



CITIZEN WATCH

Consolidated Financial Statements**for the Nine Months Ended December 31, 2022**

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan. All figures in these statements which are less than 1 million yen have been rounded down. (English translation)

February 13, 2023

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Listings: Prime section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)****(1) Consolidated operating results**

(Millions of yen; Percentages represent changes over the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended December 31, 2022	230,178	6.8%	21,032	7.1%	24,440	9.5%	19,697	14.6%
Nine months ended December 31, 2021	215,608	42.7%	19,635	-	22,315	-	17,192	-

Note: Comprehensive income:

Nine months ended December 31, 2022: ¥ 26,097 million (16.5%)

Nine months ended December 31, 2021: ¥ 22,409 million (-%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Nine months ended December 31, 2022	67.26	-
Nine months ended December 31, 2021	55.03	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Nine Months Ended September 30, 2022	406,433	254,791	60.5%	840.52
March 31, 2022	394,962	238,673	58.1%	768.92

Reference: Shareholders' Equity:

As of December 31, 2022: ¥ 245,744 million

As of March 31, 2022: ¥ 229,305 million

2. Dividends

	Dividends per share (Yen)				
	End of the three-month period	End of the six-month period	End of the nine-month period	End of the year	Full year
March 31, 2022	-	9.00	-	9.00	18.00
March 31, 2023		15.00			
March 31, 2023(E)			-	19.00	34.00

Note: Revision of dividend forecast for quarter in review: None

3. Projected Consolidated Results for the Year ending March 31, 2023

(Millions of yen)

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Net income		Earnings per share (Yen)
Full term	303,000	7.7%	23,000	3.3%	27,500	0.6%	20,000	(9.7%)	68.41

Note: Revision of consolidated forecasts for quarter in review: None

4. Others

- (1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): None
- (2) Adoption of simplified accounting method and special accounting methods: None
- (3) Changes in principles, procedures and classifications of accounting standards associated with the preparation of consolidated financial statements.
- (i) Changes associated with revised accounting standards: None
 - (ii) Changes other than those in (i) above: None
 - (iii) Changes in accounting estimate: None
 - (iv) Restatements: None

(4) Number of shares issued and outstanding (common stock)

	shares		shares	
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	December 31, 2022	294,000,000	March 31, 2022	314,353,809
(ii) Number of treasury stock at the end of term	December 31, 2022	1,628,432	March 31, 2022	16,137,900
(iii) Average number of common stocks	December 31, 2022	292,843,006	December 31, 2021	312,405,514

** The consolidated financial statements are not included in the scope of the audit.*

** Explanation about the proper use of financial forecasts and other important notes*

Statements above relating to financial forecasts are based on information available to the Company and certain assumptions the Company considers reasonable as of the date of the announcement of these statements. Actual results may differ materially from these forecasts, depending on a variety of factors.

Please refer to the attached "Qualitative data on the consolidated earnings forecasts" on page 6 for assumptions underlying the above forecasts and precautions regarding their use.

(Attached Documents)

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1. Qualitative Information on the Consolidated Financial Results for the Nine months ended December 31, 2022

(1) Qualitative data on the consolidated financial results

During the first nine months of 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. In North America and Europe, there was growing concern in the markets about a recession as a result of the strict monetary measures that had rapidly been adopted in response to accelerated inflation linked to surging resource prices, among other factors. In Asia, the Chinese market remained stagnant, despite an about-face in the country's zero-COVID policy, while other Asian markets saw weak recoveries constrained by the impact of sharp price increases.

In this environment, the Citizen Group's consolidated results for the first nine months of the fiscal year under review showed increases in sales and profits, with net sales of 230.1 billion yen (up 6.8% year on year) and operating profit of 21.0 billion yen (up 7.1% year on year). These results were driven mainly by the growth of Watches, one of its core businesses. Ordinary profit and profit attributable to owners of parents also increased to 24.4 billion yen (up 9.5% year on year) and 19.6 billion yen (up 14.6% year on year), respectively.

Watches

In the domestic market, sales of Citizen brand watches increased, reflecting the steady performance of premium brands such as The CITIZEN, the CITIZEN ATTESA Eco-Drive watch equipped with the Satellite Wave GPS and the brand's 35th anniversary limited edition models, despite growth in saving consciousness linked to an increase in the cost of living.

Looking at overseas markets, uncertainty about the future grew in the North American market, partly due to the acceleration of historic inflation. Even so, sales continued to rise, given that sales for main distribution including department stores remained firm and sales aboard cruise vessels increased, aided by a recovery in tourism demand. The European market also suffered significant price increases. Despite that, sales climbed due to solid performance recorded in the UK and Germany, among other countries. In the Asian market, sales were improving mainly in Southeast Asia and India, but sales in China recorded a decline due to the significant impact of lockdowns and restrictions on movement.

