

Ticker Code: 7762

June 4, 2019

**NOTICE OF THE 134th ORDINARY GENERAL MEETING OF
SHAREHOLDERS**

[Disclaimer: Please note that the following purports to be a translation from the original Japanese version prepared for the convenience of our shareholders with voting rights outside Japan for reference. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.]

Dear shareholders,

You are cordially invited to attend the 134th Ordinary General Meeting of Shareholders of Citizen Watch Co., Ltd. (the “Company”), which will be held as described below.

If you cannot attend on that day, you can exercise your voting right in either of the following ways. Please review “Reference Materials for the General Meeting of Shareholders” below and exercise your voting right by no later than 5:45 p.m. on Tuesday June 25, 2019.

[Exercise of voting right in writing (by mail)]

Indicate your approval or disapproval on the enclosed Voting Right Exercise Form and send it to us to arrive by the above deadline.

[Exercise of voting right via the Internet]

Please access the website (<https://evote.tr.mufig.jp/>) designated by the Company, follow the directions on the screen, and indicate your approval or disapproval by the above deadline.

Note: Shareholders outside Japan shall not use these voting procedures.

Very truly yours,

Toshihiko Sato
President and CEO
Citizen Watch Co., Ltd.
6-1-12 Tanashi-cho,
Nishitokyo, Tokyo

If you attend in person, please submit the enclosed Voting Right Exercise Form to the reception desk.

In case of any revision to the Reference Materials for the General Meeting of Shareholders, the Business Report, or consolidated financial statements and non-consolidated financial statements, we will post the revision on our website.

Our website <https://www.citizen.co.jp/english/ir/stocks/meeting.html>

1. Time and Date: 10:00 a.m. on Wednesday, June 26, 2019

*Please come early to the venue as the reception area will be congested as it becomes close to the commencement of the meeting. The reception is scheduled to open at 9:00 a.m.

2. Place: HILTON TOKYO, 4F “Kiku Ballroom”
6-6-2, Nishi-Shinjuku, Shinjuku-ku, Tokyo

3. Agenda:

Items to be reported:

- Item 1:** Business Report, consolidated financial statements, and audit report on the consolidated financial statements by the Independent Auditors and Audit & Supervisory Board for the 134th term (April 1, 2018 to March 31, 2019)
- Item 2:** Report on the non-consolidated financial statements for the 134th term (April 1, 2018 to March 31, 2019)

Items to be resolved:

- Item 1:** Appropriation of Surplus
- Item 2:** Election of Eleven (11) Directors
- Item 3:** Election of One (1) Audit & Supervisory Board Member
- Item 4:** Revision of Amount of Directors’ Compensation, etc.

Reference Materials for the General Meeting of Shareholders

Item 1: Appropriation of Surplus

The Company considers the distribution of profits to shareholders to be an extremely important management issue of the Company. The Company has made it a fundamental policy to keep the average of the “shareholder return ratio” (which is the percentage of total amount of dividends and treasury shares purchased to profit attributable to owners of parent for the fiscal year under review) at 30% or more on a three year basis.

As for the year-end dividend for the current fiscal year, thoroughly considering the above fundamental policy, performance for this fiscal year and future business development, the Company proposes a payment of 10.00 yen per share as shown below. This payment, combined with the interim dividend of 10.00 yen per share, will bring the total annual cash dividend for this fiscal year to 20.00 yen per share.

1. Type of dividend

Cash

2. Allotment and total amount of dividend

10.00 yen per common share of the Company

Total amount of dividends: 3,183,819,400 yen

3. Effective date of dividends from surplus

June 27, 2019

(Reference)

The average shareholder return ratio for three years from the 132nd term (FY2016) to the 134th term (FY2018) will be 38.1% if this item is approved as proposed.

	132 nd (FY2016)	133 rd (FY2017)	134 th (current term) (FY2018)
Dividend (millions of yen)	5,410	7,002	6,367
(annual cash dividend per share) (yen)	(17)	(22)	(20)
Amount of treasury shares purchased (millions of yen)	—	—	—
Total (millions of yen)	5,410	7,002	6,367
Profit attributable to owners of parent (millions of yen)	16,573	19,303	13,369


Note: Annual cash dividend per share for the 133rd business year (FY2017) includes a commemorative dividend of 5.00 yen.

Item 2: Election of Eleven (11) Directors


The terms of office of all of the present ten (10) Directors will expire at the conclusion of this General Meeting of Shareholders. In that regard, in order to enhance the corporate governance even more, the Company proposes to elect a total of eleven (11) Directors, increasing the number of Outside Directors by one (1).

