

CITIZEN



INTEGRATED REPORT
CITIZEN REPORT
2023

Loved by citizens, working for citizens.

CITIZEN's corporate philosophy, "Loved by citizens, working for citizens" is to deeply contribute to the lives of people around the world through the manufacturing of products that are loved and trusted by citizens.



CITIZEN CALIBRE 16

The first pocket watch completed using a proprietary design in 1924. It was named "CITIZEN" by the mayor of Tokyo at the time in the hope that it would be widely loved by citizens for a long time.



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CITIZEN Forest was created under the concept of being able to work both indoors and outdoors. At Tokyo Works, we planted 215 trees and created a space that is richly endowed with nature, attracting local birds and insects. This space won a 2021 Good Design Award.

Materiality **Inputs** **Sustainable management**

Risks and Opportunities

(Awareness of the External Environment)



Responding to climate change and contributing to a recycling-oriented society



Contributing to high-quality life



Providing solutions in industry



Increasing job satisfaction and cultivating human resources



Fulfilling social responsibility

Financial Capital

Total assets **389.9 billion yen**
 Net assets **232.7 billion yen**

Intellectual Capital

Number of patents that the Group holds more than **5,000**
 Number of trademarks that the Group holds more than **5,000**

Manufactured Capital

Amount of capital investment **17.4 billion yen**
 Production system centered on Japan, China, and Thailand

Social Capital

Global supply chain network

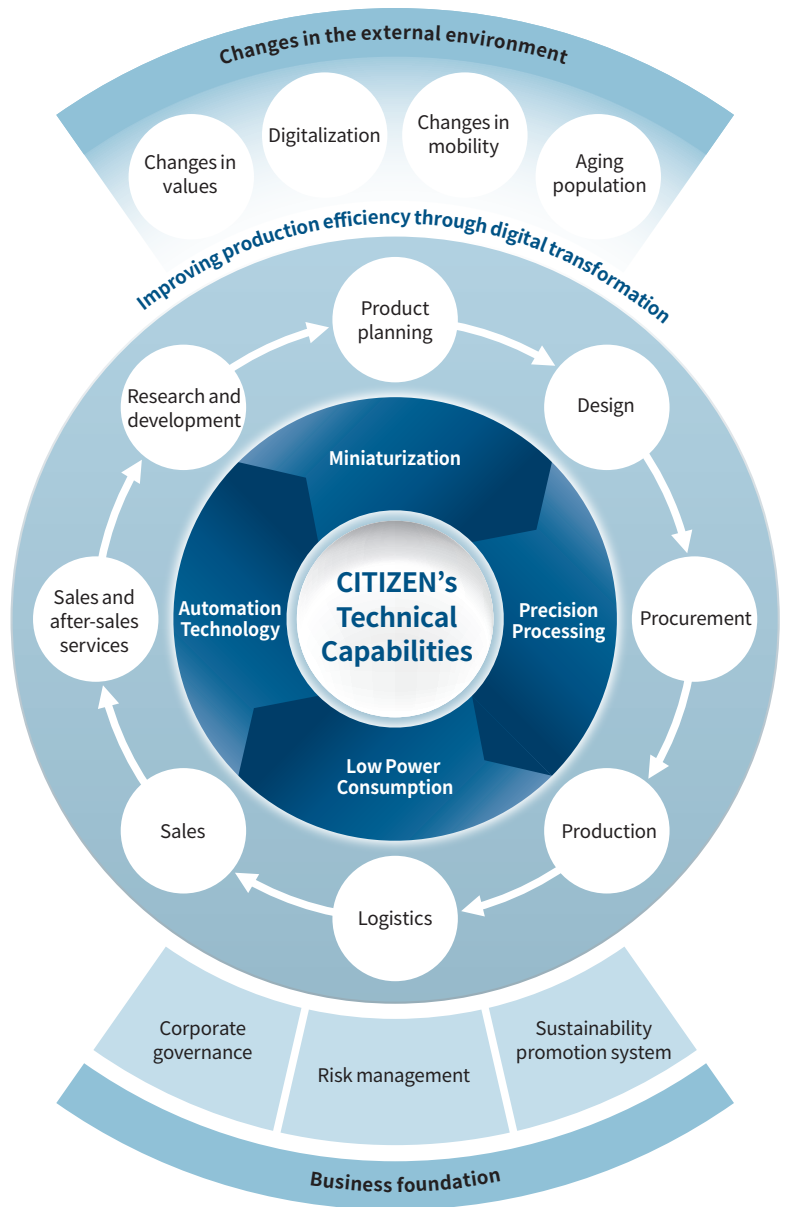
Human Capital

Number of employees **15,402**

Natural Capital

Total energy consumption **1,208,000GJ**
 Water intake **1,782,000m³**
 Recycling rate **89%**

(as of March 2023)



Provide sustainable products

Outcomes

Vision

Watches



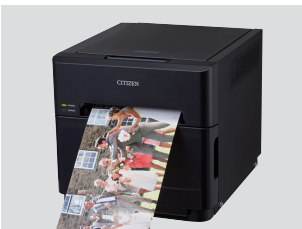
Machine tools



Devices and components



Electronic and other products



Corporate Philosophy

**Loved by citizens,
working for citizens.**

CITIZEN Group
long-term vision

**Crafting a
new tomorrow**

History of the CITIZEN Group

1910 1920 1930 1940 1950 1960

Watches

Top class share in the U.S. middle-range market
A global leader in movement sales

1918

Shokosha Watch Research Institute, the predecessor of Citizen Watch Co., Ltd., was established



1924

First pocket watch



1931

[CITIZEN F], CITIZEN's first wristwatch



1956

The first shock-resistant watch movement made in Japan [Parashock]



1952

First domestically produced watch with calendar [Calendar]



1959

The first fully waterproof watch made in Japan [Parawater]



Machine Tools

A leading world share for small and mid-sized CNC automatic lathes

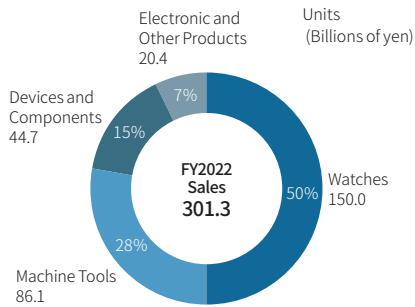
1936

Internalized manufacturing of precision machinery for watch production [AL-1]



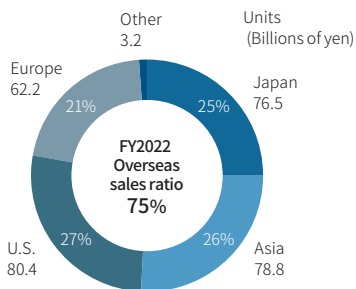
1961

External sales of machine tools commenced



Devices and Components

Application of precision processing technologies developed in the assembly of watch parts



Electronic and Other Products

Application of small precision technology

1980

1990

2000

2010

2020

1970

The world's first titanium wristwatch [X-8 Cosmotron Chronometer]



1993

The world's first multi-band radio-controlled watch [Cal. 7400]



2011

The world's first watch capable of receiving satellite signals [Eco-Drive Satellite Wave]



2021

Mechanical models featuring a completely new mechanical movement [The CITIZEN]



1976

The world's first solar-powered analog watch [Crystron Solar Cell]



2008

Acquisition of Bulova Corporation shares

BULOVA

2012

Acquisition of Prothor Holding SA shares

ARNOLD & SON
1764

2016

The world's thinnest light-powered watch with a movement just 1 mm thick [Eco-Drive One]



Acquisition of Frederique Constant shares

FREDERIQUE CONSTANT
GENEVE

1986

Sliding headstock type NC automatic lathe the long-selling model [L16]



2011

Citizen Machinery Co., Ltd., and Miyano Machinery Inc. merged

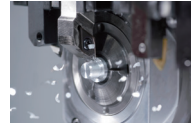
Miyano

2013

Multi-station machining cell [MC20]

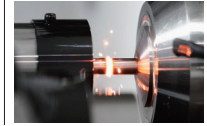


LFV Technology



2018

Friction bonding technology



1990

Manufacturing of automotive parts commenced

2011

Highly efficient LED for lighting [COB Series]

2013

Compact linear motor galvanoscanner [GVM Series]

1976

Production of crystal units and crystal oscillators commenced

1983

Mass production of the world's first surface-mounted chip LEDs commenced

1964

Expansion into the office equipment field

1983

IC sensor electronic thermometer [CT-20] featuring the world's first IC sensor

1997

Household-use ultrasonic bath [SW1500]

2007

Digital thermal ink-transfer photo printer for businesses [CX Series]

2017

Thermal printer [CT-S255] Achieves the industry's smallest height and width

Message Message from the President & CEO

式時計
n watch

クォーツ時計
Quartz watch

Crafting a new tomorrow

We aim to continue creating new value and never stop taking on new challenge as we work to embody our corporate philosophy: “loved by citizens, working for citizens.”

Citizen Watch Co., Ltd.
President & CEO

Toshihiko Sato



Review of FY2022

FY2022 was the first year of our Medium-term Management Plan 2024. It was a year in which we implemented several measures based on our long-term Group vision of “Crafting a new tomorrow.” As a result of these measures, our core Watches and Machine Tools businesses — in particular — remained resilient, performing beyond our plans and enabling us to strengthen the profit structure of each business. While risk factors such as soaring raw material prices and other cost increases remain, the key over the next two years will be how quickly and reliably we can implement various measures.

In 2023, although some uncertainty remains, as exemplified by growing tensions over the ongoing conflict in Ukraine and the failure of U.S. banks, the once raging COVID-19 pandemic is finally nearing its end, and the movement toward reopening has begun to accelerate globally. Over the past year, we have been in a strongly defensive position, but looking ahead we will turn to the offensive as we aim for sustainable growth.

Sustainable Management to Realize Our Long-Term Vision

Since FY2019, the CITIZEN Group has been working to resolve social issues through its business activities under the banner of “sus-

tainable management.” For the Citizen Group, sustainable management means not only providing good products and service but also expanding our business operations while earning the trust of stakeholders and working to sustainably increase corporate value — through management paying due care and consideration to social issues such as human rights and the global environment throughout our entire value chain.

In light of changes in the medium-to long-term business environment, the CITIZEN Group is leveraging its strengths and capital to address material issues (key issues for sustainable improvement of corporate value) in terms of both business activities and business foundation, and engaging in initiatives for growth.

Responding to Climate Change through Our Material Issues

In formulating our long-term Group vision, we have identified a set of material issues: key issues that the CITIZEN Group should address as priorities in the medium to long term. In particular, we have prioritized responding to climate change as the most important material issue for the CITIZEN Group. Strengthening efforts to combat climate change—such as the occurrence of abnormal weather conditions around the globe — has also become a pressing issue for companies.

The CITIZEN Group is working steadily toward achieving carbon neutrality by 2050, including facilitating the use of electricity derived from renewable energy sources and energy-saving activities, and aiming for net-zero effective greenhouse gas emissions from our factories and offices by 2050.

For example, the Group is gradually introducing solar power generation equipment at its manufacturing sites, both in Japan and overseas, and has switched to effectively CO₂-free electric power derived from renewable energy for its domestic Citizen Watch sales offices. We will continue working actively to respond to climate change, such as by switching to renewable energy for locations throughout the Group, including overseas bases.

By FY2030, we will achieve our CO₂ emission reduction targets for Scope 1 and 2 by 50.4% compared with FY2018, and Scope 3 (supply chain emissions) for Category 1 (CO₂ emissions emitted in the course of activities up to and including the manufacture of purchased products and services) and Category 11 (use of products by consumers) by 30% compared with FY2018. The CITIZEN Group Environmental Targets 2030 (greenhouse gas emission reduction targets to be achieved by) have been recognized as having a scientific basis to achieve the targets of the Paris Agreement and have obtained SBT Initiative^{*1} certification.



To achieve environmentally friendly manufacturing, we will formulate Green Procurement Guidelines, implement chemical substance management, and actively provide information. We will also comply with the laws and regulations of each country and expand our range of environmentally friendly products that pay care and consideration to energy saving, long-term usability, and environmental conservation. As a result of committing to these environmental conservation initiatives, we were certified as an “Eco-First Company” under the Eco-First Program*², a Ministry of the Environment initiative to promote corporate environmental activities. As of March 2023, 54 companies had been certified under the scheme, with 12 companies newly certified in April 2023, bringing the total number of companies certified to 66. We will continue to engage in environmentally friendly initiatives through our business activities and contribute to the realization of a sustainable society.

CITIZEN’s Environmentally Friendly Technological Capabilities

The CITIZEN Group has advanced technological capabilities developed through its Watches business. These technological capabilities, which we have continued to refine to achieve high-precision manufacturing, have developed into the Group’s four strengths of miniaturization, precision processing, automation technology and low power consumption, and have led to our expansion into a

wide range of fields such as Machine Tools, Devices and Components, and Electronic and Other Products.

In particular, the strength of low power consumption is an environmentally friendly technology that also leads to customer value. For example, since Citizen Watch launched the world’s first solar-powered analog watch in 1976, our Eco-Drive solar power generation technology has been installed in many Citizen products and has been marking the passage of time with customers for many years. With the growing awareness of sustainability in today’s society, its reputation is spreading to countries around the world. Times are changing significantly, and more dramatically, but we believe that watches are rare, and have universal value. Mechanical watches, in particular, have a history spanning around 1,000 years and are still developing today. No matter how much digitization progresses, these watches will remain for as long as human beings themselves continue to exist as analog beings. We will continue to strengthen our investments and focus on creating products that will be loved for a long time.

Our Machine Tool business has also achieved steady growth by responding to customer demand for more parts to be produced precisely, consistently, more efficiently, and with greater energy saving. To meet this ever-expanding demand, we have augmented our production capacity and laid the foundation for further growth.

Enhancing Human Resource Development and Diversity

As shown by our selection of “increasing job satisfaction and cultivating human resources” as one of our material issues, we believe that investment in people is also of high importance in contributing to the creation of a sustainable society. The CITIZEN Group is engaged primarily in the manufacturing business. Of course, capital investment in development and manufacturing to turn materials into products is important, but before that, we will invest in people. We will make internal and external investments in the training of human resources from various perspectives: professionals, career development, development and planning capabilities, and human resources who can revitalize the organization. The growth of people leads to the creation of new value, which in turn leads to the growth of business and the creation of value for various stakeholders.

One of the issues we are currently working to address is that of increasing diversity. If you only discuss things with the same kind of people, who share the same values, it is difficult to create new change. We recognize the need to accept more diverse human resources to promote the collision of different values and create completely new value.

We intend to achieve steady growth by becoming a presence that delivers reliability, a sense of security, and emotion to the world, “Crafting a new tomorrow” as set out in our long-term Group vision, and by investing management resources in accordance with Medium-term Management Plan 2024, which specifically incorporates this long-term vision. I look forward to your continued support with regard to this.



Solar panels installed at the Karuizawa Headquarters factory of the Machine Tool business (Citizen Machinery)

*1 **SBT Initiative:** A joint initiative between WWF, CDP, the World Resources Institute (WRI), and the United Nations Global Compact. It encourages companies to set reduction targets consistent with scientific knowledge toward the goal of limiting the increase in global average temperature due to climate change to 1.5°C above pre-industrial levels.

*2 **Eco-First Program:** A program run by Japan’s Ministry of the Environment with the aim of encouraging companies’ efforts as environmentally advanced companies in their respective industries. Companies make promises to the Minister of the Environment to implement their own environmental conservation initiatives (such as measures to combat global warming, waste handling measures, and recycling measures) and are certified as companies that engage in “advanced, original, and industry-leading business activities.”



CITIZEN OF THE YEAR

The CITIZEN OF THE YEAR award is an initiative that embodies the CITIZEN Group's corporate philosophy of being "loved by citizens, working for citizens." CITIZEN OF THE YEAR was launched in 1990 and is now in its 33rd year. Each year, Japanese people and non-Japanese people living in Japan are selected and honored as citizens (individuals or organizations) who have emotionally moved or contributed to the development of civil society, or the creation of happiness and attractiveness. An attitude of focusing on citizens — as encouraged by our corporate philosophy — and honoring activities whereby citizens contribute to civil society and learning from such citizens together has been fostered as part of CITIZEN's corporate culture. At first glance, business activities and social activities might seem to point in different directions, but they really share the common value of "contributing to citizens." This

award is one activity that enables Group employees to embody our long-term vision of "Crafting a new tomorrow" by experiencing actions that inspire people around the world through the social activities of the award winners.

As a Group, we have a strong desire to become a presence that delivers reliability, a sense of security, and emotion to the world, "Crafting a new tomorrow." Even in our daily business activities, we are mindful of our philosophy of being "loved by citizens, working for citizens." Every Group employee uses this corporate philosophy as a guideline for their actions and judgment criteria. We believe that this strong belief will give rise to the power to change society.



See page 32

CITIZEN OF THE YEAR

CITIZEN OF THE YEAR (Japanese)
<https://www.citizen.co.jp/coy/index.html>



Providing earth and people-friendly products and services that can be used and loved for a long time

Continuing to make watches that will be passed on to future generations

Managing Director
Yoshitaka Oji



Review of Medium-term Management Plan 2024 Results and Progress for the First Year

The impact of the COVID-19 pandemic has continued for longer than expected, and the speed of recovery in China and other Asian regions has been particularly slow. At the same time, the North American and European markets showed an encouragingly strong recovery and achieved solid results despite uncertainties, such as concern over international situations. Over the past year, we have engaged in four major initiatives.

The first is increasing unit sales prices. To increase the value of our products and reflect

appropriate prices, we switched from appealing to customers with functional value to appealing to them with emotional value, and as a result were able to successfully increase unit sales without lowering sales.

The second is cost-reduction activities. In addition to production line operations, we engaged in activities including design and implemented initiatives to further improve quality in addition to reducing costs.

The third is inventory reduction activities. Watches tend to accumulate in stock due to the length of the manufacturing lead time and seasonality of sales. We have strengthened PSI (production, sales, inventory) management to standardize production and optimize inventory.

The fourth is strengthening the global model. In the past, measures were implemented at each sales location based on the characteristics of each region. We have now shifted to a system in which issues and objectives are shared by all sites as a common understanding. All these initiatives have produced results, and I believe that we have made a good start toward achieving the measures set forth in Medium-term Management Plan 2024.

Results and Progress of Global Brand Strategy

We have positioned PROMASTER and CITIZEN L as global brands under Medium-term Management Plan 2024 to promote growth, as brands with a consistent brand concept and potential for growth in the global market.

We are marketing PROMASTER as a professional sports watch brand with the brand concept of “MARINE,” “LAND,” and “SKY,” and it has already achieved widespread acceptance in the global market. CITIZEN L is being marketed as a sustainable watch brand with consideration for the global environment and people. We will seek to strengthen its appeal in the global market. In particular, the CITIZEN L model with the “May bells” design theme — launched in April 2023 — has been selling well globally and is gradually producing results.

In global operations, the most important key issue is how to incorporate the different tastes of each country into a single, unified product. Even for a single size of watch, there are some regions where large, heavy-duty designs are preferred, while others prefer smaller, more delicate, elegant designs. We aim to create strong brands that are chosen beyond such tastes.

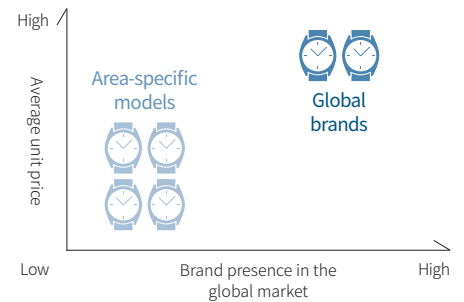
Medium-term Management Plan 2024 Watch Business Numerical Targets

Net sales	Operating profit	Operating profit margin
160.0 billion yen	14.5 billion yen	9.0%

Medium-term Management Plan 2024 CITIZEN Brand Global Strategy

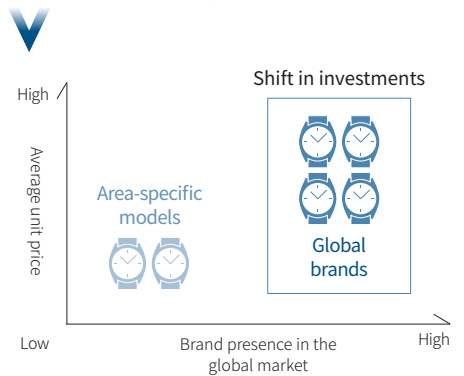
Progress so far

- Marketing is carried out in keeping with the characteristics of each region to expand sales, building around the core of area-specific models designed to suit each region.
- The focus on area-specific models has led to issues related to building brand presence in the global market and improving investment efficiency.



Medium- to Long-Term Initiatives

- Shift investments to global brands to improve investment efficiency
- Increase brand presence in the global market and build a brand image that truly represents CITIZEN



 **PROMASTER**



CITIZEN *L*



Results and Progress of Strategy for Premium Brands and Mechanical Watches



CITIZEN has positioned three of its brands, “The CITIZEN,” “Eco-Drive One,” and “CAMPANOLA,” as premium brands and has been working to create stores with a clear brand concept and actively introducing new products in the high-price range category. From “The CITIZEN,” we will release a mechanical model with date display, equipped with the new CITIZEN-produced Cal.0210 movement, in the winter of 2023. From CAMPANOLA, we have launched the “Global Art Collection,” featuring a complex movement made by La Joux-Perret, a subsidiary of CITIZEN. Premium brands—in particular—are highly regarded in the market, so we will continue to accelerate the expansion of CITIZEN Premium Doors, a group of exclusive retail spaces offering premium brand watches.



Multi-Brand Expansion



BULOVA

BULOVA was founded by Joseph Bulova in New York in 1875. With its advanced technological capabilities, the brand has long been a leader in the watch market. Over the years, BULOVA has created many world-firsts, including the world’s first tuning fork watch.



FREDERIQUE CONSTANT
GENEVE

Frederique Constant is a Swiss watchmaking manufacture based in Geneva. In 2023, as it celebrates its 35th anniversary, the Firm continues to showcase its constantly advancing watchmaking expertise as it pursues its aim: providing Swiss Made luxury watches at fair prices.



ARNOLD & SON
1764

Arnold & Son bears the name of John Arnold, an English watchmaker who made a name for himself in the 18th century. Inspired by his work, the brand continues to create watches using traditional watchmaking techniques.

**SUSTAINABLE
THE
FEATURE**



Making watches that will be passed down to the next generation, to “craft a new tomorrow”

Sustainability and the circular economy are important activities that embody the CITIZEN Group's long-term vision of “crafting a new tomorrow.” We will work to create a sustainable society through manufacturing and the provision of services, with consideration for the environment and human rights, and contribute to the earth and the lives of the people who live on it in a way that is befitting of CITIZEN. We will also continue to engage in circular economy activities aimed at providing products and services that are both environmentally and people-friendly, which can be used and loved for a long time. Watches were once ex-

pensive items, passed down by parents to their children, from generation to generation. Although they are now easy to obtain, and less often passed down through generations, the spirit of passing them on as treasured possessions is still engraved in CITIZEN's watches. With demand for consideration for the environment, we will continue to make watches that will be passed down to future generations, with an uncompromising approach to materials and manufacturing methods for our products.



Building a stronger business foundation

We aim to strengthen the production, sales, and service systems and achieve growth.

Director
Keiichi Nakajima



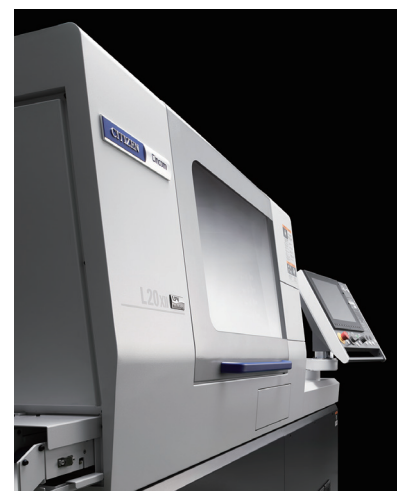
Review of the Implementation of Medium-term Management Plan 2024 Results and Progress in the First Year

In FY2022, the first year of Medium-term Management Plan 2024, we actively implemented capital expenditures to achieve growth under the policies of the medium-term management plan and focused on increasing production capacity.

Due to global shortages of components, particularly semiconductors, production was lower than planned. In this market environment, however, we achieved the Medium-term Management Plan 2024 sales target for FY2024 of 86.0 billion yen in FY2022, the first year of the

medium-term management plan. Operating profit fell slightly short of the target for FY2024, 12.5 billion yen, chiefly due to the increase of costs, including the cost of components and distribution costs.