Meanwhile, sales of Bulova brand watches increased, helped by a recovery in sales for tourism distribution, as well as solid sales for department and online stores in the mainstay North American market.

Sales of movements decreased, reflecting weak demand for mechanical movements partly due to a decline in the Chinese market, as well as slow sales of analog quartz movements on growing concern about a recession in the North American and European markets in particular.

As a result, the watches segment posted an increase in sales with net sales of 117.3 billion yen (up 14.1 % year on year), reflecting the strong performance of overseas markets due to the efforts of increasing the number of stores that carry the Company's products, as well as the weakening of the yen, although there were concerns over a decline in consumer confidence linked to a global increase in cost of living. Operating profit increased 51.8% year on year, to 15.7 billion yen, given an increase in net sales and ongoing efforts to improve profitability.

Machine Tools

In the domestic market, sales of automobile-related products remained weak as automakers reduced production due to the prolonged impact of the shortage of parts, particularly semiconductors. Even so, revenue increased, reflecting firm demand from industries such as semiconductors, construction machinery and housing equipment. In overseas markets, the Chinese market grew sluggishly due to the repeated implementation of lockdowns and the chaotic situation in the wake of the abolishment of its zero-COVID policy. However, sales climbed, reflecting continued strength in sales related to medical equipment in Europe and the Americas, even amid growing concern about future economic conditions.

As a result, the machine tools segment as a whole posted an increase in sales, with net sales of 63.3 billion yen (up 5.5% year on year). Operating profit decreased to 8.4 billion yen (down 10.3% year on year), due mainly to rises in raw material prices and transportation expenses.

Devices and Components

In precision components, sales of automotive parts decreased given the impact of car manufacturers reducing production in response to semiconductor shortages. In addition, there were signs of a plateauing in demand for crystal devices, which had been consistently brisk. Small motors continued to capture demand for use in a broad range of areas including medical and semiconductor-related products. However, sales decreased in precision components overall.

Among opto-devices, sales of chip LEDs for game consoles remained solid, but sales of in-vehicle LEDs and LEDs for lighting fell due in part to lockdowns in China and the shortage of parts and materials such as semiconductors, resulting in a decline in sales overall.

As a result, the devices and components segment recorded a decrease in both sales and profits with net sales of 34.1 billion yen (down 9.7% year on year) and an operating loss of 0.1 billion yen (compared to operating profit of 2.1 billion yen in the same period of the previous fiscal year).

Electronic and Other Products

Sales of information equipment increased, reflecting a recovery in demand for POS printers and bar code printers, coupled with the delivery of a number of photo printers, offsetting the impact of delays in parts procurement and distribution due to the shortage of semiconductors. Revenue from healthcare products decreased due to sluggish sales of thermometers for overseas markets, although sales remained solid in the domestic market amid a resurgence of COVID-19, etc.

As a result, the electronic and other products segment overall recorded an increase in sales and a decrease in profit, with net sales of 15.2 billion yen (up 3.2% year on year) and operating profit of 0.9 billion yen (down 7.8% year on year).

(2) Qualitative data on the consolidated financial position

Total assets at the end of the third quarter of the consolidated fiscal year under review stood at 406.4 billion yen, an increase of 11.4 billion yen from the end of the previous consolidated fiscal year.

Current assets increased by 13.2 billion yen, mainly reflecting rises of 7.2 billion yen and 11.1 billion yen in notes and accounts receivable – trade and inventories, more than offsetting a 12.9 billion yen decrease in cash and deposits. Non-current assets decreased 1.7 billion yen, attributable chiefly to a 1.0 billion yen decrease in buildings and structures and a 0.7 billion yen decrease in deferred tax assets, more than offsetting a 1.1 billion yen increase in construction in progress.

Liabilities decreased 4.6 billion yen from the end of the previous consolidated fiscal year, to 151.6 billion yen, mainly attributable to a 3.2 billion yen decrease in retirement benefit liability.

Net assets increased 16.1 billion yen, to 254.7 billion yen, chiefly reflecting an increase of 19.6 billion yen attributable to the posting of profit attributable to owners of parents and an increase of 6.8 billion yen in the foreign currency translation adjustment, more than offsetting a 2.9 billion yen decrease reflecting a treasury share purchase and a 7.0 billion yen decrease due to dividend payments.