The candidates for the positions of Director are as follows:


No.	Name	Position and areas of responsibility in the Company	Attribute of candidate	Attendance at Board of Directors meetings
1	Toshio Tokura	Chairman of the Board of Directors –	[For reelection]	17/17 (100%)
2	Toshihiko Sato	President and CEO –	[For reelection]	17/17 (100%)
3	Norio Takeuchi	Managing Director Senior General Manager of Watch Business Division	[For reelection]	17/17 (100%)
4	Toshiyuki Furukawa	Director General Manager of Corporate Planning Division and in charge of Accounting Department, Public & Investor Relations Department and IT Management Department	[For reelection]	17/17 (100%)
5	Keiichi Nakajima	Director –	[For reelection]	17/17 (100%)
6	Shinji Shirai	Director Senior General Manager of Manufacturing Technology Division and in charge of Quality Assurance Department	[For reelection]	17/17 (100%)
7	Yoshitaka Oji	Director Senior General Manager of Product Development Division and Watch Development Division, and Senior General Manager of R&D Center	[For reelection]	17/17 (100%)
8	Yoshiaki Miyamoto	Director Group Risk Management, General Manager of General Affairs Division and in charge of Personnel Division, CSR Department and Environmental Management Department	[For reelection]	13/13 (100%)
9	Fumiaki Terasaka	Outside Director –	[For reelection] [Outside] [Independent]	17/17 (100%)
10	Toshiko Kuboki	Outside Audit & Supervisory Board Member –	[For new election] [Outside] [Independent]	17/17 (100%)
11	Yoshio Osawa	– –	[For new election] [Outside] [Independent]	–


No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
1	 Toshio Tokura (December 6, 1949) For reelection	April 1973 Joined Citizen Trading Co., Ltd. June 2002 Director of Citizen Trading Co., Ltd. October 2004 Operating Officer of the Company April 2007 Managing Director of Citizen Watch Co., Ltd. April 2009 Senior Managing Director of Citizen Watch Co., Ltd. June 2010 Managing Director of the Company April 2012 President and CEO of the Company March 2014 Director of Citizen Watch Co., Ltd. April 2014 President and CEO of Citizen Watch Co., Ltd. April 2019 Chairman of the Board of Directors of the Company (present)	17,793
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		Mr. Toshio Tokura has a wealth of experience and connections in all areas of corporate management and an extensive track record as the former President and CEO of the Company in charge of the management of the Citizen Group. The Company believes that he will be able to assist the current President and CEO in carrying out his duties pertaining to the Group's external activities and governance by making use of his experience, connections and track record and nominated him as a candidate for Director.	17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
2	 Toshihiko Sato (November 16, 1955) For reelection	April 1981 Joined the Company August 2009 General Manager of R&D Division of the Company April 2012 President of CITIZEN FINETECH MIYOTA CO., LTD. (currently CITIZEN FINEDEVICE CO., LTD.) June 2015 Director of the Company April 2016 Director of Citizen Watch Co., Ltd. April 2016 Responsible for Production, General Manager of Product Development Division, and in charge of Quality Assurance Department of Citizen Watch Co., Ltd. October 2016 Responsible for Watch Production of the Company October 2016 Senior General Manager of Product Development Division and in charge of Quality Assurance Department of the Company April 2017 In charge of Product Division and Quality Assurance Department of the Company April 2017 President of Citizen Watch Manufacturing Co., Ltd. June 2017 Managing Director of the Company April 2018 Senior Managing Director of the Company April 2019 President and CEO of the Company (present)	6,120
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		In light of his achievements and experience in running the Citizen Group's devices and components business, as well as being responsible for the watch production, the Company believes that Mr. Toshihiko Sato will continue to contribute to the promotion of the Citizen Group business by leading the Group's management through the execution of the medium-term management plan, "Citizen Group Medium-term Management Plan 2021," therefore nominated him as a candidate for Director.	17/17 (100%)