In FY2022, we made a good start on achieving the policy objectives of Medium-term Management Plan 2024: improving production systems and building a stronger business foundation. We will continue to strengthen our production, sales, and service systems to achieve further growth and the targets for FY2024.



Establishment of Business Foundations with an Eye Toward Achieving Net Sales of 100 Billion Yen

We have relocated and expanded our factory in China, expanded our factory in Thailand, and built a new building at Citizen Machinery's Karuizawa Headquarters factory, aiming to enhance production capacity and build a stable supply system. Production capacity is expected to increase 40% from FY2021 by FY2023. We are about to establish a system that enables us to record net sales of 100.0 billion yen if the shortages of components and other issues are resolved.

In the machine tools industry, which is susceptible to changing business conditions, we had to handle the ups and downs in demand and the disruptions of supply chains in FY2022. I believe that overcoming this situation has enabled the foundation of our business to become stronger.

A large percentage of sales are in advanced countries, including Japan, European countries, and the United States. Going forward, markets in Asia, particularly in China and India, are expected to grow. Due to labor shortages, an increasing number of companies are entering Asian markets. At the same time, demand for medicine-related and auto-related products with greater added value that enable complex machining is increasing. We will establish adequate production capacity and take steps to strengthen the sales and service systems particularly in Asia, an area which is expected to grow.



The precision machining plant at Citizen Machinery's Karuizawa Headquarters factory



Thai Factory



China Factory

Differentiation by Leveraging Processing Technologies

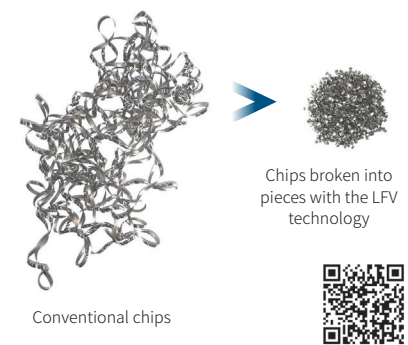
The low frequency vibration (LFV) cutting technology is CITIZEN's proprietary control technology. During the cutting process, LFV technology creates moments when the tool is not in contact with the workpiece, thereby breaking up chips. This helps solve a range of problems at production sites derived from chips and makes a significant contribution to bolstering productivity.

We first sold products incorporating LFV technology in Japan and began selling them in Europe and the United States in the autumn of 2016. And we began sales in the Americas and Asia the following year. Customers who purchased the units reaped the benefits of LFV technology, which led to repeat purchases. Thus, the number of customers desiring to purchase machines using LFV technology is increasing all over the world.

Previously, it was necessary to stop the opera-

tion of machine tools often to remove chips. Customers have said that machines using LFV technology have made 24-hour automated operation possible.

We began to incorporate LFV technology in our products in 2013. In 2016, we made it available on the Cincom L20, a long-selling model of the sliding headstock type automatic CNC lathe. The number of models using LFV technology has increased to 13. Cumulative shipments have exceeded 5,000 units (as of January 2023).



Conventional chips

Chips broken into pieces with the LFV technology



Special LFV website

<https://cmj.citizen.co.jp/english/product/lfv/index.html>

Quantifiable Targets for the Machine Tools Business in Medium-term Management Plan 2024

Net sales	Operating profit	Operating profit margin
86.0 billion yen	12.5 billion yen	14.5%

Expansion of Areas Where Automation/Labor-Saving Measures Are Applied

Although machine tools were being made capable of complicated and high-precision processing, post-cutting processes that had to be handled by humans were still necessary. As the labor shortage is an ongoing persistent problem, demand from customers for automation and labor-reducing solutions has been growing.

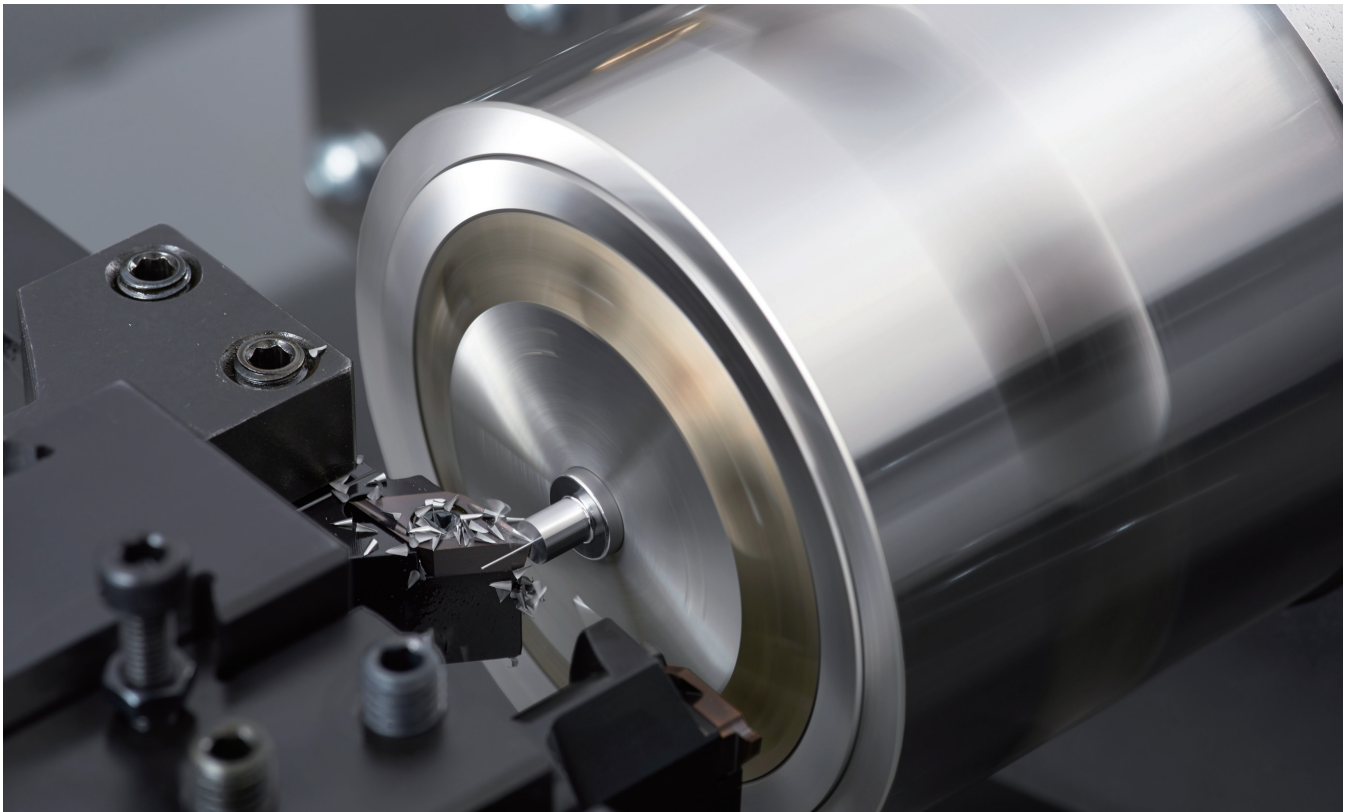
FA Friendly is a new solution that caters to such automation and labor-saving needs of customers. We have prepared a series of items that are highly compatible with factory automation, including robot systems, material feeding systems, loaders and unloaders, workpiece stockers, and conveyors between machines. We are increasing the variety of these items. By enabling robots to do these post-processes, operators can devote themselves to high-value-added tasks.

We will build systems that are necessary for the development and sale of factory automation-friendly products. At the same time, we collect and analyze information about customer needs to expand new solutions for further automating processes and reducing labor.



An on-machine-type robot system.

A robot is mounted on the automatic lathe machine to save space in front of the machine.



Microfabrication that leaves $\phi 0.2$ mm using low frequency vibration (LFV) cutting technology

**SUSTAINABLE
THE
FEATURE**

Cincom

Miyano



Suited for processing precision components that are thin and long



Suited for processing precision components that are thick and short

Components for which CITIZEN machine tools are used



Automobiles

Powertrains, brakes, doors, etc.



Medicine

Implants, endoscopes, bone screws, etc.



Precision IT equipment

Semiconductors, watches, personal computers, pneumatic equipment, etc.

An easy-to-understand description of CNC automatic lathes <https://cmj.citizen.co.jp/english/special/>



Automatic CNC lathes are machine tools. A machine tool, also called a mother machine, is a machine for producing other machines. Machine tools are primarily machines that shave and process metal materials to make components. Machine tools are necessary in the manufacturing of most of the products that we use.

Peaceful use of machine tools

Machine tools are generally used to manufacture large amounts of small, processed precision parts, and they are occasionally used to manufacture weapons and military technology. The Machine Tools business does not sell its products to manufacturers of weapons or military technology to prevent CITIZEN's machine tools from being used to manufacture such items. The CITIZEN Group contributes to international peace guided by its corporate philosophy: Loved by citizens, working for citizens.



Devices and Components

Create the next generation of growth businesses



Leveraging our miniaturization, precision processing, and low power consumption technologies developed in the manufacture of watches, we make a wide range of components and products that support the lives of people and society. Our goal is to establish competitive advantages centered on automotive components, for which we have established a reputation for our precise metal part machining technology. In automotive components, we offer products in the areas of safety, comfort, the environment, and controls. We supply automotive manufacturers around the world primarily with functional components. We are also working to create added value through the rationalization and integration of processing systems made possible with manufacturing facilities we have designed ourselves, as we aim to expand into areas beyond automotive-related products.

Our LEDs for lighting are next-generation light sources designed in pursuit of high performance, point light source, and light quality. Our tactile

switches, crystal device components, and motors are vital in smartphones, home appliances, consumer electronics, and medical devices. We will use these and other proprietary, differentiated technologies to expand our offering of high-quality, high-value-added products in response to market changes.

We will continue to focus on advancing our technologies to achieve greater levels of miniaturization, precision processing, and low power consumption. We will work to create the next generation of growth businesses by establishing a top position in specific fields, and we will move to enhance management stability by transitioning to a leaner earnings structure.



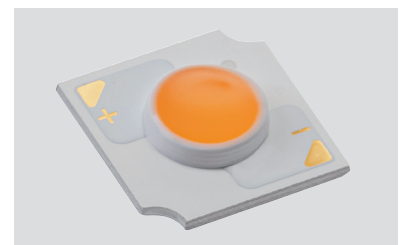
Automotive components



Crystal units, crystal oscillators



Motors



LEDs for lighting

Electronic and Other Products

Provide electronic products close to people's lifestyles

Our Electronic and Other Products business is based on the miniaturization, precision machining, and low power consumption technologies accumulated through watchmaking. The business encompasses the printer business, including photo printers and compact printers, and the healthcare device business, including blood pressure monitors and digital thermometers. Building on our core businesses of high-quality, high-functionality photo printers and healthcare devices made from the customer's perspective, we will work to expand into global niche markets with the goal of driving stable profits.

Electronic devices are increasingly important in a business environment that demands constant evolution, and in day-to-day life, where we seek to promote healthy, active lifestyles. We will continue to pursue new value and convenience while monitoring people's health and lifestyle needs.



Compact printer



Photo printer



Healthcare products



Publishing



Financial Strategies

Working to improve capital efficiency

Aiming for sustainable growth with an ROE of at least 8.0%

Managing Director
Toshiyuki Furukawa



Review of the First Year of the Medium-term Management Plan 2024 and Future Outlook

Under the Medium-term Management Plan 2024, we aim to achieve net sales of 320.0 billion yen, an operating profit margin of 8.0%, and ROE of at least 8.0% or more in FY2024. In FY2022, the first year of the Medium-term Management Plan 2024, we achieved ROE of 9.6%, exceeding the target of 8.0% due to strong performance in both our mainstay Watches and Machine Tools businesses.

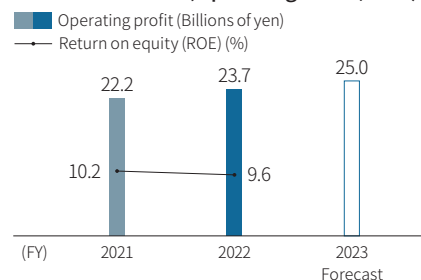
In the Watches business, in particular, we were able to achieve a significant increase in operating profit due to continued growth of sales in North America and Europe, as well as the ef-

fects of the weak yen on foreign exchange rates. In the Machine Tools business, sales reached a record high despite difficulties in procuring parts, against the backdrop of strong orders. At the same time, sales in the Devices and Components business decreased due to the impact of a decline in demand for automotive parts and LEDs for lighting.

In FY2023, we expect sales in the Watches business to increase, with expectations for a recovery in inbound demand in the Japanese market and other Asian markets, which have been slower to recover than Europe and the United States. In the Machine Tools business, although orders are slowing, we aim to increase sales by improving our production capacity.

Through the further growth of these core businesses, we will continue working to maintain an ROE of at least 8.0% or higher.

Business Results (Operating Profit/ROE)

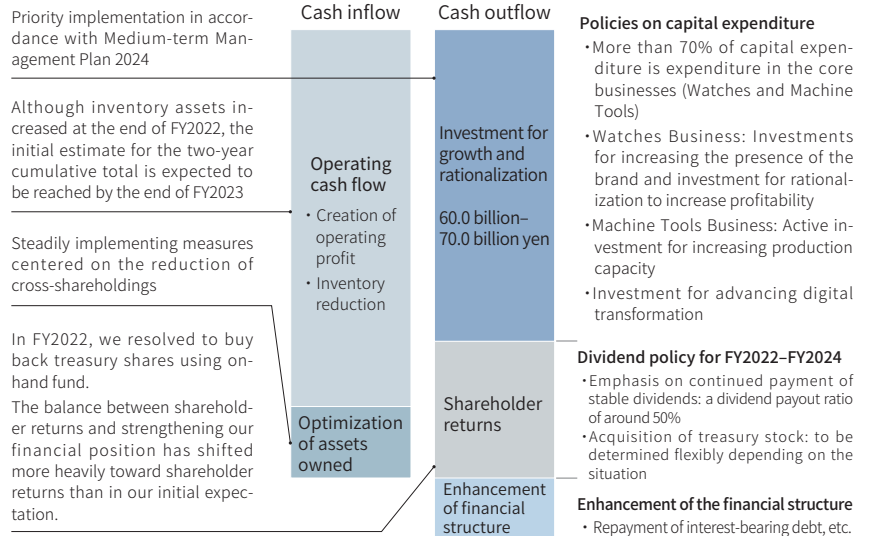


Cash Allocation

With regard to cash allocation, we will prioritize investments of 60 billion yen–70 billion yen for growth and rationalization, mainly in the Watches and Machine Tools businesses, which are our core businesses. After making shareholder returns in line with this cash allocation policy, surplus funds will be allocated for repayment of loans, and so on; although implementing large-scale share buybacks has bolstered shareholder returns more than initially anticipated (in terms of the balance between shareholder returns and financial strengthening during the Medium-term Management Plan 2024 period).

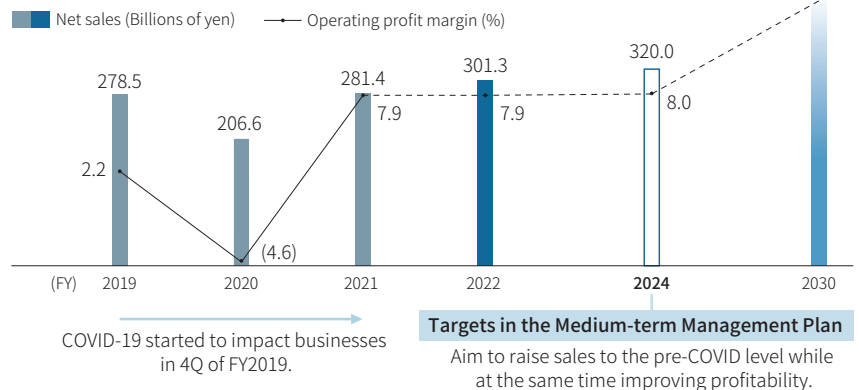
Our shareholder return policy stipulates that we will make flexible decisions on buybacks of treasury stock according to circumstances. In FY2022, we decided to repurchase treasury shares up to a maximum amount of 40.0 billion yen. While the impact of the pandemic remains, we have been able to increase profitability to a level higher than before the pandemic. Despite this, there has still been disparity between our performance and the stock market's valuation of our business. However, as the Watches business is expected to maintain stable performance in FY2023, and the significance of holding cash as a risk buffer has diminished, we have determined that it is necessary to improve capital efficiency at an early stage based on an appropriate capital structure, liquidity on hand, and other factors. We will continue to appropriately control our balance sheet with an awareness of the cost of capital.

Total Amounts in the Three Years from FY2022 to FY2024



Note: The size of the area in the image is for illustrative purposes and does not represent the planned amount.

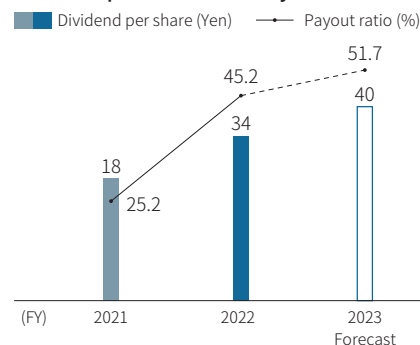
Medium-term Management Plan 2024



Financial Strategies

Currently, we are working to improve the efficiency of cash management for cash held by overseas subsidiaries. By controlling the funds of overseas subsidiaries at the head office, we are limiting the amount of surplus funds made available to overseas subsidiaries and increasing capital efficiency within the CITIZEN Group, and have achieved results in this way. We are also continuing to reduce our cross-shareholdings each year and will continue working to reduce them.

Dividend per Share and Payout Ratio



Major Social Recognition



FTSE Blossom Japan



FTSE Blossom Japan Sector Relative Index



S&P/JPX Carbon Efficient Index



2023 Somo Sustainability Index



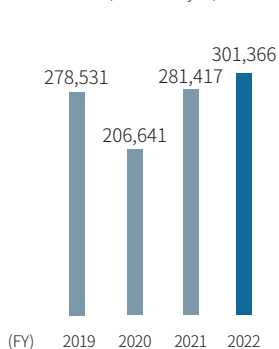
MSCI

2023 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

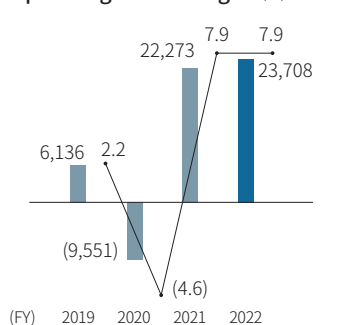
Financial and Non-financial Highlights

		(FY)	2012	2013	2014
Financial Data	Operating Results				
	Net sales	(Unit) Millions of yen	272,050	309,994	328,456
	Gross profit	Millions of yen	95,451	119,376	129,876
	Operating profit	Millions of yen	11,549	23,706	27,889
	Operating profit margin	%	4.2	7.6	8.5
	Ordinary profit	Millions of yen	13,805	25,307	31,403
	Profit attributable to owners of parent	Millions of yen	(8,855)	17,434	17,572
	Status of Cash Flows				
	Cash flows from operating activities	Millions of yen	18,789	32,724	29,053
	Cash flows from investing activities	Millions of yen	(23,853)	(11,000)	(9,246)
	Cash flows from financing activities	Millions of yen	95	181	(9,745)
	Free cash flow	Millions of yen	(5,064)	21,724	19,807
	Key Financial Indicators				
	Total assets	Millions of yen	354,670	383,920	421,563
	Net assets	Millions of yen	192,409	217,412	247,972
	Interest-bearing liabilities	Millions of yen	73,961	78,348	69,164
	Return on equity (ROE)	%	(4.7)	8.7	7.8
	Return on assets (ROA)	%	(2.6)	4.7	4.4
	Equity ratio	%	53.3	55.8	56.6
	Capital expenditures	Millions of yen	19,780	14,003	18,913
Depreciation	Millions of yen	15,406	14,282	14,386	
R&D expenses	Millions of yen	7,595	7,440	8,169	
Total amount of dividends	Millions of yen	2,591	4,211	5,183	
Non-financial Data	Number of employees	(Unit) People	22,668	22,233	23,651
	Percentage of female employees*	%	—	—	—
	Percentage of female employees in management positions*	%	—	—	—
	Number of male employees taking childcare leave*	People	—	—	—
	Number of female employees taking childcare leave*	People	—	—	—
	Percentage of overseas employees	%	62.1	64.5	65.3
	CO ₂ emissions (Scope 1 + 2)	t-CO ₂	212,202	198,041	217,144
	Total energy consumption	GJ	1,542,146	1,443,806	1,536,904
	Water intake	1,000m ³	3,060	2,300	2,607
	Recycling rate	%	66.4	75.9	59.5

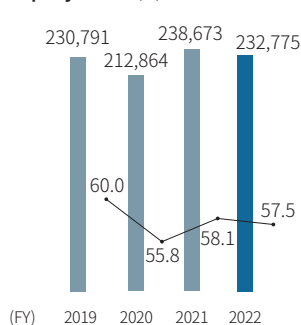
Net Sales (Millions of yen)



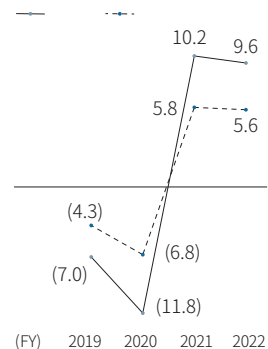
Operating Profit (Millions of yen)
Operating Profit Margin (%)



Net Assets (Millions of yen)
Equity Ratio (%)



ROE (%) ROA (%)

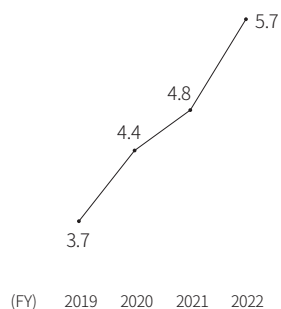




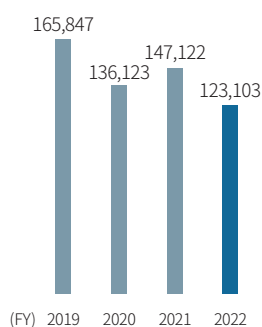
	2015	2016	2017	2018	2019	2020	2021	2022
	348,267	312,559	320,047	321,652	278,531	206,641	281,417	301,366
	134,759	120,236	124,393	123,557	101,100	65,898	106,839	122,180
	30,467	21,501	24,920	22,411	6,136	(9,551)	22,273	23,708
	8.7	6.9	7.8	7.0	2.2	(4.6)	7.9	7.9
	30,619	21,985	26,664	26,602	7,531	(4,143)	27,342	29,096
	13,201	16,573	19,303	13,369	(16,667)	(25,173)	22,140	21,836
	29,980	32,781	32,539	19,897	17,347	7,490	34,693	16,576
	(24,637)	(27,861)	(7,862)	(19,861)	(15,498)	(7,628)	(9,550)	(13,526)
	(12,205)	(20,626)	(11,716)	(5,888)	(7,049)	18,337	(19,956)	(40,062)
	5,343	4,920	24,677	36	1,849	(138)	25,142	3,049
	406,462	395,887	409,909	413,911	369,575	365,811	394,962	389,982
	237,469	249,215	263,713	267,547	230,791	212,864	238,673	232,775
	67,444	53,031	49,027	51,065	55,157	74,862	66,155	65,116
	5.7	7.1	7.8	5.2	(7.0)	(11.8)	10.2	9.6
	3.2	4.1	4.8	3.2	(4.3)	(6.8)	5.8	5.6
	56.0	60.5	61.9	62.2	60.0	55.8	58.1	57.5
	22,822	23,621	16,854	23,756	21,140	10,907	10,770	17,428
	14,934	12,509	13,795	13,947	15,438	11,558	11,191	11,200
	7,500	7,113	7,161	6,339	6,164	5,576	5,542	5,693
	5,411	5,410	7,002	6,365	3,751	1,565	5,504	9,315
	21,665	21,279	20,882	20,239	19,593	17,044	16,161	15,402
	—	—	—	19.0	20.4	20.1	20.3	21.5
	—	—	—	3.6	3.7	4.4	4.8	5.7
	—	—	—	6	18	20	25	33
	—	—	—	32	44	27	32	35
	60.5	60.0	59.7	58.2	56.7	59.5	59.2	57.7
	196,152	193,318	186,730	179,508	165,847	136,123	147,122	123,103
	1,422,152	1,477,626	1,474,879	1,464,616	1,368,041	1,166,060	1,258,866	1,208,976
	2,731	2,293	2,174	2,225	1,954	1,751	1,860	1,782
	64.6	66.6	74.3	78.6	77.3	78.3	73.1	88.8

* End of fiscal year data for all six main Group companies
 (Citizen Watch, Citizen Watch Manufacturing, CITIZEN MACHINERY, CITIZEN FINEDEVICE, CITIZEN ELECTRONICS, and CITIZEN SYSTEMS)

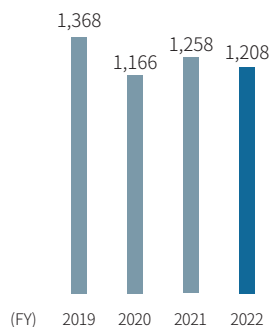
Percentage of Female Employees in Managerial Positions (%)



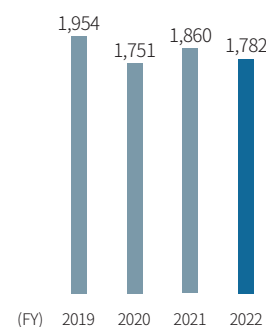
CO₂ Emissions (t-CO₂)



Total Energy Consumption (TJ)



Water Intake (1,000 m³)



Sustainability Identifying Material Issues

In line with the formulation of our long-term vision, we evaluated the importance of social issues from the perspective of our company and society, and identified material issues, which are key issues that the CITIZEN Group should prioritize in the medium to long term.