Both retained earnings and treasury shares decreased due to the cancellation of treasury shares amounting to 10.1 billion yen.

(3) Qualitative data on the consolidated earnings forecasts

No changes have been made to the full-year forecasts for the consolidated fiscal results in the fiscal year ending March 31, 2023 announced on November 14, 2022 in the Consolidated Financial Statements for the Six Months Ended September 30, 2022.

2. Consolidated Financial Statements and Primary Notes**(1) Consolidated Balance Sheet**

	(Millions of yen)	
	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	110,901	97,927
Notes and accounts receivable - trade	49,308	56,581
Electronically recorded monetary claims - operating	2,037	2,424
Securities	—	7,000
Merchandise and finished goods	50,979	58,954
Work in process	22,749	24,884
Raw materials and supplies	23,315	24,374
Consumption taxes refund receivable	2,661	2,918
Other	9,254	9,457
Allowance for doubtful accounts	(1,069)	(1,126)
Total current assets	<u>270,139</u>	<u>283,398</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,893	39,866
Machinery, equipment and vehicles, net	16,567	16,237
Tools, furniture and fixtures, net	3,616	3,545
Land	10,371	10,391
Leased assets, net	975	711
Construction in progress	2,437	3,539
Total property, plant and equipment	<u>74,862</u>	<u>74,291</u>
Intangible assets		
Software	3,879	3,958
Leased assets	1	—
Other	954	793
Total intangible assets	<u>4,834</u>	<u>4,752</u>
Investments and other assets		
Investment securities	37,275	36,819
Long-term loans receivable	184	161
Deferred tax assets	5,894	5,165
Other	2,151	2,167
Allowance for doubtful accounts	(236)	(232)
Allowance for investment loss	(144)	(89)
Total investments and other assets	<u>45,125</u>	<u>43,990</u>
Total non-current assets	<u>124,823</u>	<u>123,035</u>
Total assets	<u>394,962</u>	<u>406,433</u>

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(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,354	19,986
Electronically recorded obligations - operating	13,910	12,597
Notes payable - facilities	25	121
Electronically recorded obligations - non-operating	598	649
Short-term borrowings	4,773	4,831
Current portion of bonds payable	—	10,000
Income taxes payable	2,826	1,343
Accrued expenses	10,604	13,752
Provision for bonuses	5,821	3,472
Provision for bonuses for directors (and other officers)	279	—
Provision for product warranties	1,181	1,222
Provision for environmental measures	1	—
Provision for loss on reorganization	362	108
Asset retirement obligations	26	—
Other	10,571	10,193
Total current liabilities	<u>69,338</u>	<u>78,280</u>
Non-current liabilities		
Bonds payable	10,000	—
Long-term borrowings	51,382	50,566
Deferred tax liabilities	2,772	3,442
Provision for loss on reorganization	74	74
Retirement benefit liability	20,281	17,003
Asset retirement obligations	49	49
Other	2,392	2,225
Total non-current liabilities	<u>86,951</u>	<u>73,362</u>
Total liabilities	<u>156,289</u>	<u>151,642</u>
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,740	33,740
Retained earnings	145,912	148,343
Treasury shares	(8,225)	(882)
Total shareholders' equity	<u>204,076</u>	<u>213,850</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,977	8,788
Foreign currency translation adjustment	16,646	23,522
Remeasurements of defined benefit plans	(394)	(416)
Total accumulated other comprehensive income	<u>25,228</u>	<u>31,894</u>
Non-controlling interests	<u>9,367</u>	<u>9,046</u>
Total net assets	<u>238,673</u>	<u>254,791</u>
Total liabilities and net assets	<u>394,962</u>	<u>406,433</u>

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(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income for the Nine months ended December 31, 2022

	(Millions of yen)	
	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	215,608	230,178
Cost of sales	132,665	136,117
Gross profit	82,943	94,060
Selling, general and administrative expenses	63,307	73,027
Operating profit	19,635	21,032
Non-operating income		
Interest income	193	544
Dividend income	672	865
Share of profit of entities accounted for using equity method	565	844
Subsidy income	366	189
Foreign exchange gains	988	1,171
Other	322	374
Total non-operating income	3,109	3,989
Non-operating expenses		
Interest expenses	219	220
Commission for purchase of treasury shares	—	79
Commission for syndicate loans	3	41
Other	206	241
Total non-operating expenses	429	582
Ordinary profit	22,315	24,440
Extraordinary income		
Gain on sale of non-current assets	1,026	1,748
Gain on sale of investment securities	44	725
Other	85	216
Total extraordinary income	1,157	2,689
Extraordinary losses		
Loss on retirement of non-current assets	26	269
Loss on sale of non-current assets	35	15
Impairment losses	6	1,684
Reorganization cost	137	25
Extra retirement payments	15	—
Loss on COVID19	162	7
Other	104	20
Total extraordinary losses	487	2,024
Profit before income taxes	22,985	25,105
Income taxes	5,555	5,818
Profit	17,429	19,287
Profit (loss) attributable to non-controlling interests	236	(410)
Profit attributable to owners of parent	17,192	19,697