No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
3	 <p>Norio Takeuchi (August 31, 1958)</p> <p>For reelection</p>	<p>April 1981 Joined the Company</p> <p>November 2005 Assigned to Marketing Department, Watch Business Division of the Company (assigned to Germany)</p> <p>June 2010 Operating Officer of Citizen Watch Co., Ltd.</p> <p>June 2010 Senior General Manager of Watch Business Control Division of Citizen Watch Co., Ltd.</p> <p>June 2011 Director of Citizen Watch Co., Ltd.</p> <p>September 2011 Senior General Manager of Strategic Planning Division of Citizen Watch Co., Ltd.</p> <p>June 2012 Senior General Manager of Citizen Brand Business Division of Citizen Watch Co., Ltd.</p> <p>October 2013 General Manager of Citizen Brand Business Division of Citizen Watch Co., Ltd.</p> <p>June 2014 President of Citizen Watch Italy S.p.A. (present)</p> <p>October 2014 Chairman of the Board of Directors of Citizen Watch Company of America, Inc. (present)</p> <p>January 2015 In charge of Design Department of Citizen Watch Co., Ltd.</p> <p>April 2016 Citizen Brand Manager and in charge of BULOVA Department of Citizen Watch Co., Ltd.</p> <p>June 2016 In charge of Domestic Watch Sales Division of Citizen Watch Co., Ltd.</p> <p>June 2016 Director of the Company</p> <p>October 2016 Citizen Brand Manager, General Manager of Citizen Brand Division, General Manager of BULOVA Department and in charge of Domestic Watch Sales Division, Advertising Department and Design Department of the Company</p> <p>April 2017 Senior General Manager of Watch Business Division of the Company (present)</p> <p>June 2017 Managing Director of the Company (present)</p>	7,750
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		In light of Mr. Norio Takeuchi's achievements in promoting sales strategy and brand strategy in the Citizen Group's watches business as Director of the Company and his achievements and experience in managing the overseas subsidiaries responsible for watch and clock sales, the Company believes he will continue to contribute to the promotion of the Citizen Group business and nominated him as a candidate for Director.	17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
4	 <p>Toshiyuki Furukawa (January 19, 1963)</p> <p>For reelection</p>	<p>April 1986 Joined the Company</p> <p>March 1993 Assigned to Products Marketing Division of the Company (assigned to New York, U.S.A.)</p> <p>April 2009 Manager of Investor and Public Relations Department of the Company</p> <p>July 2010 Deputy General Manager of Corporate Planning Division of the Company</p> <p>June 2011 General Manager of Corporate Planning Division of the Company</p> <p>April 2015 Director of Citizen Watch Co., Ltd.</p> <p>April 2015 General Manager of Management Planning Division and in charge of Accounting Department of Citizen Watch Co., Ltd.</p> <p>April 2016 President of Citizen Financial Service Co., Ltd.</p> <p>June 2016 Director of the Company (present)</p> <p>June 2016 General Manager of Corporate Planning Division and in charge of Accounting Department and Public & Investor Relations Department of the Company (present)</p> <p>October 2016 In charge of IT Management Department of the Company (present)</p>	5,860
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		In light of Mr. Toshiyuki Furukawa's achievements in formulating the Citizen Group's management strategy as General Manager of the Company's Corporate Planning Division and achievements and experience being in charge of the Corporate Planning Division, Accounting Department, etc. as Director of the Company after being involved in the Company's investor dialogue and public relations strategy as Manager of the Company's Investor and Public Relations Department, the Company believes he will continue to contribute to the promotion of the Citizen Group business and nominated him as a candidate for Director.	17/17 (100%)