Step 1 Identify Social Issues

Identify social issues based on the medium- to long-term social trends, the Company's direction, ESG external assessments, reviews, etc.

Note: Reference: SDGs; macro trends in environmental, social, and economic fields; FTSE; MSCI; GRI Standards; ISO 26000; and other considerations.

Step 2 Complete materiality Assessment of the Social Issues

Assess the impact on society and the importance of the materiality to the Company, and make assumptions about the proposed materiality.

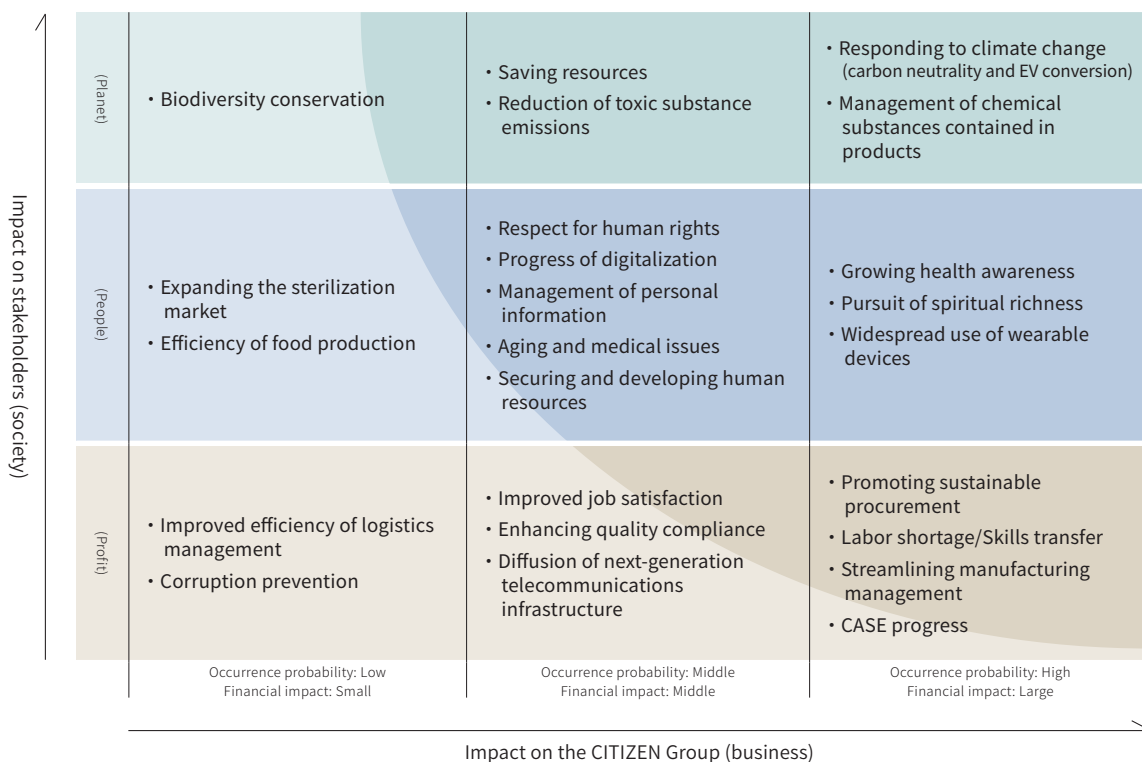
Step 3 Assess the Appropriateness of the Proposed Materiality

After checking with external experts and a discussion by the Sustainability Committee, reconsider the materiality plan in light of the relevant measures for each business.

Step 4 Identify the Materiality

Materiality is identified by the Management Committee and Board of Directors after reaffirmation by the Sustainability Committee.

Evaluate the degree of impact on society and the importance to the Company and create a list of material issues



Identified material issues



Responding to climate change and contributing to a recycling-oriented society



Contributing to a high quality of life



Providing solutions in the industrial sector



Enhancing job satisfaction and developing human resources



Fulfilling our social responsibility



Responding to climate change and contributing to a recycling-oriented society



Opportunity

- Expanding demand for products and services that contribute to energy and resource conservation and productivity improvement
- Progress of CASE

Risk

- Wind and flood damage at business sites
- Increased energy costs
- Dependence on specific industries and customers
- Violation of laws and regulations concerning the chemical substances contained in products

Responding to climate change

[Business activities]

- Supply parts for eco-cars (EVs and HVs), sale of LEDs for lighting, etc.

[Business foundation]

- Reduction of CO₂ emissions, expansion of introduction of renewable energy, etc.

Contribution to a recycling-oriented society

[Business activities]

- Sales of photovoltaic and mechanical watches that can be used for a long time
- Expansion of products using LFW and friction bonding technology, etc.

[Business foundation]

- Reduction of water consumption, promotion of recycling, management of hazardous chemicals, reduction of packaging materials, etc.



Contributing to a high quality of life



Opportunity

- Shift from mechanical to passionate value
- Shift from treatment to preventive care

Risk

- Smartwatch proliferation
- Increased competition in the healthcare market
- Regulatory changes for medical devices
- Leakage of personal information

Contribution to diverse lifestyles

[Business activities]

- Customized watches and services
- Personalized experience, IoT platforms, etc.

[Business activities]

- Providing LCD devices for digital cameras, head-mounted displays, etc.

Contribution to medical and healthcare

[Business activities]

- Sales of UVC modules with a high bactericidal effect, specimen-holding plates for bacterial analysis, etc.
- Providing thermometers and blood pressure monitors that are easy for anyone to use
- Providing digital health care services, "health appointments," etc.



Providing solutions in the industrial sector



Opportunity

- Factory automation / labor saving / automation / digitalization
- Expanding demand for products/services that contribute to manufacturing management efficiency
- Advancement of CASE
- Diffusion of next-generation telecommunications infrastructure

Risk

- Loss of business opportunities
- Decline in competitiveness
- Entry of competitors from other industries using digital technology as a weapon

Provide labor-saving and automation solutions

[Business activities]

- Use and provision of "Machines, digital technology, and technology to use," etc.

[Column]

- "Alkappysolution" supports the digital transformation of the manufacturing industry

Contribution to next-generation communication technology

[Business activities]

- Providing time reference information to institutions requiring accurate time information, etc.
- Development and sales of sensing devices (e.g., teleoperated robots)

Contribution to mobility

[Business activities]

- Development and sales of lasers for EV vehicle signal lights, etc.
- Supply of components for advanced braking systems, communication systems, sensors, etc.



Enhancing job satisfaction and developing human resources



Opportunity

- Increase employee engagement
- Driving DX / innovation

Risk

- Outflow of human resources
- Deterioration of business performance

Improvement of job satisfaction

[Business foundation]

- Implementing measures to improve employee engagement, provide training opportunities, etc.

Human resource development

[Business foundation]

- Developing human resources to promote change within the Group, strengthening group collaboration in the development of management human resources, etc.

Diversity and inclusion

[Business foundation]

- Systematic training and promotion of female management candidates, encouraging male employees to take childcare leave, etc.



Fulfilling our social responsibility



Opportunity

- Realization of the sustainable factory concept
- Compliance with major customers' terms and conditions

Risk

- Damage to corporate value
- Reputation
- Weakening of the management base

Strengthen risk management

[Business foundation]

- Update and operation of the Groups material risks, etc.

Quality compliance

[Business foundation]

- Activities to disseminate the Quality Code of Conduct, etc.

Respect for human rights and labor practices

[Business foundation]

- Implementation of human rights due diligence, etc.

Promoting sustainable procurement

[Business foundation]

- CSR procurement, green procurement, responsible mineral procurement, etc.



At the CITIZEN Group, we aim to remain needed and loved by people all over the world. For this purpose, our creation of products and services in response to changes in society, our consideration of procurement and production processes for the creation of those products and services, and the corporate attitude that supports our foundation must be accepted by society. Instead of just providing good products and services, we strive to earn the trust of stakeholders as we expand our businesses and improve our corporate value, by managing the Group in consideration of human rights, the global environment, and other social issues. This is what we believe to be sustainable management at the CITIZEN Group.

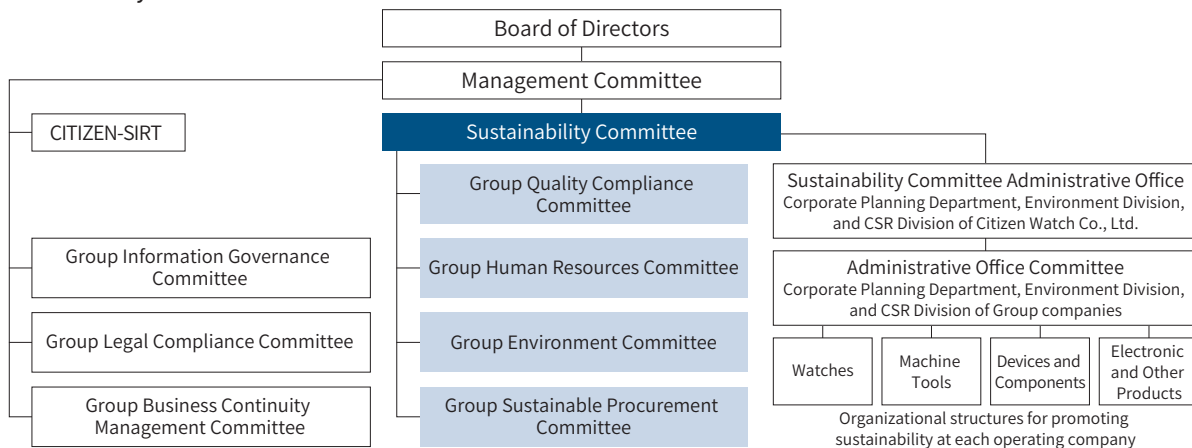
Sustainable Factory

At the CITIZEN Group, we operate our business under the concept of the Sustainable Factory, which we consider the processes for manufacturing products and providing services. Sustainable Factory refers to sustainable production facilities and business facilities (and business processes) that reflect comprehensive consideration for matters such as compliance, human rights, labor practices, BCP*, and productivity improvement, as well as environmental considerations. We have been confirming the progress of this concept by distributing to our Group bases in Japan the same SAQ (Self-Assessment Questionnaire) that we ask our business partners to answer, and in FY2022, we will be distributing the SAQ and seeking responses from all of our bases, including overseas offices. We will work to spread understanding through these initiatives, with the goal of achieving the Sustainable Factory concept across the entire CITIZEN Group by 2030.

Structure for Promoting Sustainable Management

In April 2020, we established the Sustainability Committee, which is chaired by the president of Citizen Watch. Its members are full-time directors of Citizen Watch and the presidents of the operating companies. With this committee playing a leading role, each company examines sustainability-related issues and regularly monitors the progress of sustainability activities, etc.

Sustainability Promotion Structure



*BCP (Business Continuity Plan): A business continuity plan is formulated during normal times to prepare for the possible impact of large disasters and similar events on business activities. These plans include systems, functions, response procedures, and other elements necessary for continuing to supply products and services or for enabling the fast resumption of operations.

CITIZEN Group Environmental Goals 2030

At the CITIZEN Group, we promote global environmental management for the realization of a sustainable civil society by following the CITIZEN Group Environmental Policy, which is the core of our environmental measures. In 2020, we established the CITIZEN Group Environmental Vision 2050, expressing our commitment to decarbonization, the reduction of CO₂ emissions to substantially zero and the sustainable use of resources. To achieve the CITIZEN Group Environmental Goals 2030, which are five goals aimed at helping to achieve the SDGs, we are pushing forward with initiatives to establish a decarbonized, resource-recycling, safe, secure, and spiritually wealthy society.

Response to Climate Change

As a measure to mitigate climate change, which is one of the most serious global environmental risks, the CITIZEN Group is working to reduce the GHG emissions through the introduction of energy-saving activities and electricity derived from sustainable energy sources in factories and offices.

To express our commitment to mitigating climate change, we participate in the Japan Climate Initiative, and in FY2020, we announced our support for the TCFD recommendations. In FY2022, we revised the Group's CO₂ emissions targets (Scope 1, 2, and 3), obtaining SBT certification for the revised targets. In addition, adaptation measures in the event of large-scale disasters caused by climate change are defined in the Disaster BCP (Business Continuity Plan).

Climate Change Risks and Opportunities

Based on our awareness of the major effects of risks and opportunities on our business strategy, the CITIZEN Group has identified climate change — related risks and opportunities, and the Sustainability Committee has analyzed these risks and opportunities using the 1.5°C scenario and the 4°C scenarios and evaluated their significance.

CITIZEN Group Environmental Goals 2030 (revised in February 2022)

Metrics	Targets
Greenhouse gas emissions (Scope 1 & 2)	30% reduction→50.4% reduction (from the FY2018 level)
Greenhouse gas emissions (Scope 3)	15% reduction (from the FY2018 level)
Percentage of renewable energy (Japan)	30%→62%



Machine Tools
Citizen Machinery's Karuizawa Headquarters factory

Results of Scenario Analysis

Category		Material issues (risk/opportunity)		Impact on CITIZEN	Time span		
		1.5°C	4°C		Until 2024	2025–2030	From 2031
Transition risks	Policies and legal restrictions	Large	Small	Cost increase resulting from the introduction or tightening of laws or regulations (carbon pricing schemes)		•	•
	Technologies and markets	Small	Large	Rising cost of raw materials, etc., and shortage or suspension of their supply		•	•
	Reputation	Medium	Small	Decline in evaluation and reputation resulting from a delay in actions to address climate change, and the resulting decline in our stock price and sales	•	•	•
Physical risks	Acute risks	Small	Large	Increasing seriousness and frequency of damage from natural disasters		•	•
	Chronic risks	Medium	Large	Increase in operating expenses due to the impact of, and measures against, abnormal weather		•	•
		Small	Large	Disruptions to production activities due to supply chain disruptions		•	•
Opportunities	Energy and resource efficiency	Large	Small	Cost reduction resulting from energy conservation		•	•
		Medium	Medium	Cost reduction resulting from resource conservation, 3R activities, zero waste emissions and conservation of water resources	•	•	•
		Medium	Small	Differentiation and greater competitiveness achieved by developing products using alternative materials; Realizing decarbonization of the entire life cycle of products using alternative substances and weight reduction		•	•
	Products, services, and markets	Medium	Small	Increase in earnings resulting from an increase in demand for environmentally friendly products and services	•	•	•
	Resilience	Medium	Medium	Higher customer trust resulting from implementation of countermeasures against natural disasters	•	•	•
		Medium	Large	Minimization of physical risks and damages enabled by taking measures in a well-planned manner	•	•	•

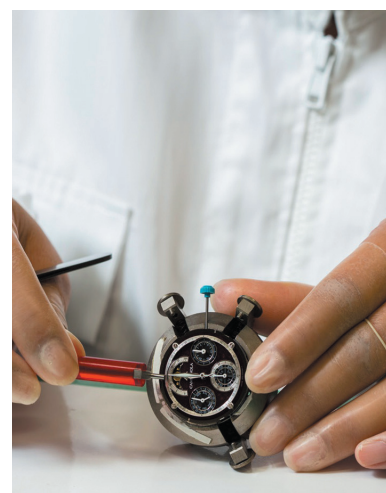
Sustainability Sustainable Management and Employees

Our Mindset on Human Capital

The CITIZEN Group regards its employees as human capital, setting forth a vision for the Group's human resources as having each employee feel a sense of pride working at CITIZEN as they contribute to the realization of our long-term vision. Each Group company is taking the initiative in developing human resources capable of driving the growth of each company in line with the policies and business environment of each operating company. In addition to securing and developing human resources, the Group is focused on creating a work environment in which diverse human resources can play an active role, aiming to achieve a rich future for every employee.

Human Resource Development Road Map

The CITIZEN Group aims to achieve both personal and social growth for employees by training human resources required for Group-wide and company-specific management and transformation based on our management strategy. In addition to training, we strengthened Group cooperation in training in FY 2022 and started to offer Management Fundamentals Training and Group Transformation Promotion Training. Part of the Group Transformation Promotion Training will be held jointly with Citizen Watch's Reskilling Training for managers.



Human Resource Development Road Map

Yearly breakdown	FY2022 results	FY2023	FY2024	FY2030 goal
Goals	<ul style="list-style-type: none"> Establish a Group-wide system to train human resources required for Group-wide and company-specific growth and transformation 			Train the human resources required for Group-wide and company-specific growth and transformation and realize both personal and social growth based on our management strategy
KPI	<ul style="list-style-type: none"> 100+ participants in Group Transformation Promotion Training (33% of Citizen Watch managers participating in Reskilling Training) 30+ participants in Management Fundamentals Training 	<ul style="list-style-type: none"> 200+ participants in Group Transformation Promotion Training (70% of Citizen Watch managers participating in Reskilling Training) 30+ participants in Management Fundamentals Training 	<ul style="list-style-type: none"> 200+ participants in Group Transformation Promotion Training (100% of Citizen Watch managers participating in Reskilling Training) 30+ participants in Management Fundamentals Training 	1,000+ participants in Group Transformation Promotion Training and Management Human Resource Development Training in total
Measures	<ul style="list-style-type: none"> Group Transformation Promotion Training Management Fundamentals Training 			<ul style="list-style-type: none"> Group Transformation Promotion Training Management Fundamentals Training Implementation of Group succession plans



CITIZEN Forest was created under the concept of being able to work both indoors and outdoors. At Tokyo Works, we planted 215 trees and created a space that is richly endowed with nature, attracting local birds and insects. This space won a 2021 Good Design Award.

Customer Support

Handling numerous products for general customers, Citizen Watch aims to improve customer satisfaction by establishing a hotline for inquiries that will respond sincerely and quickly to customer inquiries, consultations, and complaints. We will report customers' valuable information and issues to managers in a timely fashion and share this information with each business unit, leading to product and service improvements. In the event of a serious case requiring urgent product repairs or replacements, a notification will be posted on our website. We received 54,305 inquiries in FY2022.



CITIZEN FLAGSHIP STORE TOKYO

Quality Compliance

CITIZEN Group, under the leadership of the Group Quality Compliance Committee established in FY2018, has been conducting activities to disseminate the CITIZEN Group Quality Code of Conduct, which was formulated based on Article 2 of the CITIZEN Group Code of Conduct and in consideration of the situation of each business, to ensure a common recognition of quality compliance, including overseas bases.

This committee comprises executives in charge of quality at each company and is working to spread compliance with quality-related issues. The committee is also promoting activities to respond to the requests of stakeholders in each business field, while taking into consideration

the improvement of the effectiveness of the internal reporting system and ESG/SDGs perspectives.

In FY2022, the committee was also joined by a group of managers from the quality assurance departments of each Group company as observers, and through multiple discussions that include opinions both from the Group's perspective and from the perspectives of executing operations for each business, the committee is working to create an organization that does not cause quality scandals. This is done through initiatives on quality compliance, which is the source of quality management.

Organizational Chart



Implementing Employee Training

To raise awareness of quality compliance among all CITIZEN Group employees, CITIZEN Group Quality Compliance Training is offered under the supervision of the Group Quality Compliance Committee in an e-learning format through distributing video as part of the training for new employees and newly appointed directors. This is done to raise awareness of quality compliance throughout the Group. In FY2022, 6,176 people participated in Quality Compliance Training.

Details of Quality Compliance Training

1. Looking back at past cases of improper quality among Group companies
2. Advice and measures from an independent committee
3. Confirming the CITIZEN Group Quality Code of Conduct (its importance and position)
4. Organizing the relationship between quality compliance and ISO9001, and its requirements
5. Improper quality — other cases/commonality among cases of improper quality (data falsification, managing changes in the 4Ms)
6. Mechanisms for cases of improper quality
7. Reconfirming causes based on the KDS framework
8. Sustainability and quality compliance

Sustainability Sustainable Management and Business Partners

CSR Procurement

To promote ESG initiatives in the entire supply chain, the CITIZEN Group has established the CITIZEN Group Basic Procurement Policy and is promoting CSR procurement. We request our business partners all over the world and within Japan to comply with, and raise their awareness of, the CITIZEN Group CSR Procurement Guidelines. These Guidelines summarize the requirements, including respect for human rights, environmental protection, labor safety and health, and fair trade, based on the UN Global Compact and the CITIZEN Group Code of Conduct.

CITIZEN Group CSR Procurement Guidelines

We revised what would become the second edition of our CITIZEN Group CSR Procurement Guidelines in April 2020. Our stance in response to recent changes in the social environment and economic conditions, international standards such as the UN Global Compact, and requests from stakeholders is indicated within these guidelines. We also seek support from our business partners, aiming to sufficiently spread the guidelines by connecting them with the content of the Self-Assessment Questionnaires (SAQs) that we seek responses for. These guidelines widely cover elements aimed at solving social problems, including areas related to human rights and labor practices, so that we can contribute to the achievement of SDGs.

Initiatives for Responsible Procurement of Minerals

At the CITIZEN Group, we are aware that conflict minerals involving risks of funding armed groups and violating human rights are material procurement risks. In addition to the application of the EU Conflict Minerals Regulation in 2021, we recognized the expansion of the scope of target minerals, areas, and risks and updated the CITIZEN Group Conflict Minerals Response Policy into the CITIZEN Group Responsible Minerals Procurement Policy in January of the same year. In revising the policy, we clarified measures to take when we have confirmed the expansion of target minerals and areas as procurement sources or have identified a risk, among other matters. We strive to eliminate conflict minerals as a supplier. For example, together with suppliers from whom we procure target minerals, we at the CITIZEN Group observe the Responsible Business Alliance (RBA) Code of Conduct at the request of customers to whom we deliver parts or other products.



CITIZEN OF THE YEAR™

Honoring individuals who inspire society

At the CITIZEN Group, we commend residents of Japan, Japanese or non-Japanese, who have made a mark on civil society, who have contributed to the development and happiness of civil society, or who have helped make civil society attractive, as CITIZEN OF THE YEAR every year.

FY2022 Recipients

Interactions and Support for Children who Stutter and Their Families



Stuttering Parent-Child Cafe

Stuttering is still generally not properly understood. It is often seen with prejudice and misunderstanding, and there are many cases where people suffering from stuttering become hurt or anxious and cannot talk in public. The Stuttering Parent-Child Cafe has been working to increase understanding of stuttering by operating get-togethers and lecture sessions where children who stutter and their parents can share their thoughts, as well as through creating leaflets tailored to children's growth.



Awareness building activities by creating leaflets tailored to children's growth, as well as creating unique support manuals

A Presence for Cancer Patients and Their Families



Maggie's Tokyo (NPO)

Maggie's Centres are like second homes to people who have experienced cancer, their families, friends, and anyone who has felt the effects of cancer, and they can be visited anytime for free. Those affected by cancer can gradually regain their strength by talking about their anxieties and worries with experienced nurses and psychologists in a garden where you can get a sense for the four seasons or in a warm, relaxing environment.



