,864
	Waste land-filled (tons)	17	3,875

Input and output data does not include environmental impact at the distribution/sales, usage, or procurement stages. Target period: April 1, 2015, to March 31, 2016, for companies in Japan; January 1, 2015, to December 31, 2015, for companies overseas

Scope of data: 26 companies in Japan; 16 companies overseas

## Employees

### Recent Graduates Hired

	FY2013	FY2014	FY2015
Male	73	38	87
Female	18	12	35

### Employees Hired Mid-Career

	FY2013	FY2014	FY2015
Male	61	32	15
Female	25	4	14

### Average Age

	FY2015
Male	42.2 years
Female	39.7 years

### Average Years of Service

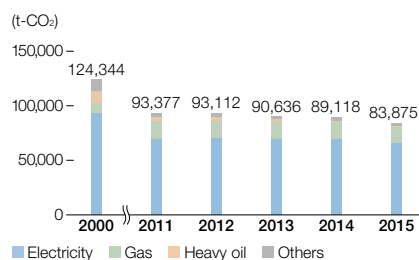
	FY2015
Male	17.8 years
Female	16.3 years

### Personnel Information

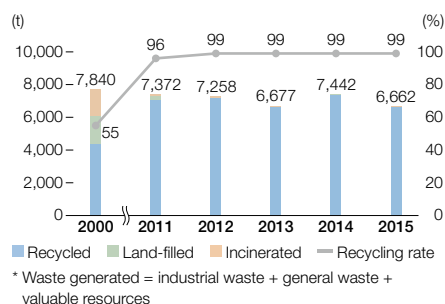
	FY2013	FY2014	FY2015
Percentage of female managers	3.27%	3.40%	3.50%
Usage of system for nursing care leave	2 (0)	2 (1)	4 (1)
Number of people taking childcare leave	35 (0)	51 (0)	53 (3)
Percentage of employees with disabilities	1.88%	2.03%	2.14%

Figures in parentheses are for male employees.

### Group-Wide CO<sub>2</sub> Emissions

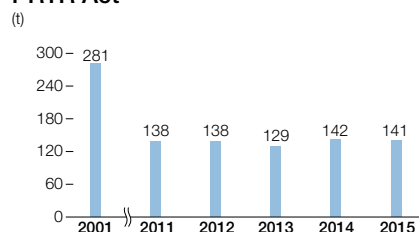


### Group-Wide Waste Generated\*



\* Waste generated = industrial waste + general waste + valuable resources

### Citizen Group Transaction Volume of Chemical Substances Subject to the PRTR Act\*



\* Chemical substances Subject to the PRTR Act  
2001: 354 substances; 2010: 462 substances

### Implementation of Specific Health Checkups and Specific Counseling Guidance (at 32 worksites)

	FY2013	FY2014	FY2015
Specified medical examination rate (employee & family)	80.1%	81.1%	76.4%
Metabolic syndrome rate	11.9%	11.8%	12.0%
Pre-metabolic syndrome rate	12.5%	11.5%	12.2%
Specific counseling guidance rate	26.8%	38.0%	41.1%

### Occurrence of Accidents

	FY2013	FY2014	FY2015
Fatal accidents	0	0	0
Accidents resulting in employee absence	8	7	10

Scope: Fiscal 2013: 13 principal Group companies in Japan  
Fiscal 2014: 13 principal Group companies in Japan  
Fiscal 2015: 12 principal Group companies in Japan  
(reflecting the merger of two main Group companies in Japan in April 2015)



## Third-Party Comments

Below, I offer my professional opinion on the content of *the Citizen Group CSR Report 2016* as well as on matters deemed to be of high importance in the report. As a reference for future policies and information disclosure, I hope that my opinions can help the Citizen Group (hereinafter, Citizen) implement its CSR activities on an even higher level going forward.

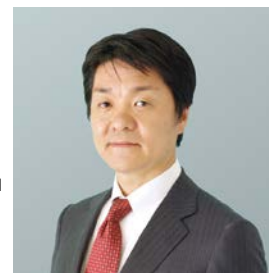
The beginning of this CSR report introduces the CITIZEN L brand ethical watches. As a concrete example of Citizen's CSV initiatives, I believe that CITIZEN L represents an excellent line of products that can appeal to both consumers and the watch industry in a symbolic manner. CITIZEN L reflects Citizen's efforts in fusing the casual qualities that customers seek in a watch with new sustainable and ethical value, and it is my hope that Citizen continues these efforts as a guiding principle of its manufacturing practices. Moreover, in addition to displaying the carbon footprint of these watches in their list of components, CITIZEN L brand watches have been certified as "DRC conflict-free." I believe that to be another noteworthy accomplishment. At the same time, the fact that the plan for CITIZEN L was created by female employees makes the brand a prime example of diversity management.

In addition to developing products with superior specifications, as Citizen has done with CITIZEN L, I would like to see the Group make efforts to incorporate a high-level of ethics in other parts of its operations through such means as making its supply chain even more transparent and further emphasizing respect for human rights and fair labor practices in its manufacturing processes.

The section on the value Citizen provides to its customers and employees as well as to society as a whole in the first half of the report communicates the Group's approach to CSV more clearly than last year's report. Furthermore, while no citation is given, Citizen's value creation process described in the report incorporates the basic ideas of the IIRC Framework. As such, I feel that Citizen has made progress in improving its response to international disclosure initiatives, which I had mentioned in my opinion piece on last year's CSR report. For future reports, in addition to providing examples of the value Citizen creates, I would like to see the

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Group delve deeper into how it realizes value creation, what the driving force of that unique value creation is, how it approaches the formulation of business models, and how the results of its value creation efforts tie into the creation of social value.

The section "CSR at the Citizen Group," in the second half of the report, adopts ISO 26000 as its main theme. While the progress of Citizen's efforts related to this theme is listed in a somewhat comprehensive manner, this section is limited to examples of Citizen's initiatives and brief explanations of their results. In contrast, in the "Message from the Management" section, President Toshio Tokura describes in detail the targets and results of Citizen's efforts to improve diversity and frankly alludes to the issues the Company faces. In each of the sections on ISO 26000, I would have liked the report to proactively disclose information related to the kinds of issues and risks the Company is dealing with in a similar manner. At the same time, as clearly defining policies, KPIs, and targets on a global level and expanding on numerical information related to performance helps arouse the interest of such stakeholders as ESG investors, I hope Citizen can leverage its website and other means to improve the quality of its information disclosure going forward.

Through the structural reforms planned to take place this year, I am expecting the Company to further deepen the participation of its directors and management in CSR activities as it continues to make progress in becoming an enterprise worthy of its name, Citizen.

### Response to Third-Party Comments

Thank you for your helpful and constructive comments.

In addition to continuing to ensure compliance management, there are many issues we must tackle in order to realize the goal of becoming a "Truly Global Company," which was adopted in the "Citizen Global Plan 2018," such as resolving social issues and further contributing to society, building trust-based relationships with our stakeholders, relating to ESG, and engaging in proactive disclosure.

While our efforts have just begun, the promotion of CSV initiatives is gradually taking hold in each Group business. Going forward, we will promote CSV initiatives in a more vigorous manner.

Guided by our corporate philosophy of "Contributing to and striving to be respected by the citizens of the world," we would like to continue efforts to ensure that our CSR reports deepen stakeholder understanding of our business activities based on the opinions you have provided. We deeply appreciate your thoughtful suggestions.



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**Yoshio Iizuka**

# CITIZEN

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