No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
5	 <p>Keiichi Nakajima (August 14, 1958)</p> <p>For reelection</p>	<p>April 1982 Joined the Company</p> <p>March 2001 President of Citizen Machinery Asia Co., Ltd.</p> <p>August 2004 General Manager of Corporate Planning Division of CITIZEN PRECISION MACHINERY CO., LTD.</p> <p>March 2008 President of Citizen (ZIBO) Precision Machinery Co., Ltd.</p> <p>April 2008 Senior General Manager of Administration Center of CITIZEN MACHINERY CO., LTD.</p> <p>June 2008 President of Citizen Machinery Asia Co., Ltd.</p> <p>June 2008 President of Citizen Machinery Vietnam Co., Ltd.</p> <p>June 2008 Director of CITIZEN MACHINERY CO., LTD.</p> <p>March 2009 Outside Director of Miyano Machinery Japan Inc. (Currently CITIZEN MACHINERY CO., LTD.)</p> <p>June 2010 Operating Officer of CITIZEN MACHINERY CO., LTD.</p> <p>April 2011 Operating Officer of CITIZEN MACHINERY MIYANO CO., LTD. (Currently CITIZEN MACHINERY CO., LTD.)</p> <p>April 2012 Director and Operating Officer of CITIZEN MACHINERY MIYANO CO., LTD.</p> <p>April 2013 President of CITIZEN MACHINERY MIYANO CO., LTD. (present)</p> <p>June 2013 Director of the Company (present)</p>	17,148
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		Mr. Keiichi Nakajima has mainly been involved in the Citizen Group's machine tools business, driving the Citizen Group's overall machine tools business as President of CITIZEN MACHINERY CO., LTD., and in light of his achievements and experience in promoting the Company's business strategy, the Company believes he will continue to contribute to the promotion of the Citizen Group business and nominated him as a candidate for Director.	17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
6	 <p>Shinji Shirai (August 7, 1960)</p> <p>For reelection</p>	<p>March 1984 Joined Miyota Precision Co., Ltd. (Currently CITIZEN FINEDEVICE CO., LTD.)</p> <p>April 2010 President of Guangzhou Most Crown Electronics Ltd.</p> <p>June 2011 Operating Officer of Citizen Watch Miyota Co., Ltd.</p> <p>April 2013 Operating Officer of Citizen Watch Co., Ltd.</p> <p>April 2013 General Manager of Product Development Department, Technical Development Division of Citizen Watch Co., Ltd.</p> <p>August 2013 Deputy Senior General Manager of Technical Development Division of Citizen Watch Co., Ltd.</p> <p>October 2013 Deputy General Manager of Product Development Division of Citizen Watch Co., Ltd.</p> <p>November 2013 President of SUNCITI TRADING DONGGUAN LTD.</p> <p>April 2016 President of Sunciti Manufacturers Ltd.</p> <p>October 2016 Operating Officer of the Company</p> <p>October 2016 Deputy Senior General Manager of Product Development Division of the Company</p> <p>April 2017 Senior General Manager of Product Division of the Company</p> <p>June 2017 Director of the Company (present)</p> <p>June 2017 In charge of Quality Assurance Department (present)</p> <p>April 2019 Senior General Manager of Manufacturing Technology Division (present)</p> <p>April 2019 President of Citizen Watch Manufacturing Co., Ltd. (present)</p>	4,038
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		In light of Mr. Shinji Shirai's experience in managing the Company's subsidiaries manufacturing watches and clocks and his achievements in promoting the manufacturing of watches and clocks as well as technologies and product development relating to such products at the Company and its subsidiaries after being involved in the manufacturing of watches and clocks at such subsidiaries, the Company believes he will continue to contribute to the promotion of the Citizen Group business and nominated him as a candidate for Director.	17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
7	 Yoshitaka Oji (November 23, 1963) For reelection	April 1986 Joined the Company August 2005 Assigned to Marketing Department, Watch Business Division of the Company (assigned to Singapore) April 2007 Assigned to CB Business Division of Citizen Watch Co., Ltd. (assigned to Singapore) June 2011 General Manager of Business Administration Department, Administration Division of Citizen Watch Co., Ltd. August 2011 General Manager of Business Management Department, Strategic Planning Division of Citizen Watch Co., Ltd. July 2012 General Manager of Management Planning Division of Citizen Watch Co., Ltd. April 2015 General Manager of Corporate Planning Division of the Company June 2016 Operating Officer of Citizen Watch Co., Ltd. June 2016 Deputy General Manager of Product Development Division of Citizen Watch Co., Ltd. October 2016 Operating Officer of the Company October 2016 Deputy Senior General Manager of Product Development Division of the Company April 2017 Deputy Senior General Manager of Watch Business Division of the Company June 2017 Director of the Company (present) April 2019 Senior General Manager of Product Development Division and Watch Development Division, and Senior General Manager of R&D Center of the Company (present)	4,325
		Reasons for nominating the candidate for Director	Attendance at Board of Directors meetings
		In light of Mr. Yoshitaka Oji's experience in promoting the management strategy in the Citizen Group's watches business as the General Manager of the Corporate Planning Division of the Company and its subsidiary and his achievements in promoting the product development of watches and clocks at the Company after being involved in the sales of watches and clocks at the Company's overseas subsidiary, the Company believes he will continue to contribute to the promotion of the Citizen Group business and nominated him as a candidate for Director.	17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
8	 Yoshiaki Miyamoto (February 3, 1963) For reelection	August 1990 Joined the Company April 2009 Deputy General Manager of Business Administration Department, Administration Division of Citizen Watch Co., Ltd. December 2010 Deputy General Manager of Strategic Planning Department, Planning Division of Citizen Watch Co., Ltd. April 2012 President of Citizen Watch Manufacturing (Thailand) Co., Ltd. April 2014 President of Citizen Watch Europe GmbH April 2017 Senior Operating Officer April 2017 General Manager of General Affairs Division of the Company (present) June 2017 Group Risk Management and in charge of Personnel Division of the Company (present) June 2018 Director of the Company (present) April 2019 In charge of CSR Department and Environmental Management Department of the Company (present)	3,265
		Reasons for nominating the candidate for Director In light of Mr. Yoshiaki Miyamoto's experience in managing the overseas subsidiaries responsible for watch and clock sales and achievements in the Group Risk Management, the General Affairs Division and the Personnel Division as Director of the Company after promoting startup of new plants at Citizen Group's overseas subsidiaries engaging in manufacturing of watches and clocks, the Company believes he will continue to contribute to the promotion of the Citizen Group business and nominated him as a candidate for Director.	Attendance at Board of Directors meetings 13/13 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
9	 Fumiaki Terasaka (April 12, 1949) For reelection Candidate for Outside Director	March 2004 Operating Officer and Director of Kyushu Sales & Marketing Division of Sapporo Breweries Ltd. September 2004 Director and Senior Officer, Director of Marketing Division of Sapporo Breweries Ltd. March 2005 Director and Executive Managing Officer, Director of Marketing Division of Sapporo Breweries Ltd. March 2009 Executive Managing Officer of Sapporo Breweries Ltd. March 2010 President and Representative Director of Sapporo Breweries Ltd. March 2010 Managing Director and Group Operating Officer of Sapporo Holdings Limited March 2013 Advisor of Sapporo Breweries Ltd. March 2014 Senior Advisor of Sapporo Breweries Ltd. November 2015 Outside Audit & Supervisory Board Member of DAISYO CORPORATION (present) June 2017 Outside Director of FUJITSU GENERAL LIMITED (present) June 2017 Outside Director of the Company (present)	1,124
		Reasons for nominating the candidate for Outside Director To utilize his considerable experience in and extensive knowledge of management to check and supervise the Company's management and in light of his achievements as an Outside Director of the Company, the Company again nominated him as a candidate for Outside Director.	Attendance at Board of Directors meetings 17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
10	 Toshiko Kuboki (February 26, 1960) For new election Candidate for Outside Director	April 1987 Registered as an attorney-at law February 2002 Conciliation commissioner of Tokyo Family Court (present) April 2009 Retirement Benefit Examination Committee member of Board of Audit of Japan (present) April 2012 Visiting Professor of Graduate School of Law, Chuo University (present) December 2013 Municipal Board of Education member of Chuo-ku, Tokyo (present) June 2015 Outside Director of Qol Co., Ltd. (Currently Qol Holdings Co., Ltd.) (present) June 2015 Outside Auditor of Kyodo News (present) June 2016 Outside Audit & Supervisory Board Member of the Company (present)	5,000
		Reasons for nominating the candidate for Outside Director	Attendance at Board of Directors meetings
		Ms. Toshiko Kuboki has extensive experience and knowledge as an attorney-at-law, and the Company expects that she will be able to utilize her professional point of view as an attorney-at-law and her experience as an outside director of another company to check and supervise the Company's management, and in light of her achievements as an Outside Audit & Supervisory Board Member of the Company, the Company believes she is suitable for the position of Outside Director. While Ms. Toshiko Kuboki has not been involved in the management of a company aside from her position as an outside director or Outside Audit & Supervisory Board Member, the Company deems that she has thorough knowledge of corporate legal affairs as an attorney-at-law and will be able to properly perform her duties as Outside Director, and newly nominated her as a candidate for Outside Director.	17/17 (100%)