Maggie's Tokyo was established in October 2016 as the Japanese equivalent of the Maggie's Cancer Care Centres in England

Support for People Seeking Consultations Without Family Registers



Mayumi Ichikawa

"If there is someone in need in front of me, I can't just leave them alone or ignore them. I help them because that is who I am." Mayumi Ichikawa continues to help people live together with society as a companion to people who have lost their family registers for a variety of reasons. She does so by offering support with procedures to acquire family registers and more. In between her own work, she travels around Japan to help people seeking consultations with acquiring their family registers and related matters.



It usually takes more than a year to acquire a family register, and she has helped 6 people get family registers, 1 person get nationality, and 13 people get residence certificates

CITIZEN OF THE YEAR (Japanese)
<https://www.citizen.co.jp/coy/index.html>



Governance Corporate Governance

Loved by citizens, working for citizens—This is the sentiment from which Citizen Watch Co., Ltd. (“the Company”), derives its name and which it has made its Corporate Philosophy. The Company works to contribute to society and increase its corporate value through sustainable corporate activities, in harmony with the local community and the global environment. To continue to promote its aims, the Company believes it is important to ensure transparency in management and multifaceted management oversight. Accordingly, the Company is striving to expand and enhance its corporate governance.

CITIZEN has implemented all the principles set forth in the Corporate Governance Code revised in June 2021.

<https://www.citizen.co.jp/cms/cwc/global/files/CGR2023E.pdf>

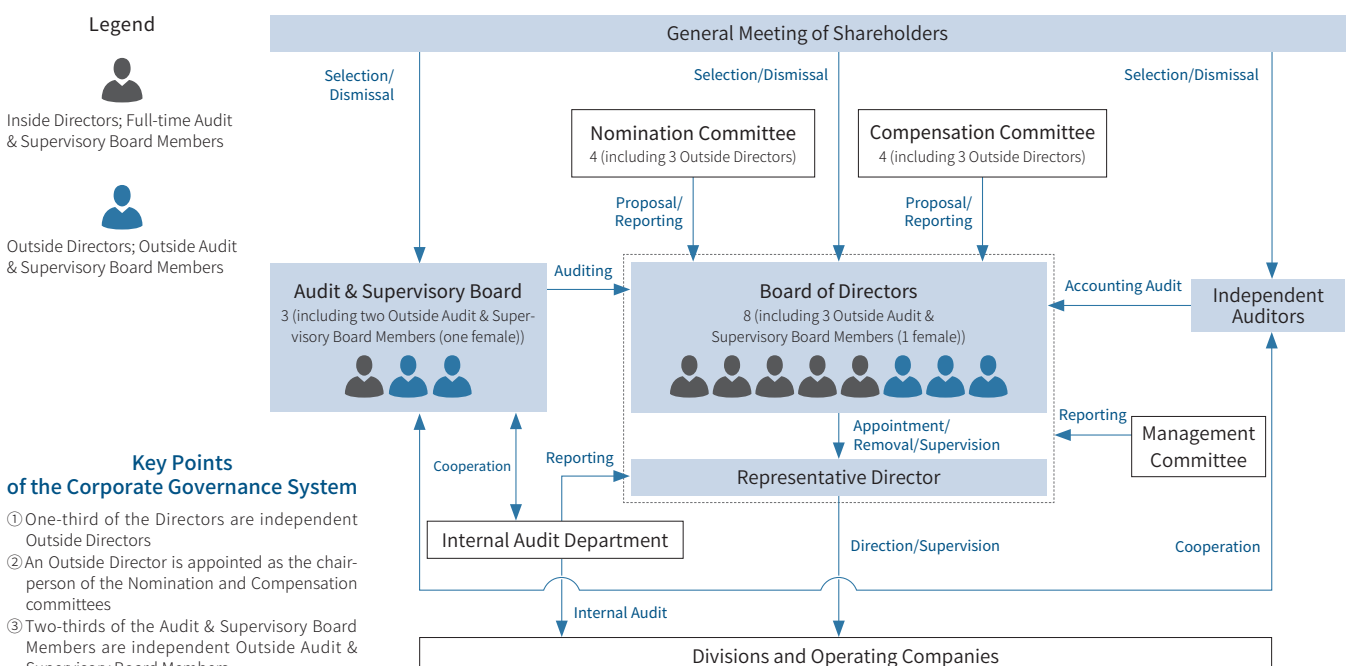


Corporate Governance System

CITIZEN has established the following corporate governance system with the aim of ensuring appropriate and efficient execution of duties, transparency of management, and monitoring of management from various perspectives.

Board of Directors	Nomination Committee Chairperson: Outside Director	Audit & Supervisory Board and Audit & Supervisory Board Members
<p>CITIZEN’s Board of Directors comprises five Directors who supervise the corporate group and perform executive duties with regard to major businesses, and three Outside Directors who check and supervise management from an independent standpoint, using their abundant experience and broad-ranging insights as business managers. The Board of Directors makes decisions on and supervises the execution of business.</p>	<p>The main duties of the Nomination Committee include deliberating on matters regarding the selection and/or dismissal of Representative Directors, the President and CEO, and/or the Chairperson of the Board of Directors, and offering its proposals to the Board of Directors.</p>	<p>Audit & Supervisory Board Members conduct strict audits of the execution of duties by Directors in accordance with the audit policy and audit plan established by the Audit & Supervisory Board, by attending meetings of the Board of Directors, the Management Committee, and individual meetings by business category, making reports on the state of execution of duties by Directors, etc., viewing important approval documents, and investigating the status of operations and assets. They also receive reports on accounting audits from Nihombashi Corporation, cooperate with the accounting auditor to carry out efficient audits of the Company and its subsidiaries, and work to further enhance corporate governance.</p>
	<p>Compensation Committee Chairperson: Outside Director</p>	
	<p>The main duties of the Compensation Committee include deliberating on matters relating to policies and standards for compensation, etc., received by Directors and making recommendations to the Board of Directors.</p>	

Corporate Governance System Schematic Diagram

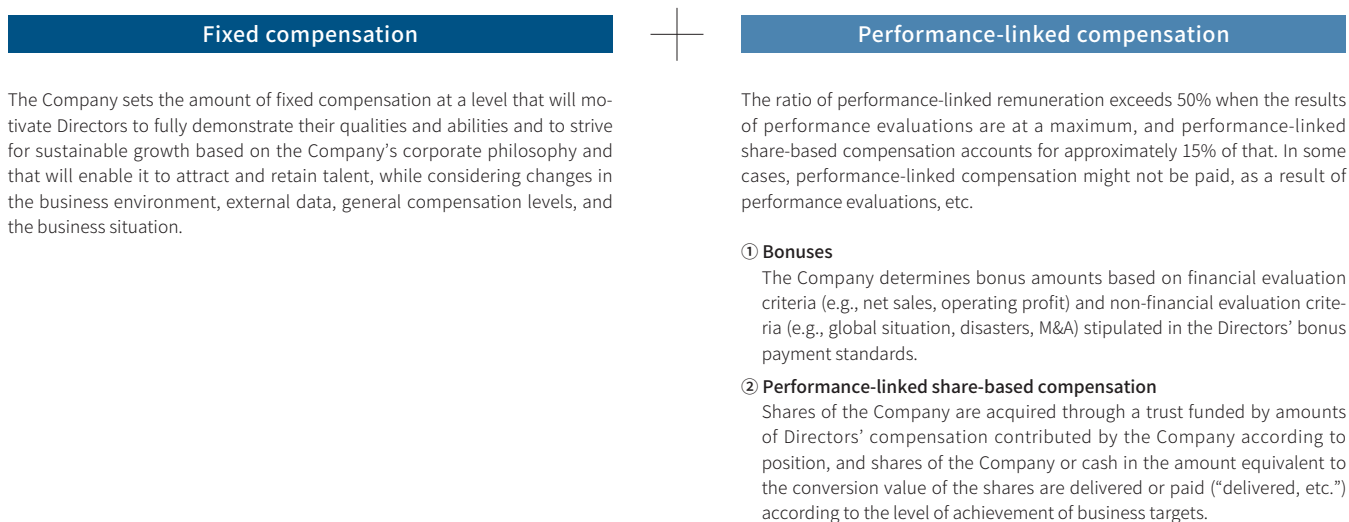


Officer Compensation

Compensation for Directors of the Company (excluding Outside Directors) consists of fixed compensation and performance-linked compensation. Our policy for setting the payout ratio of these two types of compensation is based on a level that will increase motivation to produce good business performance and enable the Company to attract and retain talent and that will be effective in increasing motivation to contribute to improving business performance and enhancing corporate value in the medium to long term, considering factors such as changes in the business environment, external data, general compensation levels, and the business situation.

Compensation of Outside Directors and Audit & Supervisory Board Members consists only of fixed compensation.

Composition of Compensation for Directors



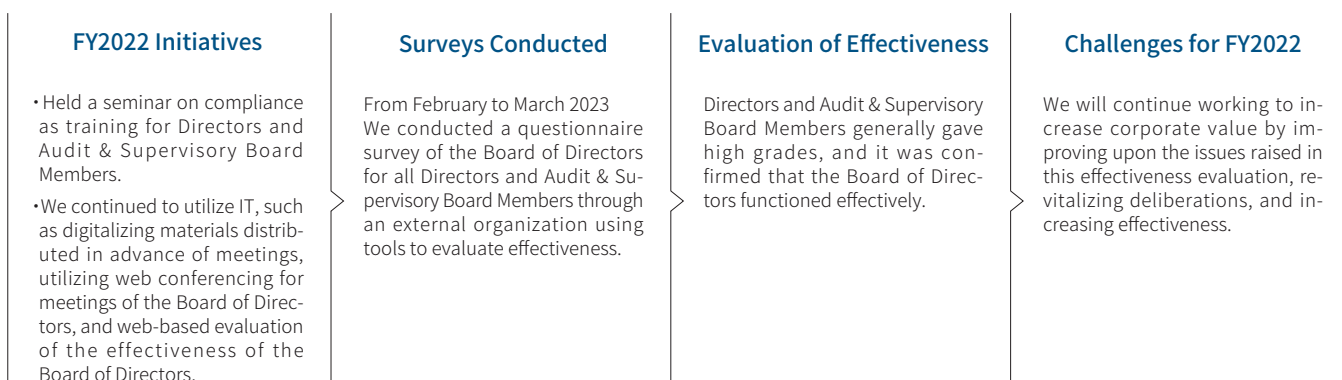
Total Amount of Compensation, etc., Officer Category, Total Amount by Type of Compensation, etc., and Number of Eligible Officers (138th fiscal period)

Officer classification	Total amount of compensation, etc. (Millions of yen)	Total amount by type of compensation (Millions of yen)			Number of eligible officers (persons)
		Fixed compensation	Bonuses	Performance linked share-based compensation	
Directors (excluding Outside Directors)	281	139	99	43	6
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	18	18	—	—	2
Outside Officers	55	55	—	—	6

The performance-linked share-based compensation of 43 million yen for Directors (excluding outside directors and non-residents in Japan) is the amount of expenses posted for the current fiscal year. The difference of 16 million yen from the amount of expenses posted in the 137th fiscal year business report—for share benefit obligations calculated based on the number of shares delivered to the six Directors (excluding outside directors and non-residents in Japan) as performance-linked share-based compensation for the three fiscal years corresponding to the Medium-term Management Plan ending in the 137th fiscal year—was posted as expenses for the current fiscal year.

Evaluation of Effectiveness

CITIZEN aims to continuously improve its governance system and function effectively through analysis and evaluation of the effectiveness of its Board of Directors.



Skills Matrix

The Company has specified the knowledge, experience, and skills needed to fulfill the roles and duties of the Board of Directors effectively for achieving business strategies and discloses the skills matrix as an indicator of the overall balance of knowledge, experience and skills, and diversity of its Board of Directors as a whole.

The expected roles that each Director will take on are as follows.

	Corporate Management/Management Strategy	Sales/Marketing/DX	R&D/Technology	Global Business	HR Development/Diversity	Finance/Accounting	ESG/Sustainability
Toshihiko Sato	●		●				●
Toshiyuki Furukawa	●	●				●	
Yoshitaka Oji	●	●		●			
Keiichi Nakajima	●		●	●			
Yoshiaki Miyamoto	●				●		●
Toshiko Kuboki				●	●		●
Yoshio Osawa	●	●		●			
Katsuhiko Yoshida	●	●			●		

Note: Up to three items are listed as the role expectations for each Director.

Group Risk Management

The Group is actively engaged in initiatives that lead to the enhancement of Group governance to centrally manage and respond promptly to risks throughout the Group. The Sustainability Committee — established in FY2020 — is chaired by the President and CEO of the Company and has established subcommittees according to major risk themes, including ESG risks such as human rights and labor practices, environmental issues, and procurement and supply chain risks. The committee enables top-level management to ascertain and respond to ma-

terial risks.

In addition to financial risks, by placing committees and organizations for risks directly related to compliance, BCP (Business Continuity Planning), intellectual property, information, and cybersecurity-related management infrastructure under the direct control of the Management Committee, we share information on important risks common to the Group and risks specific to each company throughout the Group. In addition to sharing risk management know-how among Group companies, this en-

ables us to achieve consistent risk management throughout the Group.

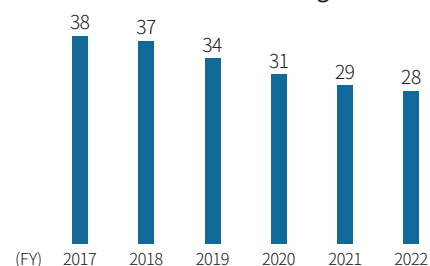
The Group will continue to make continuous improvements to enhance risk management throughout the Group.

Cross-Shareholding

The Company will hold shares when it is judged, comprehensively, to contribute to the maintenance and enhancement of the Group's medium- to long-term business relationships, the smooth operation of the Company's business operations, and business development. Regarding verification of individual cross-shareholdings, the Board of Directors follows a basic policy of verifying the rationality and necessity of such cross-shareholdings every year consid-

ering factors such as the relationships between business partners and the Group and the possibility of mutual enhancement of corporate value and strives to reduce holdings of shares for which the significance of continuous retention has been diluted.

Number of Cross-Shareholdings



Responding to changes with innovative advanced technologies and continuing to create markets

Citizen Watch Co., Ltd.
Outside Director

Katsuhiko Yoshida

Q. What is your impression of the CITIZEN Group?

CITIZEN is a longstanding company that has been in business for more than 100 years. The history of CITIZEN is a history of taking on new challenges, applying the advanced technological capabilities cultivated in the watches business to new business areas such as machine tools, devices, and printers. It is also a history of responding to many changes and creating markets with innovative, advanced technological capabilities.

I have confirmed the Company's technical capabilities—which are one of its key strengths—from the perspective of whether employees on the front line can talk about technologies that they can be proud of. I found that CITIZEN's technologies are highly competitive beyond imagination, to the extent that I even get the impression that there is an imbalance between CITIZEN's true capabilities and its reputation in the world. I think it is also important to appropriately convey CITIZEN's technological capabilities to the outside world.

Q. What do you think about the role required of you as an Outside Director?

I have been involved in business operations and marketing for a long time. How can we increase the value of our existence as new products and services continue to emerge, one after another? And how can we continue to secure profits while exceeding the level (of quality and performance) demanded by customers? These are the kind of questions I ask. We have also rigorously measured the effectiveness of the Company's investments. I would like to express new opinions that make use of these experiences and expertise. I think that by evolving to incorporate even more diverse opinions in addition to CITIZEN's existing traditions, we will be able to create new corporate value and achieve continuous growth to respond to changes in society.

Q. What are your expectations for CITIZEN in the future?

The waves of change are growing in the current business environment, and the extent of their impact is spreading. Delays in responding to these changes could lead to significant damage to the Company. I think that we must be prepared to abandon past successful experiences and excessive persistence and respond to changes by taking on new challenges with an agile approach. To respond to these changes, we must increase our level of diversity. By creating an environment that is accepting of diversity and incorporating new perspectives that disregard existing barriers such as age, gender, and nationality, I expect CITIZEN's growth potential to increase further.



Management Team

Directors

President and CEO

Toshihiko Sato

Toshihiko Sato, with his record of achievements and experience including running the Devices and Components business and being responsible for watch manufacturing, continues to contribute to the advancement of the CITIZEN Group's businesses. He assumed his current role in 2019.



Managing Director
In charge of Corporate Planning Division, Accounting Department, Public & Investor Relations Department, and IT Management Department

Toshiyuki Furukawa

As General Manager of the Corporate Planning Division, Toshiyuki Furukawa has a record of achievements in formulating Group management strategy, and as Director has experience leading the Corporate Planning Division, the Accounting Department, and the Public & Investor Relations Department. He assumed his current post in 2022.



Managing Director
Senior General Manager of Watch Business Division

Yoshitaka Oji

After being involved in watch and clock sales at one of the Company's overseas subsidiaries, Yoshitaka Oji gained experience as General Manager of the Corporate Planning Division, promoting management strategy in the Watch business and product development of watches. He assumed his current post in 2022.



Director

Keiichi Nakajima

Keiichi Nakajima has mainly been involved in the Machine Tools business, driving the Machine Tools business as a whole and promoting business strategies as President of Citizen Machinery Co., Ltd. He assumed his current post in 2013.



Director
Group Risk Management, General Manager of General Affairs Division and in charge of Personnel Division, CSR Department, and Environmental Management Department

Yoshiaki Miyamoto

After being involved in the start-up of new plants at Group overseas subsidiaries engaged in watch and clock manufacturing, Yoshiaki Miyamoto managed overseas subsidiaries responsible for watch and clock sales. He also has experience as Director with responsibility for Group risk management, general affairs, and personnel. He assumed his current post in 2018.



Independent

Outside Director

Toshiko Kuboki

Career Summary

1987 Registered as an attorney-at-law
2002 Conciliation commissioner of Tokyo Family Court (present)
2009 Retirement Benefit Examination Committee member of Board of Audit of Japan (present)
2012 Visiting Professor of Graduate School of Law, Chuo University (present)
2013 Municipal Board of Education member of Chuo-ku, Tokyo
2015 Outside Director of Qol Co., Ltd. (Currently Qol Holdings Co., Ltd.) (present)
2015 Outside Auditor of Kyodo News (present)
2016 Outside Audit & Supervisory Board Member of the Company
2019 Outside Director of the Company (present)
2021 Chuo-ku Specially Appointed Civil Servant Remuneration, etc. Council Member (present)
2023 Vice President of Tokyo Medical and Dental University (present)



Independent

Outside Director

Yoshio Osawa

Career Summary

2003 Corporate Officer and General Manager of Network Division of Sumitomo Corporation
2005 Executive Officer and General Manager of Network Division of Sumitomo Corporation
2007 Executive Officer and General Manager of Media Division of Sumitomo Corporation
2008 Managing Executive Officer and General Manager of Media, Network & Lifestyle Retail Business Unit of Sumitomo Corporation
2008 Representative Director and Managing Executive Officer of Sumitomo Corporation
2011 Representative Director and Senior Managing Executive Officer of Sumitomo Corporation
2013 Representative Director, President and Chief Operating Officer of SCSK Corporation
2015 Representative Director and President of SCSK Corporation
2016 Director and Chairman of the Board of SCSK Corporation
2017 Director of SCSK Corporation
2018 Outside Director of Canon Marketing Japan Inc. (present)
2019 Outside Director of the Company (present)



Independent

Outside Director

Katsuhiko Yoshida

Career Summary

2007 Executive Officer of Kao Corporation
2012 Managing Executive Officer of Kao Corporation
2014 Representative Director, Managing Executive Officer of Kao Corporation
2015 Representative Director, Senior Managing Executive Officer of Kao Corporation
2019 President of Japan Childcare Support Association (present)
2022 Outside Director of Kawasaki Heavy Industries, Ltd. (present)
2022 Outside Director of the Company (present)



Auditors

Independent

Audit & Supervisory Board Member (Full-time) Outside Audit & Supervisory Board Member

Noboru Akatsuka

Career Summary

1981 Joined Dai-ichi Kangyo Bank, Limited.
2005 General Manager of Asia Corporate Banking of Mizuho Corporate Bank, Ltd. (Currently Mizuho Bank, Ltd.)
2007 General Manager of Overseas Business Promotion Division of Mizuho Corporate Bank, Ltd.
2008 General Manager of Corporate Banking Division No. 18 of Mizuho Corporate Bank, Ltd.
2009 Executive Officer of Mizuho Corporate Bank, Ltd.
2011 Managing Executive Officer of Century Tokyo Leasing Corporation
2016 Counselor of Century Tokyo Leasing Corporation
2016 Chairman of Fujitsu Leasing Co., Ltd.
2018 Full-time Audit & Supervisory Board Member (Outside) of the Company (present)



Audit & Supervisory Board Member (Full-time)

Kazunori Yanagi

Career Summary

1986 Joined the Company
2007 General Manager of Accounting Department, Administration Division of Citizen Watch Co., Ltd.
2011 General Manager of Accounting Department of Citizen Watch Co., Ltd.
2012 Executive Officer of Citizen Jewelry Co., Ltd.
2014 Director of ROYAL TIME CITI CO., LTD.
2014 Representative Director and President of ROYAL TIME CITI CO., LTD.
2017 Director of ROYAL TIME CITI CO., LTD.
2019 Director of Citizen Watch Manufacturing Co., Ltd.
2022 Full-time Audit & Supervisory Board Member (Outside) of the Company (present)



Independent

Outside Audit & Supervisory Board Member

Yaeko Ishida

Career Summary

2000 Registered as an attorney-at-law
2007 Judicial Commissioner of Tokyo Summary Court
2016 Conciliation Commissioner of Tachikawa Branch of Tokyo Family Court (present)
2019 Outside Audit & Supervisory Board Member of the Company (present)
2021 Outside Director of Inageya Co., Ltd. (present)



Note: Ms. Yaeko Ishida, an Outside Audit & Supervisory Board Member, uses the name Yaeko Kitadai in her profession as an attorney-at-law.

Independent Independent officer pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

Corporate Information

Company Overview (as of March 31, 2023)

Corporate name	Citizen Watch Co., Ltd.
Established	May 28, 1930
Headquarters	6-1-12, Tanashi-cho, Nishi-Tokyo-shi, Tokyo 188-8511, Japan
Representative	Toshihiko Sato, President and CEO
Capital	¥32,648 million
Employees	15,402 (consolidated)
Business description	Manufacturing and sale of watches and their components, and as a holding company, planning and implementation of Group management strategies, Group business auditing, development of Group technologies, intellectual property management, and other administrative operations.

Stock Information (as of March 31, 2023)

Securities code	7762
Stock exchange listing	Tokyo Stock Exchange Prime Market
Number of shareholders	69,829
Total number of shares issued	294,000,000

Note: At a meeting of the Board of Directors held on June 21, 2023, the Board resolved to cancel treasury shares. The total number of issued shares of the Company after cancellation (as of June 30, 2023) will be 246,000,000 shares.

Editorial Policy

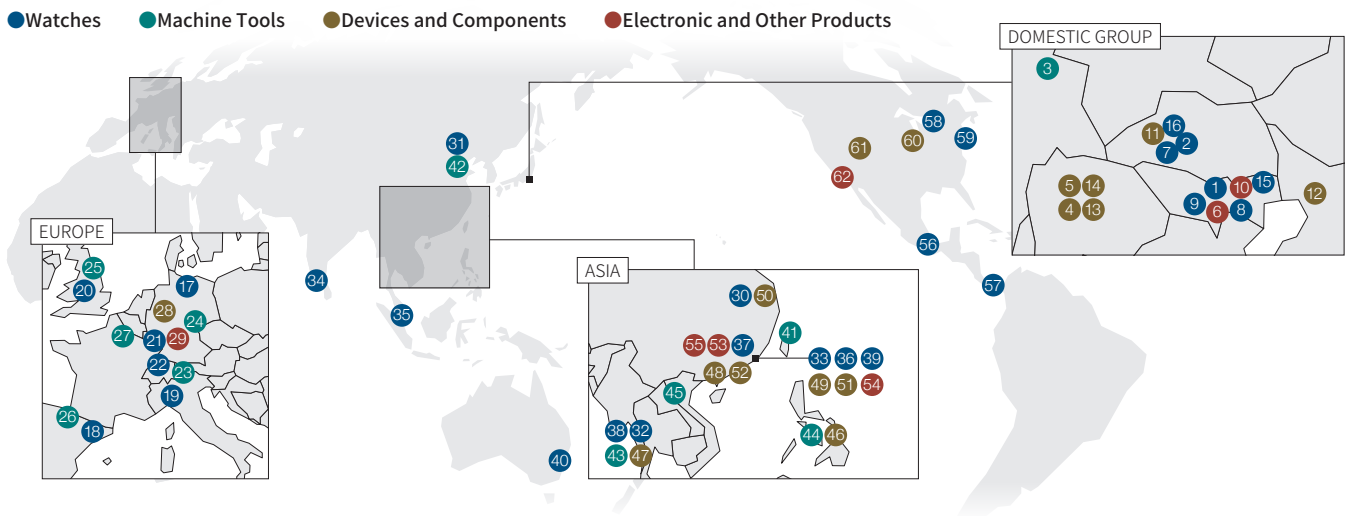
The CITIZEN REPORT aims to summarize and communicate the profile and activities of the CITIZEN Group in an easily understandable format with consideration for the environment. For more information, please visit our official website.