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Consolidated Statement of Comprehensive Income for the Nine months ended December 31, 2022

	(Millions of yen)	
	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	17,429	19,287
Other comprehensive income		
Valuation difference on available-for-sale securities	1,011	(189)
Foreign currency translation adjustment	3,670	6,607
Remeasurements of defined benefit plans, net of tax	148	(23)
Share of other comprehensive income of entities accounted for using equity method	149	414
Total other comprehensive income	<u>4,980</u>	<u>6,810</u>
Comprehensive income	<u>22,409</u>	<u>26,097</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	22,048	26,363
Comprehensive income attributable to non-controlling interests	361	(265)

(3) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

(Acquisition and cancellation of treasury stock)

The Company's treasury shares increased 2,844 million yen in the first six months of the consolidated fiscal year under review, reflecting the acquisition of 5,842,400 treasury shares, based on a resolution of a Board of Directors' meeting held on November 25, 2021. Then, retained earnings and treasury shares decreased 10,199 million yen, respectively, in the first nine months of the consolidated fiscal year under review, reflecting the cancellation of 20,353,809 treasury shares implemented on July 29, 2022 based on a resolution of a Board of Directors' meeting held on June 21, 2022.

As of the end of the third quarter of the consolidated fiscal year under review, retained earnings and treasury shares stood at 148,343 million yen and 882 million yen, respectively.

(Additional Information)

The Company and some of its consolidated subsidiaries in Japan shifted from the consolidated taxation system to the group tax sharing system in the first quarter of the fiscal year under review. Consequently, regarding accounting processing and disclosures for income taxes, local corporate income taxes and tax effect accounting, the Company started to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 42 issued August 12, 2021, hereinafter "PITF No. 42"). In addition, based on Paragraph 32(1) of PITF No. 42, the Company believes the changes in its accounting policy resulting from the application of PITF No. 42 will not impact the Group's financial results.

(Segment information)

(i) Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	102,866	60,079	37,891	14,770	215,608	-	215,608
Inter-segment	64	42	1,090	516	1,714	(1,714)	-
Total	102,931	60,122	38,982	15,286	217,322	(1,714)	215,608
Segment profit or loss	10,395	9,405	2,111	1,058	22,972	(3,336)	19,635

(Notes)

1. The 3,336 million yen negative adjustment to segment income (Operating profit) includes 68 million yen in inter-segment eliminations and 3,405 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits or loss are adjusted with Operating profit on the consolidated financial statements.

(ii) Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	117,358	63,376	34,199	15,243	230,178	--	230,178
Inter-segment	67	91	1,076	457	1,692	(1,692)	--
Total	117,425	63,468	35,276	15,700	231,870	(1,692)	230,178
Segment profit or loss	15,779	8,436	(166)	976	25,025	(3,993)	21,032

(Notes)

1. The 3,993 million yen negative adjustment to segment income (Operating profit) includes 76 million yen in inter-segment eliminations and 4,070 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits or loss are adjusted with Operating profit on the consolidated financial statements.

Information on Impairment Losses of Fixed Assets or Goodwill and Other Items by Reported Segment
(Significant impairment loss on fixed assets)

In Devices and components, the Company posted an impairment loss on Buildings and structures and Machinery, equipment and vehicles of 1,684 million yen.

3. Others

(Acquisition of treasury stock)

At a meeting of the Board of Directors held on February 13, 2023, the Company resolved to acquire treasury shares based on the provisions of Article 156 of the Companies Act, which is applicable under the provisions of Article 165, paragraph (3) of the Act.

1. Reason for the purchase of treasury shares: The Company has decided to acquire its treasury shares to enhance shareholder returns and increase capital efficiency.

2. Details of matters related to the purchase

- (1) Type of stock to be acquired: Common stock of the Company
- (2) Total number of shares that can be acquired: 75,000,000 shares (maximum)
(Ratio to the total number of shares issued (excluding treasury stock): 25.61%)
- (3) Total stock acquisition cost: 40 billion yen (maximum)
- (4) Acquisition period: February 16, 2023 - February 15, 2024