No.	Name (Date of birth)	Career summaries, position and areas of responsibility in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
11	 Yoshio Osawa (January 22, 1952) For new election Candidate for Outside Director	April 2003 Corporate Officer and General Manager of Network Division of Sumitomo Corporation April 2003 Director of Sumisho Electronics Co., Ltd. June 2003 Director of Sumisho Computer Systems Corporation (Currently SCSK Corporation) April 2005 Executive Officer and General Manager of Network Division of Sumitomo Corporation March 2007 Director of Jupiter Telecommunications Co., Ltd. April 2007 Executive Officer and General Manager of Media Division of Sumitomo Corporation April 2008 Managing Executive Officer and General Manager of Media, Network & Lifestyle Retail Business Unit of Sumitomo Corporation June 2008 Representative Director and Managing Executive Officer of Sumitomo Corporation April 2011 Representative Director and Senior Managing Executive Officer of Sumitomo Corporation June 2013 Representative Director, President and Chief Operating Officer of SCSK Corporation April 2015 Representative Director and President of SCSK Corporation April 2016 Director and Chairman of the Board of SCSK Corporation April 2017 Director of SCSK Corporation March 2018 Outside Director of Canon Marketing Japan Inc. (present)	—
		Reasons for nominating the candidate for Outside Director	
		In the belief that Mr. Yoshio Osawa will utilize his considerable experience in and extensive knowledge of management to check and supervise the Company's management, the Company newly nominated him as a candidate for Outside Director.	