Forward-Looking Statements

The forward-looking statements in this report are based on information currently available and involve various risks and uncertainties. Readers should understand that actual results might differ from forecasts due to changes in the market environment and other factors.

Principal Places of Business and Group Companies



Works

- 1 Headquarters, Tokyo Works
- 2 Tokorozawa Works

Domestic Group

- 3 CITIZEN MACHINERY CO., LTD.
- 4 CITIZEN FINEDEVICE CO., LTD.
- 5 CITIZEN ELECTRONICS CO., LTD.
- 6 CITIZEN SYSTEMS JAPAN CO., LTD.
- 7 CITIZEN WATCH MANUFACTURING CO., LTD.
- 8 CITIZEN RETAIL PLANNING CO., LTD.
- 9 CITIZEN T.I.C. CO., LTD.
- 10 TOKYO BIJUTSU CO., LTD.
- 11 CITIZEN MICRO CO., LTD.
- 12 CITIZEN CHIBA PRECISION CO., LTD.
- 13 FUJIMI CORPORATION
- 14 CITIZEN ELECTRONICS TIMEL CO., LTD.
- 15 CITIZEN CUSTOMER SERVICE CO., LTD.
- 16 CITIZEN LOGISTICS SERVICE CO., LTD.

Overseas Group

EUROPE

- 17 CITIZEN WATCH EUROPE G.M.B.H.
- 18 CITIZEN WATCH IBÉRICA S.A.U.
- 19 CITIZEN WATCH ITALY S.P.A.
- 20 CITIZEN WATCH UNITED KINGDOM, LTD.
- 21 FREDERIQUE CONSTANT HOLDING S.A.
- 22 MANUFACTURE LA JOUX-PERRET S.A.
- 23 CITIZEN MACCHINE ITALIA S.R.L.
- 24 CITIZEN MACHINERY EUROPE G.M.B.H.
- 25 CITIZEN MACHINERY UK LTD.
- 26 EGASCA, S.A.
- 27 HESTIKA FRANCE S.A.S.
- 28 C-E (DEUTSCHLAND) G.M.B.H.
- 29 CITIZEN SYSTEMS EUROPE G.M.B.H.

ASIA, OCEANIA

- 30 CITIZEN (SHANGHAI) TRADING CO., LTD.
西鉄城(上海)貿易有限公司
- 31 CITIZEN WATCH (CHINA) CO., LTD.
西鉄城(中国)鐘表有限公司
- 32 CITIZEN WATCH MANUFACTURING (THAILAND) CO., LTD.
- 33 CITIZEN WATCHES (H.K.) LTD.
星辰表(香港)有限公司

- 34 CITIZEN WATCHES (INDIA) PVT. LTD.
- 35 CITIZEN WATCHES (MALAYSIA) SDN. BHD.
- 36 CIVIS MANUFACTURING LTD.
- 37 GUANGZHOU MOST CROWN ELECTRONICS LTD.
広州務冠電子有限公司
- 38 ROYAL TIME CITI CO., LTD.
- 39 SUNCITI MANUFACTURERS LTD.
新星工業有限公司
- 40 CITIZEN WATCHES AUSTRALIA PTY LTD.
- 41 CINCOM MIYANO TAIWAN CO., LTD.
- 42 CITIZEN (CHINA) PRECISION MACHINERY CO., LTD.
西鉄城(中国)精密機械有限公司
- 43 CITIZEN MACHINERY ASIA CO., LTD.
- 44 CITIZEN MACHINERY PHILIPPINES INC.
- 45 CITIZEN MACHINERY VIETNAM CO., LTD.
- 46 CITIZEN FINEDEVICE PHILIPPINES CORP.
- 47 CITIZEN SEIMITSU (THAILAND) CO., LTD.
- 48 MASTER CROWN ELECTRONICS (WUZHOU) LTD.
領冠電子(梧州)有限公司
- 49 C-E (HONG KONG) LTD.
西鉄城電子(香港)有限公司
- 50 CITIZEN ELECTRONICS (CHINA) CO., LTD.
西鉄城電子貿易(上海)有限公司

- 51 FIRSTCOME ELECTRONICS LTD.
首軒電子有限公司
- 52 JIANG XING ELECTRONICS LTD.
江門市江星電子有限公司
- 53 CITIZEN SYSTEMS (DONGGUAN) CO., LTD.
西鉄城精電科技(東莞)有限公司
- 54 CITIZEN SYSTEMS (H.K.) LTD.
西鉄城精電科技(香港)有限公司
- 55 CITIZEN SYSTEMS (JIANGMEN) CO., LTD.
西鉄城精電科技(江門)有限公司

NORTH AMERICA, SOUTH AMERICA

- 56 CITIZEN DE MEXICO, S. DE R. L. DE C. V.
- 57 CITIZEN LATINAMERICA CORPORATION
- 58 CITIZEN WATCH CANADA, LTD.
- 59 CITIZEN WATCH COMPANY OF AMERICA, INC.
- 60 CECOL, INC.
- 61 MIYOTA DEVELOPMENT CENTER OF AMERICA INC.
- 62 CITIZEN SYSTEMS AMERICA CORP.

FINANCIAL DATA FY2022

Analysis of Operating Results

Fiscal Year-End Operating Results

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023	Year-on-year change	%
Net sales	281,417	301,366	+19,949	+7.1%
Operating profit or loss	22,273	23,708	+1,435	+6.4%
Ordinary profit or loss	27,342	29,096	+1,754	+6.4%
Profit or loss attributable to owners of parent	22,140	21,836	(304)	(1.4%)

During the consolidated fiscal year under review, the Japanese economy, while affected by the higher cost of living, among other factors, continued to experience a moderate recovery in consumer spending, reflecting the normalization of economic activity. There was growing concern in the North American and European markets about an economic recession given uncertain circumstances such as geopolitical instability and inflation linked to rising resource prices, although consumer spending remained firm. Looking at the Asian market, China remained slow, despite an about-face in the country's zero-COVID policy, whereas other Asian countries experienced weak economic recoveries due to the impact of sharp price increases.

In this environment, the Citizen Group's consolidated results for the fiscal year under review showed increases in sales and profits, with net sales of 301.3 billion yen (up 7.1% year on year) and operating profit of 23.7 billion yen (up 6.4% year on year). These results were driven mainly by the growth of its core businesses, Watches and Machine Tools. Ordinary profit increased to 29.0 billion yen (up 6.4% year on year), while profit attributable to owners of parent came to 21.8 billion yen (down 1.4% year on year).

Analysis of Financial Position

1. Assets Outstanding at Fiscal Year-End

As of the end of the consolidated fiscal year under review, total assets had decreased by 4.9 billion yen from the end of the previous consolidated fiscal year to 389.9 billion yen. Of assets, current assets decreased by 10.4 billion yen, mainly due to a decrease of 28.4 billion yen in cash and deposits due to purchases of treasury stock, etc., offsetting increases in inventories of 11.4 billion yen. Fixed assets increased by 5.5 billion yen, mainly attributable to an increase of 4.1 billion yen in leased assets (net) under property, plant and equipment, because subsidiaries that have adopted the accounting principles generally accepted in the United States (US GAAP) changed their accounting policies.

Liabilities had increased by 0.9 billion yen from the end of the previous consolidated fiscal year to 157.2 billion yen. This was primarily due to increases of 0.9 billion yen in other under current liabilities and 3.9 billion yen in other under non-current liabilities, which was partly offset by decreases of 3.7 billion yen in retirement benefit liability. Moreover, 10.0 billion yen was transferred to current portion of bonds payable under current liabilities from bonds payable under non-current liabilities due to the corporate bonds becoming redeemable within one year.

Net assets amounted to 232.7 billion yen, down 5.8 billion yen from the end of the previous fiscal year. Foreign currency translation adjustment increased by 9.0 billion yen, reflecting the weaker yen. Retained earnings increased by 4.5 billion yen, as a result of recording 21.8 billion yen in profit attributable to owners of parent, which was partly offset by a decrease of 17.2 billion yen in dividend payments and treasury share cancellation. On the other hand, treasury shares increased by 20.3 billion yen. This mainly resulted from the cancellation of treasury shares of 10.1 billion yen and purchases of treasury shares totaling 30.6 billion yen.

2. Cash Flows

For the cash status of the Citizen Group, cash provided from operating activities was 16.5 billion yen, a decrease of 18.1 billion yen in income from the previous fiscal year. This was primarily attributable to factors of increase such as 28.2 billion yen in profit before income taxes, 11.2 billion yen in depreciation, and 3.8 billion yen in loss on impairment, which more than offset factors such as an increase of 7.6 billion yen in inventories, a decrease of 3.4 billion yen in liabilities for retirement benefits, and 9.0 billion in income taxes paid.

Cash used in investing activities was 13.5 billion yen due to an increase of 3.9 billion yen in expenditure from the previous fiscal year. Contributing factors include 1.8 billion yen in proceeds from sales of investment securities, 1.8 billion yen in purchase of property, plant and equipment, and 15.0 billion yen in purchase of intangible assets, which more than offset factors such as proceeds from the sale of property, plant and equipment of 1.4 billion yen.

Cash used in financing activities was 40.0 billion yen due to an increase of 20.1 billion yen in expenditure from the previous fiscal year. This resulted chiefly from factors such as 3.7 billion yen in repayments of long-term borrowings, 30.6 billion yen in purchase of treasury shares, and 7.0 billion yen in dividends paid, which more than offset factors such as 1.0 billion yen in proceeds from long-term debt.

As a result, cash and cash equivalents decreased by 32.0 billion yen year on year to total 79.2 billion yen at the end of the fiscal year under review.

3. Fundamental Policy Regarding the Distribution of Profits and Dividends for the Fiscal Year under Review and the Fiscal Year Ending March 2024

The Company considers the distribution of profits to shareholders to be an extremely important management issue, and as part of its three-year Medium-term Management Plan 2024, covering the period from FY2022 (fiscal year ended March 31, 2023) to FY2024 (fiscal year ending March 31, 2025), its fundamental policy is to emphasize stable and continuous dividends and to aim for a payout ratio of 50%.

The year-end dividend for the fiscal year under review will be 19.00 yen per share. Consequently, the full-year dividend for the fiscal year under review will be 34.00 yen per share.

In the next and subsequent fiscal years, the Group will emphasize the stable and continuous payment of dividends as its shareholder return policy in Medium-term Management Plan 2024, and aim for a dividend payout ratio of approximately 50%. The Company expects that the full-year dividend for the next fiscal year will be 40.00 yen per share, comprehensively taking into consideration stable dividend payments and results trends, among other factors.

Business Risks

Of the matters regarding business and accounting situations, etc., described in the financial statements in security reports, the main risks that the operator recognizes as having the possibility of significantly impacting the financial condition, business performance, or cash flow condition of consolidated companies are as follows.

1. Risks in Each of the Group's Businesses

The Citizen Group's main business is to manufacture and sell watches, machine tools, electronic devices, and electronic products. The Group operates its business all over the world, and our customers include both individuals and various manufacturers. Therefore, our operating results are influenced by various factors, some of which are listed below.

Watches

Competition in the watch market is intensifying, not only from Japanese brands but also from high-end Swiss brands, low-end Chinese manufacturers, and smartwatch manufacturers, along with alternative products such as smartphones with watch functions. With respect to movements, demand for analog quartz movements is trending downward, primarily in the low-end range, reflecting an increase in demand for smartwatches. In addition, unit prices are falling due to an intensifying competitive environment resulting mainly from the rise of Chinese manufacturers. Consequently, there is a risk of a decline in the quantity and market share.

Machine Tools

The machine tools business is susceptible to the effects of decline in demand for capital investment caused by economic fluctuations; soaring natural resource and raw material prices; regulations or significant changes in laws and regulations in countries and regions in which the Group operates its business; fierce competition in the market; and stagnation, confusion, etc., of supply chains. There is a risk that the Group's business performance could be adversely affected by the above in the future.

Devices and Components

The devices and components business is characterized by the rapid pace of technological innovation, changes in customer requirements, and high rates of new product and service introduction. Accordingly, declining sales prices, etc., caused by the obsolescence of existing products and services could significantly affect the Group's business performance. Precision machining components are susceptible to the trends of technical innovation among customers, including automotive and smart phone manufacturers. As for opto-devices, patent licensing agreements are concluded for manufacturing certain products. Our business results could be affected should a cooperative relationship underpinning a patent agreement break down and access to the patent be lost.

Electronics and Other Products

The electronic and other products business is susceptible to declining capital expenditure, customer business activities, and personal spending as a result of changing economic conditions, as well as stricter product safety-related laws, regulations, and standards, that might affect future business performance. Intense competition from electronics manufacturers in China and other countries in addition to domestic manufacturers, as well as rapid technological innovation, a drop in sales prices, and delays in development, could affect our business performance.

2. Overseas Sales

Overseas sales account for a high percentage of the Group's overall product sales. As our products are sold worldwide, our operating results might be affected by economic and consumer trends in each area, as well as by political and socioeconomic factors.

(Millions of yen)

	(April 1, 2021, to March 31, 2022)		(April 1, 2022, to March 31, 2023)	
	Net sales	Composition rate (%)	Net sales	Composition rate (%)
Japan	74,418	26.4	76,502	25.4
Asia	87,681	31.2	78,859	26.2
U.S.	62,525	22.2	80,426	26.7
Europe	53,585	19.0	62,287	20.7
Other	3,207	1.1	3,291	1.1
Total overseas sales	206,998	73.6	224,864	74.6
Total	281,417	100.0	301,366	100.0

3. Foreign Currency Fluctuation Risk

As overseas sales account for a high percentage of the Group's product sales, as mentioned in 2. above, we enter into foreign currency contracts, currency options, and other such transactions to hedge against risks. Although we are expanding and strengthening our overseas production, currency fluctuations might still affect the Group's operating results.

4. Manufacturing in China

China is one of main production bases for the Group's products. It is therefore possible for our operating results to be affected by factors in China, such as the suspension of production due to problems, the enactment of new regulations that could affect production, or the sharp appreciation of the Chinese yuan.

5. Impairment Loss

An impairment loss would be applicable if the market value of the Group's assets were to decline significantly or the profitability of our business were to deteriorate. This might affect the Group's operating results and financial position.

6. Patent and Intangible Property

As part of the Group's R&D and production activities, we make use of a variety of technologies covered by intellectual property rights. These include intellectual property rights that are owned by the Citizen Group, and others for which we believe we have legitimately received licenses to use. Nevertheless, should a third party claim, based on grounds of which we are unaware, that its intellectual property rights have been violated, a dispute could arise that could affect the Group's business results. For some products in particular, manufacturing is based on patent licensing agreements. If a cooperative relationship underpinning such an agreement were to break down, or access to the relevant patent were to be lost, it could affect our business results.

7. Risk Related to Natural Disaster Such as Earthquakes

We have established a Group risk management system to avoid any injury or damage to facilities in the event of a fire, an earthquake, or other disaster through drills and other safety activities at our headquarters and works. In the event of a particularly serious earthquake or other such disaster, however, our production activities and product supplies could be affected. There might also be a significant impact on our operating results and financial position due to reconstruction costs, for example.

8. Risks Related to M&As and Business Alliances

We are committed to strengthening the Group's business foundations through M&A and business alliances. When undertaking such activities, we carry out comprehensive research into and examinations of the companies involved. Nevertheless, there might be risks that we discover later, such as unrealized liabilities or obstacles in implementing projects, which could materially affect the Group's operating results and financial position.

9. Risk Related to Borrowings

The Group's borrowings include syndicated loans and commitment line agreements with financial institutions. Any violation of financial restrictions under such agreements could result in demands for the accelerated repayment of the relevant borrowings, which could affect the Group's financial position.

10. Risks Related to Information Security

With the number of illegitimate accesses and external cyberattacks continuously growing globally, the Group has been working to strengthen information security. However, in the event of any damages to its information system function due to an external cyberattack or for other reasons, or the occurrence of incidents such as the suspension of services by service providers, the Group's business activities, business performance, and financial conditions could be seriously affected.

The Group holds and manages, in a variety of forms, personal information obtained from customers and other sources, as well as confidential information related to the technologies, research and development, manufacturing, and sales of the Group and customers. The Group has been taking measures to protect such confidential information. Even so, such measures might not work effectively if any matters that are not expected to occur arise. If, therefore, such information is disclosed without any authority, the Group might be asked for compensation for losses and damages, or face lawsuits, which might affect the business performance, financial conditions, reputation, and credibility of the Group.

11. Other Risks

The Group's operating results might be affected by a variety of factors in addition to the above, including changes in social infrastructure and market competition as a result of rapid advances in technology, changes in the Group's financial or managerial situation as a result of ongoing restructuring initiatives, trading restrictions in major markets in Japan or overseas, international taxation risk including the transfer pricing taxation system, or substantial changes in stock or bond markets.

Consolidated Balance Sheets

Citizen Watch Co., Ltd., and Consolidated Subsidiaries
March 31, 2022 and 2023

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	¥ 110,901	¥ 82,490
Notes and accounts receivable—trade	*1 49,308	*1 53,718
Electronically recorded monetary claims—operating	2,037	2,081
Merchandise and finished goods	50,979	58,604
Work in process	22,749	24,291
Raw materials and supplies	23,315	25,595
Consumption taxes refund receivable	2,661	3,052
Other	9,254	10,907
Allowance for doubtful accounts	(1,069)	(1,099)
Total current assets	270,139	259,642
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*4*5 40,893	*4*5 41,808
Machinery, equipment and vehicles, net	*4 16,567	*4 15,868
Tools, furniture and fixtures, net	3,616	3,899
Land	10,371	10,367
Leased assets, net	975	5,134
Construction in progress	2,437	2,443
Total property, plant and equipment	*2 74,862	*2 79,521
Intangible assets		
Software	3,879	3,951
Leased assets	1	—
Other	954	799
Total intangible assets	4,834	4,751
Investments and other assets		
Investment securities	*3 37,275	*3 39,021
Long-term loans receivable	184	163
Deferred tax assets	5,894	5,581
Other	2,151	1,675
Allowance for doubtful accounts	(236)	(236)
Allowance for investment loss	(144)	(138)
Total investments and other assets	45,125	46,066
Total non-current assets	124,823	130,340
Total assets	¥ 394,962	¥ 389,982

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable–trade	¥ 18,354	¥ 18,889
Electronically recorded obligations–operating	13,910	13,325
Notes payable–facilities	25	18
Electronically recorded obligations–non-operating	598	384
Short-term borrowings	*6 4,773	*6 3,787
Current portion of bonds payable	–	10,000
Income taxes payable	2,826	2,179
Accrued expenses	10,604	10,997
Provision for bonuses	5,821	6,156
Provision for bonuses for directors (and other officers)	279	303
Provision for product warranties	1,181	1,244
Provision for environmental measures	1	–
Provision for loss on reorganization	362	110
Other	*7 10,597	*7 11,918
Total current liabilities	69,338	79,317
Non-current liabilities		
Bonds payable	10,000	–
Long-term borrowings	*6 51,382	*6 51,328
Deferred tax liabilities	2,772	3,628
Provision for loss on reorganization	74	6
Retirement benefit liability	20,281	16,572
Lease liabilities	790	4,679
Other	1,652	1,673
Total non-current liabilities	86,951	77,889
Total liabilities	156,289	157,206
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,740	33,740
Retained earnings	145,912	150,483
Treasury shares	(8,225)	(28,581)
Total shareholders' equity	204,076	188,290
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,977	10,161
Foreign currency translation adjustment	16,646	25,659
Remeasurements of defined benefit plans	(394)	67
Total accumulated other comprehensive income	25,228	35,888
Non-controlling interests	9,367	8,596
Total net assets	238,673	232,775
Total liabilities and net assets	¥ 394,962	¥ 389,982

Consolidated Statements of Income

Citizen Watch Co., Ltd., and Consolidated Subsidiaries
March 31, 2022 and 2023

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net sales	¥ *1 281,417	¥ *1 301,366
Cost of sales	*11 174,578	*11 179,186
Gross profit	106,839	122,180
Selling, general and administrative expenses	*2*3 84,565	*2*3 98,472
Operating profit	22,273	23,708
Non-operating income		
Interest income	276	851
Dividend income	1,369	1,563
Rental income	161	111
Share of profit of entities accounted for using equity method	813	1,248
Foreign exchange gains	2,192	1,237
Subsidy income	*4 484	*4 233
Other	505	1,002
Total non-operating income	5,804	6,248
Non-operating expenses		
Interest expenses	294	297
Loss on sale of notes receivable–trade	17	26
Depreciation of assets for rent	8	19
Commission for syndicate loans	71	48
Commission for purchase of treasury shares	1	86
Non-deductible consumption taxes	—	126
Other	341	255
Total non-operating expenses	735	860
Ordinary profit	27,342	29,096
Extraordinary income		
Gain on sale of investment securities	94	1,530
Gain on sale of non-current assets	*2 1,033	*2 1,761
Other	93	427
Total extraordinary income	1,221	3,719
Extraordinary losses		
Loss on sale of non-current assets	*7 38	*7 17
Loss on retirement of non-current assets	*6 79	*6 501
Impairment losses	*8 742	*8 3,887
Loss on valuation of inventories	*9 346	—
Reorganization cost	*10 209	*10 32
Other	454	138
Total extraordinary losses	1,869	4,576
Profit before income taxes	26,694	28,240
Income taxes–current	5,342	6,400
Income taxes–deferred	(1,075)	809
Total income taxes	4,266	7,210
Profit	22,427	21,029
Profit attributable to non-controlling interests	286	(807)
Profit attributable to owners of parent	¥ 22,140	¥ 21,836

Consolidated Statements of Comprehensive Income

Citizen Watch Co., Ltd., and Consolidated Subsidiaries
 March 31, 2022 and 2023

	(Millions of yen)	
	Year ended March 31, 2022	Year ended March 31, 2023
Profit	¥ 22,427	¥ 21,029
Other comprehensive income		
Valuation difference on available-for-sale securities	2,474	1,183
Foreign currency translation adjustment	11,578	8,731
Remeasurements of defined benefit plans, net of tax	692	460
Share of other comprehensive income of entities accounted for using equity method	438	446
Total other comprehensive income	* 15,182	* 10,823
Comprehensive income	37,610	31,852
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	37,096	32,496
Comprehensive income attributable to non-controlling interests	¥ 513	¥ (643)

Consolidated Statements of Changes in Equity

Financial year ended March 31, 2022

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	32,648	33,740	128,393	(1,069)	193,713
Cumulative effects of changes in accounting policies			(1,068)		(1,068)
Restated balance	32,648	33,740	127,324	(1,069)	192,644
Changes during period					
Change in scope of consolidation			46		46
Dividends of surplus			(3,599)		(3,599)
Profit attributable to owners of parent			22,140		22,140
Cancellation of treasury shares					-
Purchase of treasury shares				(7,157)	(7,157)
Disposal of treasury shares		(0)		0	0
Transfer of loss on disposal of treasury shares		0	(0)		-
Net changes in items other than shareholders' equity					
Total changes during period	-	-	18,588	(7,156)	11,431
Balance at end of period	32,648	33,740	145,912	(8,225)	204,076

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	6,503	4,871	(1,100)	10,273	8,878	212,864
Cumulative effects of changes in accounting policies						(1,068)
Restated balance	6,503	4,871	(1,100)	10,273	8,878	211,796
Changes during period						
Change in scope of consolidation						46
Dividends of surplus						(3,599)
Profit attributable to owners of parent						22,140
Purchase of treasury shares						(7,157)
Disposal of treasury shares						0
Transfer from retained earnings to capital surplus						-
Net changes in items other than shareholders' equity	2,474	11,774	706	14,955	489	15,444
Total changes during period	2,474	11,774	706	14,955	489	26,876
Balance at end of period	8,977	16,646	(394)	25,228	9,367	238,673

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Restated balance	32,648	33,740	145,912	(8,225)	204,076
Changes during period					
Dividends of surplus			(7,078)		(7,078)
Profit attributable to owners of parent			21,836		21,836
Cancellation of treasury shares		(10,199)		10,199	-
Purchase of treasury shares				(30,611)	(30,611)
Disposal of treasury shares		11		55	66
Transfer from retained earnings to capital surplus		10,188	(10,188)		-
Net changes in items other than shareholders' equity					
Total changes during period	-	-	4,570	(20,356)	(15,785)
Balance at end of period	32,648	33,740	150,483	(28,581)	188,290

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Restated balance	8,977	16,646	(394)	25,228	9,367	238,673
Changes during period						
Dividends of surplus						(7,078)
Profit attributable to owners of parent						21,836
Cancellation of treasury shares						-
Purchase of treasury shares						(30,611)
Disposal of treasury shares						66
Transfer from retained earnings to capital surplus						-
Net changes in items other than shareholders' equity	1,183	9,013	462	10,659	(770)	9,888
Total changes during period	1,183	9,013	462	10,659	(770)	(5,897)
Balance at end of period	10,161	25,659	67	35,888	8,596	232,775

Consolidated Statements of Cash Flows

Citizen Watch Co., Ltd., and Consolidated Subsidiaries
March 31, 2022 and 2023

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	¥ 26,694	¥ 28,240
Depreciation	11,191	11,200
Increase (decrease) in provision for loss on reorganization	(387)	(319)
Increase (decrease) in allowance for doubtful accounts	(251)	(58)
Increase (decrease) in other provisions	1,405	321
Increase (decrease) in retirement benefit liability	(1,790)	(3,465)
Interest and dividend income	(1,645)	(2,415)
Subsidy income	(484)	(233)
Interest expenses	294	297
Loss (gain) on sale of investment securities	(94)	(1,530)
Loss (gain) on sale of non-current assets	(995)	(1,744)
Loss on retirement of non-current assets	79	501
Impairment losses	742	3,887
Decrease (increase) in trade receivables	(2,025)	(1,302)
Decrease (increase) in inventories	(1,800)	(7,699)
Increase (decrease) in trade payables	3,920	(2,573)
Other, net	1,143	146
Subtotal	35,996	23,251
Interest and dividends received	1,633	2,426
Interest paid	(300)	(299)
Income taxes refund (paid)	(3,120)	(9,035)
Subsidies received	484	233
Net cash provided by (used in) operating activities	34,693	16,576
Cash flows from investing activities		
Purchase of investment securities	(1)	0
Proceeds from sale of investment securities	165	1,811
Purchase of property, plant and equipment	(9,566)	(15,091)
Proceeds from sale of property, plant and equipment	2,338	1,827
Purchase of intangible assets	(2,117)	(1,465)
Loan advances	(23)	(5)
Proceeds from collection of loans receivable	309	4
Other, net	(656)	(607)
Net cash provided by (used in) investing activities	(9,550)	(13,526)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(737)	1,653
Proceeds from long-term borrowings	—	1,000
Repayments of long-term borrowings	(8,048)	(3,755)
Dividends paid	(3,599)	(7,078)
Proceeds from share issuance to non-controlling shareholders	—	25
Dividends paid to non-controlling interests	(55)	(147)
Purchase of treasury shares	(7,157)	(30,697)
Proceeds from sale of treasury shares	0	66
Other, net	(359)	(1,129)
Net cash provided by (used in) financing activities	(19,956)	(40,062)
Effect of exchange rate change on cash and cash equivalents	6,430	4,976
Net increase (decrease) in cash and cash equivalents	11,616	(32,036)
Cash and cash equivalents at beginning of period	99,561	111,237
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	59	—
Cash and cash equivalents at end of period	¥ * 111,237	¥ * 79,201

Notes

(Significant Matters That Serve as the Basis for the Preparation of Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 74
Deconsolidation: 3 companies
During the consolidated fiscal year under review, the Company proceeded with the deconsolidation of Citizen Watch Goodrington (Hong Kong) Limited, Most Crown Industries Limited, and Sunciti PVD (Jiangmen) LTD., which were consolidated subsidiaries of the Company, due to corporate liquidation.

New consolidated companies: 1 company
During the consolidated fiscal year under review, Cincom Miyano Tooling Co., Ltd., was established and has been included in the scope of consolidation.
Templus has been renamed Frederique Constant Europe SAS.

(2) Non-consolidated subsidiaries: 11
Major non-consolidated subsidiaries
Citizen Customer Service Co., Ltd.
(Reason for exclusion from scope of consolidation)
They were excluded from the scope of consolidation because the sum of total assets, net sales, current term net profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity), etc., of each of the deconsolidated subsidiaries is negligible compared to the overall total assets, net sales, current term net profit or loss, retained earnings, etc., in the consolidated financial statements and does not have significant impact on the said statements as a whole.

2. Matters Related to the Application of the Equity Method

(1) Number of affiliates accounted for using the equity method: 2
Marubeni Citizen-Cincom Inc., First Cainta Resources Corporation

(2) Non-consolidated subsidiaries (Citizen Customer Service Co., Ltd.) and affiliates (VELDT Inc., etc.) that are not accounted for using the equity method are excluded from the scope of application of the equity method because they have minimal impact on the consolidated financial statements in light of their respective current term net profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity), etc., and because they are not material as a whole.

3. Fiscal Years of Consolidated Subsidiaries

(1) Consolidated subsidiaries for which the account closing dates are different from the consolidated account settlement date are as follows:
December 31 closing dates: 51 companies

(2) The Company makes necessary adjustments for formulating consolidated financial statements on the account closing date, by preparing financial statements that are the basis for consolidated financial statements.

4. Matters Related to Accounting Policies

Accounting policies adopted by consolidated subsidiaries conform to the standards used by the Company, in principle, and there are no differences to be specified. Major accounting policies adopted by the Company and its consolidated subsidiaries are as follows:

(1) Valuation standards and methods for important assets

(i) Securities

Other securities
Securities other than shares, etc., without market prices
These securities are stated using market value method.
(Unrealized gains and losses are reported as a component of net assets, and cost of sales is computed primarily by the moving-average method.)

Shares, etc., without market prices
These securities are stated using the moving-average cost method.

(ii) Derivatives
These securities are stated using the market value method.

(iii) Inventories
Inventories are stated at cost mainly using the periodic average method. (The amount stated in the balance sheet is calculated using the book value write-down method based on a reduction in profitability.)

(2) Depreciation method of important depreciable assets

(i) Property, plant and equipment (excluding lease assets)
The straight-line method is applied.
The principal useful lives of property, plant and equipment are as follows:
Buildings and structures: 2 to 60 years
Machinery, equipment and vehicles: 1 to 10 years

(ii) Intangible assets (excluding lease assets)
The straight-line method is applied.

(iii) Leased assets
For depreciation of leased assets for finance lease transactions other than those involving ownership transfer, the useful life is based on the duration of the lease period, and the straight-line method is applied with an assumed residual value of zero.

(3) Accounting method for significant deferred assets.
Bond issuance costs
They are collectively amortized in the fiscal year in which they are incurred.

(4) Accounting for significant allowances and reserves

(i) Allowance for doubtful accounts
To reserve for losses on doubtful accounts such as trade receivables and loans, the Company and its consolidated subsidiaries in Japan provide an allowance, based on historical write-off rates for ordinary receivables and estimated amounts of irrecoverable debt for specified receivables such as debt with a possibility of default which takes into account the recoverability of individual debt. Moreover, estimated amounts of allowance are recorded for overseas consolidated subsidiaries, considering the recoverability of individual receivables.

(ii) Allowance for investment loss
To reserve for a loss from significant declines in the value of shares, etc., in non-consolidated subsidiaries (excluding those to which impairment accounting is applied), an allowance is provided considering the carrying amount, etc., of the shares, etc., as of the end of the consolidated fiscal year under review.

(iii) Provision for bonuses
To provide for the payment of bonuses to employees of the Company and certain of its consolidated subsidiaries, allowance for bonuses is provided based on estimated future payments.

(iv) Provision for bonuses for directors (and other officers)
To provide for the payment of bonuses to officers of the Company and certain of its consolidated subsidiaries, allowance for bonuses is provided based on estimated future payments.

(v) Provision for product warranties
A portion of sales is provided for costs for after-sale services, etc., of products at certain consolidated subsidiaries.

(vi) Provision for loss on business reorganization and liquidation
To reserve for expenses and losses from business restructuring, an estimated required amount is recorded.

(vii) Provision for environmental measures
To provide for expenditures for future environmental measures, a reasonably estimated amount is recorded.

(5) Accounting method for retirement benefits

(i) Method for attributing expected retirement benefits to periods of service
In calculating projected benefits obligations, the periodic allocation of projected retirement benefits up to the end of the current period is based mainly on the benefit formula basis.

(ii) Treatment of unrecognized actuarial differences and past service costs
Past service cost is treated as an expense over a fixed number of years (using the declining balance method on the basis of 5 years, in principle) within the average remaining years of service of employees as of the year in which the past service costs occur.

Actuarial differences are to be charged to expenses from the fiscal year following the year in which the past service costs occur, over a fixed number of years (using the declining balance method on the basis of 5 years, in principle) within the average remaining years of service of employees as of each fiscal year in which the past service costs occur.

- (iii) Adoption of the simplified method by companies that are small in size

Some consolidated subsidiaries adopt, for the purpose of calculating retirement benefit liability and retirement benefit expenses, a simplified method involving the recognition of retirement benefit obligations as the amount of retirement benefit payable at fiscal year-end due to voluntary termination.

- (6) Accounting standards for income and expenses

The Citizen Group's main business is to manufacture and sell watches, machine tools, electronic devices, and electronic products.

The Company believes that its performance obligation regarding the recognition of revenues from sale of goods is satisfied when the control over the goods is transferred to customers and revenues are recognized at the time of the transfer.

Transaction prices are calculated by deducting variable consideration, including future sales returns and other rebates, from the consideration the customer promises in a contract. Variable consideration is estimated based on the past track record and information available as of the end of the consolidated fiscal year under review, and is revaluated at every fiscal year-end.

In the watches segment, membership-based inspection services are provided to customers. In the said services, performance obligations related to the sale of products and performance obligations related to inspection services are identified separately and revenue is recognized when each performance obligation is satisfied. As considerations regarding these performance obligations are generally paid within one year from the time they are satisfied, no significant financing component is involved.

- (7) Standard for translation of significant foreign currency denominated assets or liabilities into yen

Foreign currency monetary assets and liabilities are translated into yen at the year-end spot exchange rate, and translation adjustments are accounted for as profit or loss. For overseas subsidiaries, etc., assets and liabilities are converted into yen based on the spot exchange rate on consolidated account settlement day, and revenue and expenses are converted into yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown in the net assets section as foreign currency translation adjustment and non-controlling interests.

- (8) Scope of funds in the consolidated statement of cash flows

Cash and cash equivalents are composed of cash on hand, deposits that can be withdrawn at any time and short-term investments that are readily convertible into cash and face only slight risks of fluctuation in value, with redemption due dates arriving within three months from the acquisition date.

(Significant Accounting Estimates)

1. Impairment Loss on Non-Current Assets

- (1) Amounts posted to the consolidated financial statements for the fiscal year under review

The amount of impairment loss on non-current assets is the same as that described in Notes (Consolidated Statement of Income) 8. Impairment losses.

- (2) Information about important accounting estimates related to items identified

Regarding assets or asset groups that are determined to show indications of having suffered impairment losses based on market prices of non-current assets and gains/losses stemming from business activities that use the said assets or asset groups, if the carrying amount of the said asset or asset groups exceeds the sum of the undiscounted future cash flows, the Group reduces the book value to their recoverable value and recognizes

the reduction as impairment loss. The recoverable value is defined as the higher of net selling value and value in use, and value in use is calculated as present discounted value of expected future cash flows. Expected future cash flows are calculated based on business plans approved by the board of directors, etc., market outlook, etc.

The Group carefully monitors signs of impairment and recognizes and measures impairment losses. However, any changes in conditions or assumptions for impairment loss estimates due to changes in business plans or the market environment could have significant effects on the Group's financial position and operating results.

2. Valuation of Inventories

- (1) Amounts posted to the consolidated financial statements for the fiscal year under review

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Merchandise and finished goods	50,979	58,604
Work in process	22,749	24,291
Raw materials and supplies	23,315	25,595

- (2) Information about important accounting estimates related to items identified

The main inventories at the Group are inventories in watches, and they are stated at cost mainly using the periodic average method. (The amount stated in the balance sheet is calculated using the book value write-down method based on reduction in profitability.) If the net selling price of inventories is below the book value, the book value is lowered to the net selling price, and the reduction is posted in cost of sales as a loss on valuation of inventories. The Group sets a write-down rate for each slow-moving item that is out of the operating cycle and for each item of inventories that is expected to be disposed of according to the elapsed time. In this way, the Group writes down the book value systematically.

The accounting estimates are based on internal rules on the disposal of inventories and past data. They are affected by changes in the market environment and are uncertain. Any changes in assumptions used in the valuation of inventories that become necessary could significantly affect the amount of inventories that will be posted in the consolidated financial statements for the next fiscal year.

(Change in Accounting Policies)

(Application of implementation guidance on accounting standard for fair value measurement)

Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No. 31, June 17, 2021; hereinafter the "Fair Value Measurement Accounting Standard Implementation Guidance"). It therefore has decided to apply the new accounting policies specified in the Fair Value Measurement Accounting Standard Implementation Guidance prospectively in accordance with the transitional treatment set forth in Paragraph 27-2 of the Fair Value Measurement Accounting Standard Implementation Guidance. The application of the accounting standard has no impact on the consolidated financial statements.

(Adoption of ASC 842 lease accounting)

The Citizen Group's subsidiaries that have adopted US GAAP began adopting ASC 842 lease accounting in the current consolidated fiscal year under review

Accordingly, all leasing transactions of lessees are recorded under assets and liabilities in the balance sheet, in principle. In adopting these standards, the method of recognizing the cumulative impact of their adoption as of the date of the adoption is used as an approved interim measure.

With the adoption of these accounting standards, leased assets (net) under property, plant and equipment increased 4,121 million

yen, and lease obligations under other of current liabilities increased 921 million yen, while lease obligations under non-current liabilities increased 3,712 million yen in the consolidated balance sheet of the fiscal year under review. The impact of this change on profit and loss for the consolidated fiscal year under review was immaterial.

(Issued but not yet adopted accounting standards)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

The accounting standards and revised implementation guidance set forth an accounting classification of income taxes levied on other comprehensive income and tax effect related to the sale of shares of subsidiaries, etc., if group taxation rules apply.

(2) Scheduled date of application

Scheduled to be applied from the beginning of the fiscal year ending March 31, 2025.

(3) Impacts of the application of the relevant accounting standards

The Group is assessing the effects of the application of the Accounting Standard for Current Income Taxes, etc., on the consolidated financial statements.

(Change in Presentation Method)

(Notes to Consolidated Balance Sheets)

Asset retirement obligations that were shown separately under current liabilities in the previous fiscal year are included in other in the fiscal year under review because they have become insignificant in monetary terms. To reflect the change in presentation, it has been reclassified in the consolidated financial statements for the previous year.

As a result, both asset retirement obligations amounting to 26 million yen and other amounting to 10,571 million yen that were shown separately under current liabilities in the consolidated balance sheet of the previous fiscal year are reclassified under other, amounting to 10,597 million yen.

Asset retirement obligations that were shown separately under non-current liabilities in the previous fiscal year are included in other in the fiscal year under review because they have become insignificant in monetary terms. Lease liabilities, which were included in other in non-current liabilities in the previous fiscal year, are stated as a separate item in the fiscal year under review due to an increase in their importance in terms of value. To reflect the change in presentation, it has been reclassified in the consolidated financial statements for the previous year.

As a result, asset retirement obligations amounting to 49 million yen and other amounting to 2,392 million yen that were shown separately under non-current liabilities in the consolidated balance sheet of the previous fiscal year are reclassified as lease liabilities of 790 million yen and other of 1,652 million yen.

(Notes to Consolidated Statement of Income)

Extra retirement payments and loss on COVID that were shown separately under extraordinary loss in the previous fiscal year are included in other in the fiscal year under review because they have become insignificant in monetary terms. To reflect the change in presentation, it has been reclassified in the consolidated financial statements for the previous year.

As a result, extra retirement payments amounting to 15 million yen, loss on COVID amounting to 166 million yen and other amounting to 272 million yen that were shown separately under extraordinary loss in the consolidated statement of income of the previous fiscal year are reclassified under other, amounting to 454 million yen.

(Additional Information)

(Performance-linked stock remuneration plan)

(1) Transaction overview

The Company has introduced a performance-linked compensation system (the "System") for its Directors (excluding Outside Directors and non-residents in Japan; hereinafter referred to as "Directors") for the purpose of further clarifying the link between the compensation to the Directors and the value of the Company's stock and giving them greater motivation to make contributions to improve business performance and increase enterprise value over the medium and long term.

The System employs a framework called the Board Incentive Plan trust (hereinafter "the BIP Trust"). The BIP Trust is similar to the performance-based stock compensation (Performance Share) plan and the restricted stock compensation (Restricted Stock) plan in the United States. Under the BIP Trust, shares of the Company's stock are issued, and money obtained by realizing the said shares is delivered to Directors according to their positions and degree of contribution to achievement of the Company's performance targets.

(2) The Company's shares remaining in the BIP Trust

The Company's shares remaining in the BIP Trust are posted as treasury shares in the net assets section. The book value and number of such treasury shares were 241 million yen and 373,362 shares, respectively, at the end of the previous consolidated fiscal year, and 308 million yen and 483,762 shares, respectively, at the end of the consolidated fiscal year under review.

(Notes to Consolidated Balance Sheets)

*1. Of notes receivable—trade and accounts receivable—trade, the amounts of those receivables arising from contracts with customers are as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Notes receivable	843	544
Accounts receivable	48,465	53,173

*2. The accumulated depreciation of property, plant and equipment is as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Accumulated depreciation	227,669	236,172

*3. Items provided to non-consolidated subsidiaries and affiliates are as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Investment securities (shares)	5,593	5,861

*4. The accumulated amount of tax purpose reduction entry of property, plant and equipment due to the acceptance of national subsidies, etc., is as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Buildings and structures	243	230
Machinery, equipment and vehicles	14	12

*5. Assets pledged as collateral and secured liabilities
Assets pledged as collateral are as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Buildings and structures	1,208	1,334

*6. The Group has signed overdraft agreements and commitment line agreements with four correspondent banks in order to efficiently procure operating funds. The unused balance of borrowings under these agreements at the consolidated fiscal year-end is as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Total of overdraft limit and loan commitment	59,348	59,484
Outstanding borrowing balance	-	2,600
Difference	59,348	56,884

*7. Of Other, contract liabilities are as shown below.

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Contract liabilities	2,071	2,360

(Notes to Consolidated Statements of Income)

*1. Revenue from contracts with customers

Net sales are not broken down into revenue from contracts with customers and other revenue. The amount of revenue from contracts with customers is stated in Notes to the Consolidated Financial Statements (Revenue Recognition) 1. Information on the breakdown of revenue from contracts with customers.

*2. Major components of selling, general and administrative expenses and their amounts are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Depreciation	4,257	4,276
Provision of allowance for doubtful accounts	(33)	(10)
Provision for bonuses	2,414	2,871
Provision for bonuses for directors (and other officers)	278	262
Retirement benefit expenses	1,646	1,692
Personnel expenses	29,158	32,561
Advertising expenses	15,360	18,768
Provision for product warranties	87	40
Research and development expenses	5,542	5,693

*3. The total amount of research and development expenses included in general and administrative expenses is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Research and development expenses	5,542	5,693

*4. The content of subsidy income is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Subsidy income	484	233

Subsidy income in the previous consolidated fiscal year mainly consisted of subsidies for employment adjustment associated with the impact of the spread of the COVID infection. Subsidy income in the consolidated fiscal year under review mainly consisted of subsidies for employment adjustment associated with the impact of the spread of the COVID infection.

*5. Gain on sale of non-current assets mainly consisted of the following.

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Machinery, equipment and vehicles	32	31
Land	814	1,721

*6. Loss on retirement of non-current assets mainly consisted of the following.

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Buildings and structures	6	389
Machinery, equipment and vehicles	27	26
Tools, furniture and fixtures	17	31

*7. Loss on sale of non-current assets mainly consisted of the following.

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Buildings and structures	25	0
Machinery, equipment and vehicles	8	10
Tools, furniture and fixtures	2	2

*8. Impairment losses

The Group posted an impairment loss in the asset groups below.
Fiscal year ended March 31, 2022

Location	Use	Type
Japan	Software, electronic device production facilities, etc.	Software, tools, furniture and fixtures, machinery, equipment, vehicles, etc.
China	Idle assets	Buildings and structures
Switzerland	Watch production facilities, etc.	Machinery, equipment, and vehicles, etc.

Fiscal year ended March 31, 2023

Location	Use	Category
Japan	Electronic device production facilities, software, etc.	Buildings and structures; machinery, equipment, and vehicles; construction in progress; tools, furniture, and fixtures; software; land; etc.
China	Watch production facilities	Machinery, equipment, and vehicles; buildings and structures; tools, furniture, and fixtures; etc.
Philippines	Watch production facilities, electronic device production facilities	Machinery, equipment and vehicles, tools, furniture and fixtures, etc.

The Company and its consolidated subsidiaries are grouped by business unit based on managerial accounting categories, and these groups are regarded as the smallest units that generate cash flows, in principle. Regarding certain consolidated subsidiaries, each subsidiary is designated part of a group based on its size. Moreover, assets for which the association with a specific business is not clear, such as those for the head office, are considered shared assets.

In the previous consolidated fiscal year, carrying amounts were reduced to recoverable amounts, mainly for assets with no plan to be used in the future and operating assets with deteriorated profitability, and the said reduction was recorded as an impairment loss (742 million yen) under extraordinary losses. The loss mainly consisted of buildings and structures amounting to 287 million yen; machinery, equipment, and vehicles amounting to 203 million yen; software amounting to 141 million yen; and tools, furniture, and fixtures amounting to 76 million yen.

In the consolidated fiscal year under review, carrying amounts have been reduced to recoverable amounts, mainly for assets with no plan to be used in the future ; operating assets with aggravated profitability ; and operating assets for a business for which the management environment has been significantly deteriorated, and the said reduction was recorded as an impairment loss (3,887 million yen) under extraordinary losses. The loss mainly consisted of machinery, equipment, and vehicles amounting to 1,835 million yen ; buildings and structures amounting to 1,265 million yen ; construction in progress amounting to 387 million yen ; tools, furniture, and fixtures amounting to 228 million yen ; software amounting to 98 million yen; and land amounting to 70 million yen.

The recoverable value is calculated based on the net realizable sale price or value in use. The net realizable sale price is calculated rationally. The value of real estate is calculated according to real estate appraisal standards. The value in use is calculated by discounting future cash flow using mainly a discount rate of 8%.

*9. Loss on valuation of inventories for Russia is recorded under extraordinary losses.

*10. Reorganization cost comprises the following. (Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Reorganization cost	209	32

Reorganization cost in the previous consolidated fiscal year mainly comprised business structural reform expenses for the watches segment.

Reorganization cost in the consolidated fiscal year under review mainly comprises business structural reform expenses for the watches segment.

*11. Year-end inventories indicate an amount after the carrying amount is lowered due to a decline in profitability, and the following loss on valuation of inventories is included in cost of sales. The amounts below indicate those obtained by offsetting against reversals.

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
	2,479	46

(Notes to Consolidated Statements of Comprehensive Income)

* Reclassification adjustment and tax effect related to other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Valuation difference on available-for-sale securities:		
Amount that occurred in the fiscal year under review	3,175	229
Reclassification adjustment	51	1,524
Before tax effect adjustment	3,226	1,753
Amount of tax effect	(752)	(569)
Valuation difference on available-for-sale securities	2,474	1,183
Foreign currency translation adjustment:		
Amount that occurred in the fiscal year under review	11,578	9,029
Reclassification adjustment	-	(297)
Before tax effect adjustment	11,578	8,731
Amount of tax effect	-	-
Foreign currency translation adjustment	11,578	8,731
Remeasurements of defined benefit plans, net of tax:		
Amount that occurred in the fiscal year under review	559	488
Reclassification adjustment	256	100
Before tax effect adjustment	816	589
Amount of tax effect	(123)	(128)
Remeasurements of defined benefit plans, net of tax	692	460
Share of other comprehensive income of entities accounted for using equity method:		
Amount that occurred in the fiscal year under review	438	446
Reclassification adjustment	-	-
Share of other comprehensive income of entities accounted for using equity method	438	446
Total other comprehensive income	15,182	10,823

(Notes to Consolidated Statements of Changes in Equity)

Fiscal year ended March 31, 2022

1. Class and Number of Issued Shares and Class and Number of Treasury Shares

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	314,353,809	-	-	314,353,809
Total	314,353,809	-	-	314,353,809
Treasury shares				
Ordinary shares (Notes 1, 2, 3, 4)	1,714,879	14,424,435	1,414	16,137,900
Total	1,714,879	14,424,435	1,414	16,137,900

Notes: 1.The increase of 14,424,435 shares in the number of treasury stock resulted from an increase of 14,421,100 shares through market purchases and an increase of 3,335 shares through purchases of shares less than one unit.
2.The decrease of 1,414 shares in the number of treasury stock resulted from a decrease of 1,290 shares through the issuance and sales of shares of the Company's stock to persons who had served as Directors based on the executive compensation BIP Trust as well as a decrease of 124 shares through purchases of shares of less than one unit in response to demand for additional purchases.
3.The number of treasury stock at the beginning of the consolidated fiscal year under review includes 374,652 shares held by the executive compensation BIP Trust.
4.The number of treasury stock at the end of the consolidated fiscal year under review includes 373,362 shares held by the executive compensation BIP Trust.

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 25, 2021	Common shares	782	2.50	March 31, 2021	June 28, 2021
Board of Directors meeting on November 11, 2021	Common shares	2,817	9.00	September 30, 2021	December 3, 2021

Notes: 1.Total dividends resolved at the ordinary general meeting of shareholders on June 25, 2021, included dividends associated with shares of the Company held by the executive compensation BIP Trust amounting to 0 million yen.

2.Total dividends resolved at the Board of Directors' meeting on November 11, 2021, included dividends associated with shares of the Company held by the executive compensation BIP Trust amounting to 3 million yen.

(2) Of dividends for which the record date is in the consolidated fiscal year under review, those for which the effective date is in the next consolidated fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2022	Common shares	Retained earnings	2,687	9.00	March 31, 2022	June 29, 2022

Note: Total dividends resolved at the ordinary general meeting of shareholders on June 28, 2022, included dividends associated with shares of the Company held by the executive compensation BIP Trust amounting to 3 million yen.

Fiscal year ended March 31, 2023

1. Class and Number of Issued Shares and Class and Number of Treasury Shares

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	314,353,809	-	20,353,809	294,000,000
Total	314,353,809	-	20,353,809	294,000,000
Treasury shares				
Ordinary shares (Notes 1, 2, 3, 4)	16,137,9007	39,550,127	20,353,837	35,334,190
Total	16,137,9007	39,550,127	20,353,837	35,334,190

Notes: 1.The decrease in the total number of outstanding shares, 20,353,809, is due to the cancellation of treasury stock.

2.The increase of 39,550,127 shares in the number of treasury stock resulted from an increase of 39,547,400 shares through market purchases and an increase of 2,727 shares through purchases of shares less than one unit.

3.The decrease of 20,353,837 in the number of treasury stock resulted from a decrease of 20,353,809 due to the cancellation of treasury stock and a decrease of 28 due to requests for additional purchases of shares less than one unit.

4.The number of treasury stock at the beginning of the consolidated fiscal year under review includes 373,362 shares held by the executive compensation BIP Trust.

5.The number of treasury stock at the end of the consolidated fiscal year under review includes 483,762 shares held by the executive compensation BIP Trust.

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2022	Common shares	2,687	9.00	March 31, 2022	June 29, 2022
Board of Directors meeting on November 14, 2022	Common shares	4,391	15.00	September 30, 2021	December 6, 2022

Notes: 1.Total dividends resolved at the ordinary general meeting of shareholders on June 28, 2022, included dividends associated with shares of the Company held by the executive compensation BIP Trust amounting to 3 million yen.

2.Total dividends resolved at the Board of Directors' meeting on November 14, 2022, included dividends associated with shares of the Company held by the executive compensation BIP Trust amounting to 5 million yen.

(2) Of dividends for which the record date is in the consolidated fiscal year under review, those for which the effective date is in the next consolidated fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2023	Common shares	Retained earnings	4,923	19.00	March 31, 2023	June 29, 2023

Note: Total dividends resolved at the ordinary general meeting of shareholders on June 28, 2023, included dividends associated with shares of the Company held by the executive compensation BIP Trust amounting to 9 million yen.

(Notes to Consolidated Statements of Cash Flows)

* Relationship between "Cash and cash equivalents at end of year" and account items listed in the Consolidated Balance Sheets (Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash and deposits	110,901	82,490
"Other" under current assets (deposits paid to securities firms)	2,844	96
Time deposits for which the deposit period is more than three months	(2,505)	(3,378)
Specified deposits for the BIP Trust	(2)	(5)
Cash and cash equivalents	111,237	79,201

(Lease Transactions)

(Lessee)

1. Finance Lease Transactions

Non-ownership-transfer finance lease transactions

(i) Leased assets

Property, plant and equipment

They mainly consist of buildings and structures.

- (ii) Method of depreciation/amortization of leased assets
As stated in 2. Depreciation method of important depreciable assets and 4. Matters related to accounting policies under Significant Matters That Serve as the Basis for the Preparation of Consolidated Financial Statements.

2. Operating Lease Transactions

Noncancelable future operating lease payments (Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Within 1 year	9	9
Over 1 year	8	9
Total	17	18

(Financial Instruments)

1. Matters Related to the Status of Financial Instruments

(1) Policy on financial instruments

The Group has the policy of limiting its fund management activities to short-term deposits and the like and to conduct fund procurement primarily through loans from banks and other financial institutions and the issuance of bonds. The Group uses derivative transactions only for the purpose of avoiding the risks described below and does not conduct derivative transactions for speculative purposes.

(2) Description of financial instruments and their risks

Notes and accounts receivable-trade, which are operating receivables, are exposed to the credit risk of customers. Foreign currency-denominated trade receivables arising from conducting business in overseas markets are exposed to foreign exchange fluctuation risk. Investment securities consist primarily of stock of business partners and are exposed to market price fluctuation risk. Moreover, the Group provides long-term loans to business partners, etc.

Most of the notes payable-trade and accounts payable-trade, which are operating payables, mature in one year or less. Borrowings and bonds are mainly for procuring funds that are used for working capital, refinancing for long-term loans, and strategic investment. The Group is exposed to liquidity risk from its operating payables and loans payable.

Regarding derivative transactions, the Group uses forward foreign exchange contracts for the purpose of hedging currency fluctuation risk associated with foreign currency-denominated trade receivables and payables.

(3) Risk management system related to financial instruments

(i) Credit risk (risk related to business connections' contract nonperformance) management

In accordance with the receivable management rules, the Company and its consolidated subsidiaries have systems enabling the management of due dates and balances and periodic assessment of major trading partners' credit standing. In using derivative transactions, the Group uses financial institutions with high credit standing to mitigate credit risk in the event of nonperformance by counterparties.

(ii) Market risk management

Regarding foreign currency-denominated trade receivables arising from conducting business in overseas markets, the Group uses forward foreign exchange contracts for the purpose of hedging certain currency fluctuation risk, in principle, excluding trade receivables denominated in the same currencies.

Regarding investment securities, their market values are periodically reported to the Board of Directors. Moreover, the shareholding status is continually reviewed, taking into consideration relationships with, and the financial conditions, etc., of, business partners.

Derivative transactions are executed and managed by the sections in charge in accounting divisions, etc., of the respective companies, and the results of transactions are reported to executives in charge of accounting or the relevant general managers.

(iii) Management of liquidity risk in financing (risk of failure to pay on due dates)

The Company and the Group prepare and update cash flow plans in a timely manner based on reports from the Group companies and manage liquidity risk by such means as maintaining liquidity on hand.

(4) Supplementary explanation regarding the fair value of financial instruments

The fair value of financial instruments is based on market prices or reasonable calculations in the absence of market quotations. Because the calculations of fair values include variable factors, fair values could change when different assumptions are used. In addition, the contract amounts, etc., of derivative transactions described in (Note to derivative transactions) are not an indicator of risk associated with derivative transactions.

2. Matters Related to the Market Prices of Financial Instruments, etc.

Consolidated Balance Sheet Amounts, Market Prices, and Differences Between Them Are as Follows:

As of March 31, 2022 (Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Investment securities ²			
Available-for-sale securities	20,906	20,906	-
(2) Long-term loans receivable	184	191	6
Total assets	21,090	21,097	6
(1) Bonds payable (including current portion of bonds payable)	10,000	9,979	(21)
(2) Long-term borrowings (including current portion of long-term borrowings payable)	55,244	54,893	(351)
Total liabilities	65,244	64,872	(372)
Derivative transactions ³	(351)	(351)	-

Notes: 1. Information regarding "cash and deposits," "notes and accounts receivable-trade," "electronically recorded monetary claims-operating," "notes and accounts payable-trade," "electronically recorded obligations-operating," "electronically recorded obligations-non-operating," and "short-term borrowings" has been omitted because these items are cash and their fair values are proximate to their book values due to settlement in short periods.

2. Stocks and others without quoted market prices are not included in (1) Investment securities. The said financial instrument's consolidated balance sheet amount is as follows:

Category	Fiscal year ended March 31, 2022 (Millions of yen)
Unlisted shares	16,369

3. Net claims and obligations resulting from derivative transactions are shown at net amounts. Net obligations are shown in parentheses.

As of March 31, 2023

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Investment securities ^{*2}			
Available-for-sale securities	22,382	22,382	-
(2) Long-term loans receivable	163	162	(0)
Total assets	22,545	22,545	(0)
(1) Bonds payable (including current portion of bonds payable)	10,000	9,994	(6)
(2) Long-term borrowings (including current portion of long-term borrowings payable)	52,514	51,843	(670)
Total liabilities	62,514	61,837	(676)
Derivative transactions ^{*3}	(83)	(83)	-

*1. Information regarding "cash and deposits," "notes and accounts receivable-trade," "electronically recorded monetary claims-operating," "notes and accounts payable-trade," "electronically recorded obligations-operating," "electronically recorded obligations-non-operating," and "short-term borrowings" has been omitted because these items are cash and their fair values are proximate to their book values due to settlement in short periods.

*2. As the financial instruments below do not have market quotations and as it is considered extremely difficult to assess their fair values, they are not included in (1) Investment securities.

Category	Fiscal year ended March 31, 2023 (Millions of yen)
Unlisted shares	16,639

*3. Net claims and obligations resulting from derivative transactions are shown at net amounts. Net obligations are shown in parentheses.

Note: Amount of money claims to be redeemed after consolidated closing date

As of March 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	110,901	-	-	-
Notes and accounts receivable-trade	49,165	142	-	-
Electronically recorded monetary claims-operating	2,037	-	-	-
Long-term loans receivable	-	184	-	-
Total	162,104	327	-	-

As of March 31, 2023

(Millions of yen)

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	82,490	-	-	-
Notes and accounts receivable-trade	53,687	31	-	-
Electronically recorded monetary claims-operating	2,081	-	-	-
Long-term loans receivable	-	163	-	-
Total	138,259	194	-	-

Note: Scheduled redemption amounts of bonds, long-term borrowings, lease obligations, and other interest-bearing liabilities with maturity after the consolidated accounts settlement date.

As of March 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term borrowings	911	-	-	-	-	-
Bonds payable	-	10,000	-	-	-	-
Long-term borrowings	3,862	1,043	10,039	15,039	10,039	15,219
Lease liabilities	295	182	70	78	43	414
Total	5,069	11,226	10,110	15,118	10,082	15,634

As of March 31, 2023

(Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term borrowings	2,602	-	-	-	-	-
Bonds payable	10,000	-	-	-	-	-
Long-term borrowings	1,185	10,067	15,064	10,064	16,045	86
Lease liabilities	1,164	1,142	947	682	582	1,323
Total	14,952	11,210	16,011	10,747	16,628	1,410

3. Breakdown of Financial Instruments by Level of Market Value

The fair values of financial instruments are classified into the following three levels according to the observability and importance of inputs used in the calculation of fair values.

Level 1 fair value:

Fair value calculated using market prices, on an active market, of assets or liabilities for which the fair value is calculated of the observable inputs related to the calculation of fair value

Level 2 fair value:

Fair value calculated using inputs other than the inputs used for Level 1 of the observable inputs related to the calculation of fair value

Level 3 fair value:

Fair value calculated using inputs that are not observable related to the calculation of fair value

If more than one input that has a significant effect on the calculation of fair value is used, the fair value is classified to the level of inputs for which the priority is lowest in the calculation of fair value.

(1) Financial instruments stated at fair value in the consolidated balance sheet

As of March 31, 2022

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	20,906	-	-	20,906
Derivative transactions				
Currency	-	16	-	16
Total assets	20,906	16	-	20,922
Derivative transactions				
Currency	-	368	-	368
Total liabilities	-	368	-	368

As of March 31, 2023

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	22,382	-	-	22,382
Derivative transactions				
Currency	-	16	-	16
Total assets	22,382	16	-	22,398
Derivative transactions				
Currency	-	99	-	99
Total liabilities	-	99	-	99

(2) Financial instruments other than those stated at fair value in the consolidated balance sheet

As of March 31, 2022

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	-	191	-	191
Total assets	-	191	-	191
Bonds payable	-	9,979	-	9,979
Long-term borrowings	-	54,893	-	54,893
Total liabilities	-	64,872	-	64,872

As of March 31, 2023

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	-	162	-	162
Total assets	-	162	-	162
Bonds payable	-	9,994	-	9,994
Long-term borrowings	-	51,843	-	51,843
Total liabilities	-	61,837	-	61,837

Note: Explanations about assessment techniques used in the calculation of fair value and inputs related to the calculation of fair value

Investment securities

Listed shares are assessed using fair values. Listed shares are traded on an active market and their fair values are categorized into Level 1.

Derivative transactions

Fair values of exchange contracts are calculated by the present discounted value method, using interest rates, foreign exchange rates, and other observable inputs and are categorized under Level 2 fair value.

Long-term loans receivable

Fair values of long-term loans receivables are grouped by a certain period of time and calculated by present discounted value method, using future cash flows and individual rates based on the category of credit risks in credit management which consist of appropriate indicators such as government bond yield, and credit spreads. These loan receivables are categorized under Level 2 fair value.

Bonds payable

Fair values of bonds issued by the Company are calculated by the present discounted value method, using the total amount of principal and interest and a rate adjusted by remaining periods of the said bonds and credit risk. These bonds are categorized under Level 2 fair value.

Long-term borrowings

Fair values of long-term borrowings are calculated by the present discounted value method, using the total amount of principal and interest and a rate adjusted by remaining periods of the said borrowings and credit risk. These borrowings are categorized under Level 2 fair value.

(Notes to Securities)

1. Available-for-Sale Securities

As of March 31, 2022

(Millions of yen)

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Other securities for which the book carrying amount on the consolidated balance sheets exceed the acquisition cost	(1) Stocks	20,581	9,311	11,270
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	20,581	9,311	11,270
Other securities for which the book carrying amount on the consolidated balance sheets do not exceed the acquisition cost	(1) Stocks	324	359	(35)
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	324	359	(35)
Total		20,906	9,671	11,234

As of March 31, 2023

(Millions of yen)

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Other securities for which the book carrying amount on the consolidated balance sheets exceed the acquisition cost	(1) Stocks	22,074	9,084	12,990
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	22,074	9,084	12,990
Other securities for which the book carrying amount on the consolidated balance sheets do not exceed the acquisition cost	(1) Stocks	307	309	(1)
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	307	309	(1)
	Total	22,382	9,393	12,988

2. Available-for-Sale Securities That Were Sold

Fiscal year ended March 31, 2022

(Millions of yen)

Type	Sale price	Total gain on sales	Total loss on sales
(1) Stocks	165	94	-
(2) Bonds			
(i) Government bonds, local government bonds, etc.	-	-	-
(ii) Bonds payable	-	-	-
(iii) Other	-	-	-
(3) Other	-	-	-
Total	165	94	-

Fiscal year ended March 31, 2023

(Millions of yen)

Type	Sale price	Total gain on sales	Total loss on sales
(1) Stocks	1,811	1,530	-
(2) Bonds			
(i) Government bonds, local government bonds, etc.	-	-	-
(ii) Bonds payable	-	-	-
(iii) Other	-	-	-
(3) Other	-	-	-
Total	1,811	1,530	-

3. Investment securities on which impairment losses were posted

Fiscal year ended March 31, 2022

Not applicable

Fiscal year ended March 31, 2023

Not applicable

(Notes to Derivative Transactions)

1. Derivative Transactions to Which Hedge Accounting Is Not Applied

Currencies

As of March 31, 2022

(Millions of yen)

Category	Type	Contract value, etc.	Value of contract for more than one year	Fair value	Valuation gains or losses
Transactions other than market transactions	Forward exchange contracts				
	Long position				
	USD	294	-	(3)	(3)
	EUR	3,296	-	(134)	(134)
	CNY	2,868	-	(165)	(165)
	Short position				
EUR	901	-	(8)	(8)	
GBP	872	-	(40)	(40)	
Total		8,233	-	(351)	(351)

As of March 31, 2023

(Millions of yen)

Category	Type	Contract value, etc.	Value of contract for more than one year	Fair value	Valuation gains or losses
Transactions other than market transactions	Forward exchange contracts				
	Long position				
	USD	309	-	0	0
	EUR	1,855	-	(65)	(65)
	CNY	970	-	5	5
	Short position				
EUR	289	-	(7)	(7)	
GBP	446	-	(16)	(16)	
Total		3,870	-	(83)	(83)

2. Fair Values to Which Hedge Accounting Is Applied

Notes related to interest rates

As of March 31, 2022

Not applicable.

As of March 31, 2023

Not applicable.

(Retirement Benefits)

1. Outline of the Retirement Benefits System

The Company and its domestic consolidated subsidiaries have adopted lump-sum withdrawal payment systems and retirement benefit systems under defined contribution systems. In addition, some of the overseas consolidated subsidiaries have adopted defined benefit systems or defined contribution systems. In calculating their retirement benefits obligations, some of the consolidated subsidiaries have adopted the simplified method under which an amount required to be paid for voluntary resignations at fiscal year-end is assumed to be equal to retirement benefits obligations.

Moreover, the Company has instituted a retirement benefit trust.

2. Defined Benefit Plans

(1) Reconciliation of defined benefit obligation at beginning and end of period

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Defined benefit obligation at beginning of period	25,465	25,820
Service costs	1,392	1,299
Interest costs	116	136
Amount of net actuarial gain/loss	(299)	(529)
Retirement benefits paid	(1,449)	(1,310)
Exchange adjustments	587	491
Other	7	138
Defined benefit obligation at end of period	25,820	26,045

Note: Retirement benefit expenses are included in service cost at consolidated subsidiaries using the simplified method.

(2) Reconciliation of balance of plan assets at beginning and end of period

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Plan assets at beginning of period	2,875	5,538
Expected return on plan assets	67	140
Amount of net actuarial gain/loss	236	(204)
Employer contribution	125	173
Retirement benefits paid	(179)	(74)
Exchange adjustments	380	262
Amount of retirement benefit trust	2,000	3,500
Others	31	136
Plan assets at end of period	5,538	9,473

(3) Reconciliation of retirement benefit obligation and plan assets with net retirement benefit liabilities and assets reflected on the consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Defined benefit obligation for funded plan	5,027	5,518
Plan assets	(5,538)	(9,473)
	(511)	(3,955)
Retirement benefit obligation for unfunded plan	20,792	20,527
Net amount of liabilities and assets on the consolidated balance sheets	20,281	16,572
Retirement benefit liability	20,281	16,572
Net amount of liabilities and assets on the consolidated balance sheets	20,281	16,572

(4) Breakdown of retirement benefit expenses

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Service costs	1,392	1,299
Interest costs	116	136
Expected return on plan assets	(67)	(140)
Expense for actuarial losses	250	97
Amortization of prior service costs	5	3
Retirement benefit expenses related to defined benefit plans	1,696	1,396

Note: Retirement benefit expenses are included in service cost at consolidated subsidiaries using the simplified method.

(5) Remeasurements of defined benefit plans, net of tax

Breakdown of remeasurements of defined benefit plans, net of taxes, is as shown below.

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Prior service costs	(5)	(3)
Actuarial gains and losses	(810)	(585)
Total	(816)	(589)

(6) Remeasurements of defined benefit plans

Breakdown of items posted as remeasurements of defined benefit plans (before deduction of tax effect) is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Unrecognized prior service costs	214	211
Unrecognized actuarial gains and losses	293	(292)
Total	507	(81)

(7) Pension plan assets

(i) Breakdown of plan assets

The ratios of each of the major categories to total pension assets are as follows:

	As of March 31, 2022	As of March 31, 2023
Stocks	19.4%	12.2%
Bonds	13.0%	8.9%
Cash and deposits	38.1%	1.4%
General account in life insurance	27.1%	18.6%
Investment trusts	-	57.0%
Others	2.4%	1.9%
Total	100.0%	100.0%

Note: Of total plan assets, the retirement benefit trust for the fiscal year ended March 31, 2023, accounts for 57.0%.

(ii) Method for setting expected long-term rate of return

To determine the expected long-term rate of return on pension plan assets, the Company takes into consideration the current and expected pension plan asset mix and expected long-term rates of return on a variety of pension plan assets.

(8) Basis for the calculation of actuarial gains and losses
Major assumptions for the calculation of actuarial gains and losses (weighted average)

	As of March 31, 2022	As of March 31, 2023
Discount rate	0.32%-3.45%	0.32%-4.85%
Expected long-term rate of return	0.15%-4.00%	0.15%-4.00%

3. Defined Contribution Plan

The required contribution amounts for the Company and its consolidated subsidiaries were 1,172 million yen and 1,174 million yen for the fiscal years ended March 31, 2022 and 2023, respectively.

(Tax Effect Accounting)

1. Breakdown of Key Factors Contributing to Deferred Tax Assets and Deferred Tax Liabilities

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Deferred tax assets		
Depreciable assets	4,472	4,011
Inventory write-down and unrealized gain	4,745	5,147
Retirement benefit liability	6,233	5,793
Allowance for doubtful accounts	408	383
Provision for bonuses	1,631	1,644
Losses carried forward (Note)	10,214	10,435
Investment securities	2,086	2,032
Provision for loss on business reorganization and liquidation	107	15
Others	6,398	6,907
Deferred tax assets subtotal	36,299	36,371
Valuation allowance related to tax losses carried forward (Note)	(9,398)	(9,565)
Valuation allowance related to deductible temporary differences	(17,414)	(17,790)
Valuation allowance subtotal	(26,813)	(27,355)
Total deferred tax assets	9,485	9,015
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(2,326)	(2,780)
Undistributed profits of overseas affiliated companies	(3,510)	(3,831)
Reserve for special depreciation	(168)	(164)
Others	(357)	(286)
Total deferred tax liabilities	(6,362)	(7,062)
Net deferred tax assets	3,122	1,953

Note: Tax losses carried forward and the related deferred tax assets allocated to each fiscal year when carryforwards expired.

As of March 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax losses carried forward*	419	224	274	273	176	8,846	10,214
Valuation allowance	(276)	(184)	(238)	(273)	(176)	(8,248)	(9,398)
Deferred tax assets	142	40	35	-	-	597	816

* The tax losses carried forward is an amount obtained by multiplying the effective statutory tax rate.

As of March 31, 2023

(Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax losses carried forward*	271	295	300	214	216	9,137	10,435
Valuation allowance	(161)	(254)	(282)	(214)	(216)	(8,436)	(9,565)
Deferred tax assets	110	41	18	-	-	700	870

* The tax losses carried forward is an amount obtained by multiplying the effective statutory tax rate.

2. Breakdown of Major Items That Caused a Significant Difference Between an Effective Statutory Tax Rate and a Percentage of Income Taxes After the Application of Tax Effect Accounting

	As of March 31, 2022	As of March 31, 2023
Statutory tax rate	30.6%	30.6%
(Adjustments)		
Expenses not deductible for tax purposes	0.2%	0.3%
Dividends income, etc., that is excluded from taxable income	(0.1%)	(0.1%)
Change in valuation allowance	(11.9%)	2.8%
Differences in tax rates between the parent and subsidiaries	(3.3%)	(4.0%)
Increase/decrease in amount of tax consequences pertaining to overseas retained earnings	(2.2%)	(1.1%)
Others	2.7%	(3.0%)
Percentage of effective income tax rate after the application of tax effect accounting	16.0%	25.5%

3. Accounting Method for Income Taxes and Local Corporate Taxes or Accounting Method for the Related Tax Effect Accounting

The Company and certain domestic consolidated subsidiaries are using the Group Tax Sharing System from the fiscal year under review. Their accounting for income taxes and local corporate taxes and the related tax effect accounting and disclosure are in accordance with the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Practical Issues Task Force No. 42 issued on August 12, 2021).

(Revenue Recognition)

1. Information on the Breakdown of Revenue from Contracts with Customers

Fiscal year ended March 31, 2022

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Total
Japan	24,152	17,233	24,954	8,015	74,346
Asia	37,715	27,819	17,405	4,739	87,681
U.S.	48,798	7,726	3,554	2,445	62,525
Europe	18,113	27,441	4,091	3,939	53,585
Others	2,292	800	39	74	3,207
Revenue from contracts with customers	131,072	81,011	50,045	19,215	281,344
Other revenue	-	-	-	72	72
Sales to external customers	131,072	81,011	50,045	19,288	281,417

Note: Other income comprises real estate rents, etc.

Fiscal year ended March 31, 2023

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Total
Japan	25,194	19,685	22,175	9,385	76,440
Asia	33,390	25,960	14,794	4,714	78,859
U.S.	66,015	8,397	3,413	2,599	80,426
Europe	23,404	30,918	4,318	3,645	62,287
Others	1,997	1,209	35	48	3,291
Revenue from contracts with customers	150,002	86,171	44,737	20,392	301,305
Other revenue	-	-	-	61	61
Sales to external customers	150,002	86,171	44,737	20,454	301,366

Note: Other income comprises real estate rents, etc.

2. Basic Information for Understanding Revenue from Contracts with Customers

Underlying information for understanding income is as stated in (6) Accounting standards for income and expenses and 4. Matters related to accounting policies.

3. Information About the Relationship Between the Fulfillment of Performance Obligations Based on the Contract with the Customer and the Cash Flow Generated from the Contract, and the Amount of Revenue Expected to Be Recognized from the Contract with the Customer Existing at the End of the Current Fiscal Year After the Next Fiscal Year and the Timing of Cash Flows

(1) Balance of contract liabilities

(Millions of yen)

	Fiscal year ended March 31, 2022	
	Balance at beginning of period	Balance at end of period
Contract liabilities	1,376	2,071

Contract liabilities are presented under "Other" in current liabilities in the consolidated balance sheet. Contract liabilities are recognized mainly when consideration for transactions accompanying the sale of products is received as advances prior

to delivery of products and when consideration for transactions accompanying sales of products is received as advances in a lump sum in relation to membership-based inspection services in the watches segment. Contract liabilities are reversed as revenue is recognized.

The amount of revenue recognized in the previous fiscal year under review included in the balance of contract liabilities at the beginning of the fiscal year is 912 million yen.

(2) Transaction prices allocated to outstanding performance obligations

The Company and its consolidated subsidiaries apply the practical expedient to notes on the transaction prices allocated to outstanding performance obligations, and information with respect to contracts that have an original expected duration of one year or less is not included in the scope of notes. The sum of transaction value allocated to remaining performance obligations and the period of expected income recognition are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022
Within 1 year	116
Over 1 year	423
Total	540

(1) Balance of contract liabilities

(Millions of yen)

	Fiscal year ended March 31, 2023	
	Balance at beginning of period	Balance at end of period
Contract liabilities	2,071	2,360

Contract liabilities are presented under "Other" in current liabilities in the consolidated balance sheet. Contract liabilities are recognized mainly when consideration for transactions accompanying the sale of products is received as advances prior to delivery of products and when consideration for transactions accompanying sales of products is received as advances in a lump sum in relation to membership-based inspection services in the watches segment. Contract liabilities are reversed as revenue is recognized.

The amount of revenue recognized in the fiscal year under review included in the balance of contract liabilities at the beginning of the fiscal year is 1,648 million yen.

(2) Transaction prices allocated to outstanding performance obligations

The Company and its consolidated subsidiaries apply the practical expedient to notes on the transaction prices allocated to outstanding performance obligations, and information with respect to contracts that have an original expected duration of one year or less is not included in the scope of notes. The sum of transaction value allocated to remaining performance obligations and the period of expected income recognition are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2023
Within 1 year	123
Over 1 year	382
Total	505

(Segment Information)

1. Outline of Reportable Business Segments

The Citizen Group's reportable segments are group components for which separate financial information can be obtained. Each segment is subject to periodic examinations to allow the Board of Directors to decide how to allocate management resources and assess performance.

The Citizen Group has adopted an operating holding company structure and comprehensive strategies are proposed and businesses are pursued by individual operating companies.

Consequently, the Citizen Group, starting from a foundation of operating companies, manages its businesses through four reportable segments—Watches, Machine Tools, Devices and Components, and Electronic products—based on factors like similarity of types and characteristics of products. Each segment and its major products are as shown below.

Segment	Major products
Watches	Watches, Movements
Machine Tools	CNC lathes
Devices and Components	Auto parts, Quartz crystals, Motors, Chip LEDs
Electronics and Other Products	Printers, Health care equipment, etc.

2. Method for Calculating Sales, Profit/Loss, Assets, Liabilities, and Other Items for Reportable Segments

The accounting methods applied to the business segments reported are generally the same as those described under Basis of Presenting the Consolidated Financial Statements. Reportable segment income is based on operating profit. Inter-segment earnings and transfers are based on market prices.

3. Net Sales, Profit or Loss, Assets, Liabilities, and Other Items by Reportable Segment

Fiscal year ended March 31, 2022

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products
Net sales				
Sales to external customers	131,072	81,011	50,045	19,288
Inter-segment sales and transfers	83	60	1,479	669
Total	131,155	81,071	51,525	19,958
Segment income	10,305	12,591	2,864	1,172
Segment assets	169,526	82,904	75,206	20,455
Other items				
Depreciation	4,382	1,917	3,638	261
Investment in equity method affiliates	–	4,732	–	–
Increase in property, plant and equipment and intangible assets	3,371	3,431	3,277	381

	Total	Adjustments (Note 1)	Amount posted in the consolidated financial statements (Note 2)
Net sales			
Sales to external customers	281,417	–	281,417
Inter-segment sales and transfers	2,292	(2,292)	–
Total	283,710	(2,292)	281,417
Segment income	26,934	(4,661)	22,273
Segment assets	348,092	46,870	394,962
Other items			
Depreciation	10,199	992	11,191
Investment in equity method affiliates	4,732	–	4,732
Increase in property, plant and equipment and intangible assets	10,462	307	10,770

Notes: 1.The following is descriptions of the adjustments.

- (1) The 4,661 million yen negative adjustment to segment income (operating profit) includes 121 million yen in inter-segment eliminations and 4,782 million yen in corporate expenses that could not be allocated to a particular segment.
- (2) The 46,870 million yen positive adjustment to segment assets includes 73,692 million yen in corporate assets that could not be allocated to a particular segment and 26,821 million yen to eliminate inter-segment obligations.
- (3) Depreciation cost adjustments apply to the entire company.
- (4) The adjusted increases in property, plant and equipment and intangible assets apply to the entire company.

2.Segment income is adjusted with operating profit on the consolidated financial statements.

Fiscal year ended March 31, 2023

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products
Net sales				
Sales to external customers	150,002	86,171	44,737	20,454
Inter-segment sales and transfers	94	236	1,369	630
Total	150,097	86,408	46,107	21,084
Segment income	16,632	12,203	(818)	1,145
Segment assets	189,683	92,622	66,362	21,233
Other items				
Depreciation	4,239	2,203	3,355	306
Investment in equity method affiliates	–	5,437	–	–
Increase in property, plant and equipment and intangible assets	5,235	8,493	2,012	614

	Total	Adjustments (Note 1)	Amount posted in the consolidated financial statements (Note 2)
Net sales			
Sales to external customers	301,366	-	301,366
Inter-segment sales and transfers	2,331	(2,331)	-
Total	303,697	(2,331)	301,366
Segment income	29,162	(5,454)	23,708
Segment assets	369,901	20,080	389,982
Other items			
Depreciation	10,105	1,094	11,200
Investment in equity method affiliates	5,437	-	5,437
Increase in property, plant and equipment and intangible assets	16,356	1,071	17,428

Notes: 1.The following is descriptions of the adjustments.
(1) The 5,454 million yen negative adjustment to segment income (operating profit) includes 133 million yen in inter-segment eliminations and 5,588 million yen in corporate expenses that could not be allocated to a particular segment.
(2) The 20,080 million yen positive adjustment to segment assets includes 52,217 million yen in corporate assets that could not be allocated to a particular segment and 32,136 million yen to eliminate inter-segment obligations.
(3) Depreciation cost adjustments apply to the entire company.
(4) The adjusted increases in property, plant and equipment and intangible assets apply to the entire company.
2.Segment income is adjusted with operating profit on the consolidated financial statements.

(Reference Information)

Fiscal year ended March 31, 2022

1. Information by Product/Service

This information is omitted because the same information is disclosed in the segment information section.

2. Information by Region

(1) Net sales (Millions of yen)

Japan	Asia		U.S.		Europe	Others	Total
	Of which, China	Of which, the United States					
74,418	87,681	63,966	62,525	51,593	53,585	3,207	281,417

Note: Net sales are based on the geographical area of the customers and categorized by country or region.

(2) Property, plant and equipment (Millions of yen)

Japan	Asia		Others	Total
	Of which, Thailand			
47,607	20,032	8,016	7,222	74,862

3. Information by Major Customer

There is no information to state because net sales to any particular outside customer do not account for 10% or more of net sales on the consolidated statement of income.

Fiscal year ended March 31, 2023

1. Information by Product/Service

This information is omitted because the same information is disclosed in the segment information section.

2. Information by Region

(1) Net sales (Millions of yen)

Japan	Asia		U.S.		Europe	Others	Total
	Of which, China	Of which, the United States					
76,502	78,859	53,747	80,426	67,410	62,287	3,291	301,366

Note: Net sales are based on the geographical area of the customers and categorized by country or region.

(2) Property, plant and equipment (Millions of yen)

Japan	Asia		Others	Total
	Of which, Thailand			
47,832	19,631	7,996	12,057	79,521

3. Information by Major Customer

There is no information to state because net sales to any particular outside customer do not account for 10% or more of net sales on the consolidated statement of income.

Impairment Loss on Non-Current Assets by Reportable Segment

Fiscal year ended March 31, 2022 (Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Corporate/elimination	Total
Impairment loss	365	221	132	-	22	742

Fiscal year ended March 31, 2023 (Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Corporate/elimination	Total
Impairment loss	146	-	3,740	-	-	3,887

Information Related to Amortization of Goodwill and Unamortized Balance by Reportable Segment

Fiscal year ended March 31, 2022
Not applicable.

Fiscal year ended March 31, 2023
Not applicable.

Information on Negative Goodwill Generated for Each Reportable Segment

Fiscal year ended March 31, 2022
Not applicable.

Fiscal year ended March 31, 2023
Not applicable.

Related Party Information

Fiscal year ended March 31, 2022

(1) Transactions between the company submitting consolidated financial statements and related parties
No applicable significant matter.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties
No applicable significant matter.

Fiscal year ended March 31, 2023

(1) Transactions between the company submitting consolidated financial statements and related parties
No applicable significant matter.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties
No applicable significant matter.

(Per Share Information)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net assets per share	768.92 yen	866.68 yen
Earnings (loss) per share	71.38 yen	75.25 yen

The basis for calculation of earnings (loss) per share is as shown below.

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Earnings (loss) per share		
Profit (loss) attributable to owners of parent (Millions of yen)	22,140	21,836
Amount not attributed to common shareholders (Millions of yen)	-	-
Profit (loss) attributable to owners of parent in relation to common shares (Millions of yen)	22,140	21,836
Average number of shares of common stock outstanding during the period (thousand shares)	310,189	290,183

The basis for calculating net assets per share is as follows:

	As of March 31, 2022	As of March 31, 2023
Net assets (Millions of yen)	238,673	232,775
Amount deducted from total net assets (Millions of yen)	9,367	8,596
Non-controlling interests (Millions of yen)	(9,367)	(8,596)
Net assets related to common shares at the end of the fiscal year (Millions of yen)	229,305	224,179
Number of common shares at end of term used in the calculation of net assets per share (thousand shares)	298,215	258,665

The computation of the amount of net assets per share is based on the number of shares calculated by deducting the number of treasury shares at the end of a term and the number of shares owned under the BIP Trust at the end of the term from the total number of outstanding shares at the end of that term. The calculation of earnings per share or loss per share is based on the number of shares calculated by deducting the average number of

treasury shares during a term and the average number of shares owned under the BIP Trust during the said term from the average total number of outstanding shares during the said term.

The average number of the Company's shares owned under the BIP Trust for the previous consolidated fiscal year was 373,686 and the number of the Company's shares at the end of the fiscal year was 373,362. The average number of the Company's shares owned under the BIP Trust for the consolidated fiscal year under review was 408,352 and the number of the Company's shares at the end of the fiscal year was 483,762.

(Significant Subsequent Events)

(Cancellation of Treasury Shares)

The Company resolved at a meeting of the Board of Directors held on June 21, 2023, to retire treasury stock in accordance with the provisions of Article 178 of the Companies Act. Details are as follows:

1. Type of shares to be cancelled
Common shares of the Company
2. Total number of shares to be cancelled
48,000,000 shares (Percent of the total number of shares outstanding before cancellation: 16.33%)
3. The total number of outstanding shares after cancellation
246,000,000 shares
4. Scheduled date of cancellation
July 30, 2023

(Issuance of Bonds)

At a meeting of the Board of Directors held on June 21, 2023, the Company passed a comprehensive resolution on issuance of domestic unsecured straight bonds. The overview is as follows:

1. Class of bond: domestic unsecured straight bond
2. Total amount of bonds for subscription: 10 billion yen maximum (multiple issues are possible within the limit)
3. Time of issuance: from September 1, 2023, to September 30, 2023
4. Interest rate: the comparable government bond yield +1.0% or less
5. Amount to be paid: 100 yen per 100 yen of each bond
6. Maturity: five years or less
7. Method of redemption: redemption in a lump sum at maturity (a retirement by purchase clause or an advanced redemption clause may be added)
8. Special financial provision: There will be a limitation on a pledge of security provision.
9. Use of proceeds: redemption of bonds
10. Decisions on matters set out in each item of Article 676 of the Companies Act and other necessary matters are left to the discretion of the director in charge of accounting, including the total amount of bonds for subscription to be issued, interest rate, amount to be paid, maturity, and subscription application period for each issuance within the aforementioned limit.

Consolidated Supplementary Schedules

Bonds Schedule

Company name	Stock	Date of issuance	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Interest rate (%)	Collateral	Maturity date
Citizen Watch Co., Ltd.	3rd unsecured bonds	September 25, 2018	10,000	10,000	0.130	None	September 25, 2023
Total	-	-	10,000	10,000	-	-	-

Note: The scheduled amount of depreciation for five years from the consolidated account settlement date is as follows:

(Millions of yen)				
Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
10,000	-	-	-	-

Borrowings Schedule

Category	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%)	Due date
Short-term borrowings	911	2,602	1.6	-
Current portion of long-term borrowings	3,862	1,185	0.4	-
Current portion of lease liabilities	295	1,164	-	-
Long-term borrowings (excluding current portion of long-term borrowings)	51,382	51,328	0.4	2024-2039
Lease liabilities (excluding current portion of lease liabilities)	790	4,679	-	2024-2065
Other interest-bearing debt	-	-	-	-
Total	57,241	60,960	-	-

Notes: 1.The average number for the period is used to calculate the average rate.
 2.The average interest rate for lease obligations is not stated because lease obligations before the deduction of interest included in total lease payments are posted in the consolidated balance sheets.
 3.Lease obligations are accounted for by including the amounts in Other (current liabilities) and Other (non-current liabilities).
 4.Long-term borrowings and lease liabilities (excluding the current portion of them) scheduled to be repaid within five years of the end of the fiscal year are as shown below.

(Millions of yen)				
Category	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
Long-term borrowings	10,067	15,064	10,064	16,045
Lease liabilities	1,142	947	682	582

Asset Retirement Obligations Schedule

The amount of asset retirement obligations at both the beginning and end of the fiscal year ended March 31, 2023, are less than 1% of the combined total of liabilities and net assets at the beginning and end of the fiscal year ended March 31, 2023, and so have been omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

Other

Quarterly information in the fiscal year under review

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Fiscal year ended March 31, 2023
Net sales (Millions of yen)	71,358	147,695	230,178	301,366
Profit (loss) before income taxes (Millions of yen)	10,220	17,752	25,105	28,240
Profit (loss) attributable to owners of parent (Millions of yen)	7,260	12,645	19,697	21,836
Earnings (loss) per share (yen)	24.72	43.15	67.26	75.25
(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Earnings per share (yen)	24.72	18.42	24.12	7.58

INDEPENDENT AUDITOR'S REPORT

June 28, 2023

To the Board of Directors of
Citizen Watch Co., Ltd.

Nihombashi Corporation
Chuo-Ku, Tokyo

Shigehiro Chiba
Designated and Engagement Partner
Certified Public Accountant

Hidekazu Takahashi
Designated and Engagement Partner
Certified Public Accountant

Tatsuya Orito
Designated and Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Law of Japan, we have audited the consolidated financial statements of Citizen Watch Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Long-lived Assets in the Device Division

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
<p>As disclosed in the consolidated income statement and the notes to consolidated income statement (*8 impairment loss) and segment information, an impairment loss of JPY 3,887 million was recorded in the consolidated income statement for the year ended March 31, 2023 for assets that are not expected to be used in the future and business assets with deteriorated profitability, of which JPY 3,740 million was recorded in the Device Division.</p> <p>The Company examines the need to recognize an impairment loss for the assets or the asset group that has been determined to show signs of impairment. When it is determined that an impairment loss should be recognized, the Company reduces the carrying amount to the recoverable amount and records the decrease as an impairment loss. As the net selling price exceeds the value in use for the assets or the asset group, the recoverable amount is measured based on the net selling price.</p> <p>In the calculation of the net selling price for real estate, the real estate appraisal value calculated by a real estate appraiser who is an external appraisal expert is used, and the value includes professional judgment. In addition, for assets other than real estate, estimation methods and important assumptions are subject to subjective judgment by management.</p> <p>Based on the aforementioned factors, we identified the impairment of long-lived assets as a key audit matter.</p>	<p>We performed the following audit procedures in examining the impairment of long-lived assets:</p> <ul style="list-style-type: none"> • Evaluated the design and tested the operating effectiveness of internal controls over the signs, recognition and measurement of impairment loss, • Interviewed management on the market environment and future prospects, • Reviewed the materials prepared by the Company that were used to assess signs and recognition of impairment, as well as to measure it, and compared them with the underlying supporting documentation, • Conducted field visits to assess the validity of the Company's views on the operating status of long-lived assets, etc., • Verified future cash flows for consistency with business plans approved by management, and evaluated the accuracy of management's estimates by comparing the business plans in previous years with their results, and • In the calculation of the net selling price for real estate, evaluated the aptitude, ability and objectivity of the real estate appraiser used by management as an expert, and the suitability of the assumptions and methods used in the work of the expert, and, for assets other than real estate, evaluated the management's choice of estimation method, important assumptions, and the appropriateness of the calculated valuation by checking with the relevant data on which they are based.

Valuation of Inventories Held by the Watch Division

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
<p>Merchandise and finished goods of JPY 58,604 million were recorded in the consolidated balance sheet for the year ended March 31, 2023, and they account for 15.0% of the total assets, of which two thirds is the merchandise and finished goods in the Watch Division.</p> <p>Regarding a method of valuation of inventories held by the Watch Division, as disclosed in the notes to important accounting estimate, the cost method based on the gross average method (for balance sheet values, the method of write-down of book values based on the profitability decline) is adopted. Also, in order to properly reflect the fact of a decline in profitability, a method of regularly writing down book values is adopted for slow-moving inventories or inventories that are expected to be disposed of, that are not included in the operating cycle, by setting a write-down ratio for each item according to a certain duration.</p> <p>This estimate was calculated based on internal inventory disposal rules and historical data and thus needs management's judgment. Also, it is affected by changes in the market environment and thus subject to uncertainty.</p> <p>Based on the aforementioned factors, we identified the valuation of inventories as a key audit matter.</p>	<p>We performed the following audit procedures to examine the reasonableness of valuation of inventories held by the Watch Division:</p> <ul style="list-style-type: none"> • Evaluated the design and tested the operating effectiveness of internal controls over the Company's inventory valuation process, • Evaluated the reasonableness of the method of identifying slow-moving inventories related to profitability decline and the method of calculating the write-down ratio by examining historical data, and • Obtained the materials on the write-down of book values prepared by the Company, tested the completeness of inventories subject to the write-down, and examined the appropriateness of the write-down of book values by reviewing and recalculating related internal materials.

Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the financial statements and our auditor's reports thereon. Management is responsible for preparation and disclosure of the other information. The Audit & Supervisory Board Member and the Audit & Supervisory Board are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board and its member for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit & Supervisory Board Member and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures,

and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Member and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Member and the Audit & Supervisory Board with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

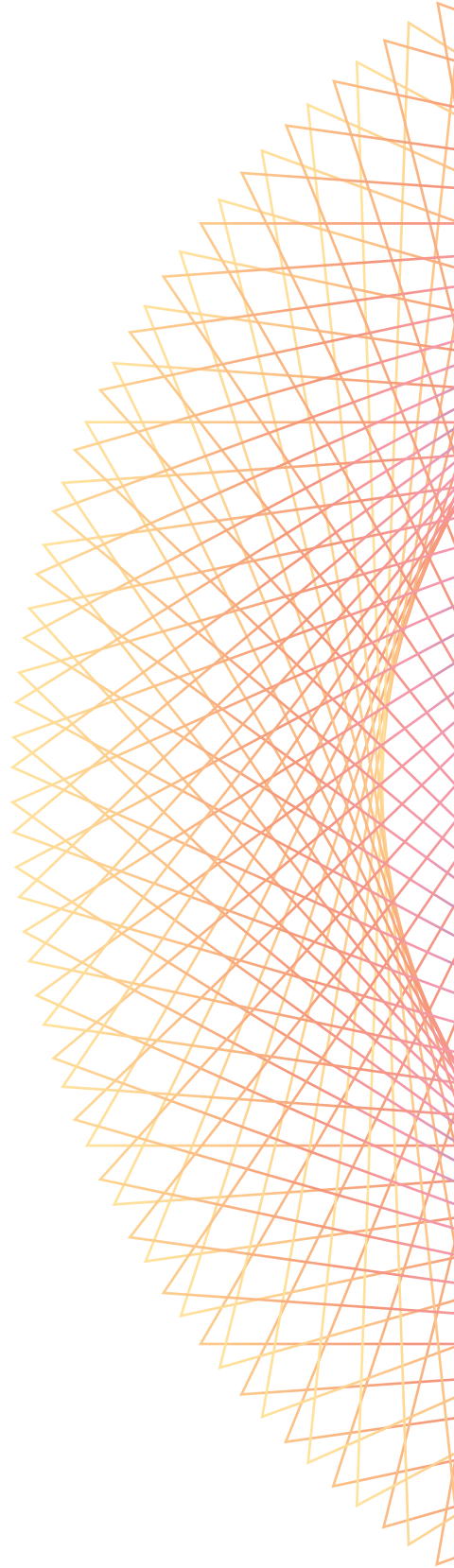
Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is merely an English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader. The original Auditor's Report shows an audit opinion for the full set of consolidated financial statements based on the Financial Instrumentals and Exchange Act of Japan. Therefore this English audit report does not show our opinion for this English annual report which is only the abbreviation of the above full set of consolidated financial statements.

CITIZEN



CITIZEN WATCH CO., LTD.
<https://www.citizen.co.jp/global>



Front Cover Visual Concept

The regularly connected lines of the front cover visual represent the sophisticated precision technological capabilities of the CITIZEN Group, while the expanding circle of double gradations represents a prosperous future leading to the next generation.