Notes:

1. "Citizen Watch Co., Ltd." mentioned above in the career summaries of the candidates refers to the subsidiary that was newly incorporated in an incorporation-type split on April 2, 2007 and dissolved through being merged with the Company in October 1, 2016.
2. The number of the Company's shares held by each candidate includes the shares held through the stock ownership plan.
3. No conflict of interest exists between the Company and any of the above candidates.
4. The activities of the candidate Mr. Yoshiaki Miyamoto shown above were those during his term, for he was newly elected as Director at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018.
5. The candidates Mr. Fumiaki Terasaka, Ms. Toshiko Kuboki and Mr. Yoshio Osawa are candidates for Outside Directors of the Company. The Company has appointed Mr. Fumiaki Terasaka and Ms. Toshiko Kuboki as Independent Officers defined by the Tokyo Stock Exchange and registered them with the Exchange as such. The Company intends to appoint Mr. Yoshio Osawa as Independent Officer defined by the Tokyo Stock Exchange and register him with the Exchange as such.

The term of office of Mr. Fumiaki Terasaka as Outside Director from his initial appointment will be two (2) years at the conclusion of this General Meeting of Shareholders. Ms. Toshiko Kuboki is an Outside Audit & Supervisory Board Member, and her term of office as Outside Audit & Supervisory Board Member from her initial appointment will be three (3) years at the conclusion of this General Meeting of Shareholders.

The Company, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, has an agreement with Mr. Fumiaki Terasaka to limit his liability for damages under Article 423, Paragraph 1 of the Companies Act, in order to enable him to fully perform his duties as Outside Director as expected, and if his reelection is approved at the meeting, the Company intends to continue the agreement. The amount of his total maximum liability for damages under such agreement is the higher of 10,000,000 yen or the minimum liability amount provided for under the relevant laws and regulations.

Further, the Company, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, has an agreement with the candidate Ms. Toshiko Kuboki to limit her liability for damages under Article 423, Paragraph 1 of the Companies Act, in order to enable her to fully perform her duties as Outside Audit & Supervisory Board Member as expected. The amount of her total maximum liability for damages under such agreement is the higher of 10,000,000 yen or the minimum liability amount provided for under the relevant laws and regulations.

If the election of the candidates Ms. Toshiko Kuboki and Mr. Yoshio Osawa is approved at the meeting, the Company, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, will enter into agreements with them to limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, in order to enable them to fully perform their duties as Outside Directors as expected. The amount of their total maximum liability for damages under such agreements will be the higher of 10,000,000 yen or the minimum liability amount provided for under the relevant laws and regulations, respectively.


6. The candidate Ms. Toshiko Kuboki is an Outside Audit & Supervisory Board Member, and for her attendance at Board of Directors meetings, her attendance as an Outside Audit & Supervisory Board Member is stated. She will retire from the position of Outside Audit & Supervisory Board Member at the conclusion of this General Meeting of Shareholders.

Item 3: Election of One (1) Audit & Supervisory Board Member

Audit & Supervisory Board Member Ms. Toshiko Kuboki will resign at the conclusion of this General Meeting of Shareholders. Therefore, the Company proposes to elect one (1) Audit & Supervisory Board Member.

The candidate for the position of Audit & Supervisory Board Member is as follows.

Regarding this item, the consent of the Audit & Supervisory Board has been obtained.

Name (Date of birth)	Career summaries, position in the Company, and significant concurrent roles held at other corporations	Number of the Company's shares held
 <p>Yaeko Ishida (August 18, 1970)</p> <p>For new election</p>	<p>October 2000 Registered as an attorney-at law</p> <p>January 2007 Judicial Commissioner of Tokyo Summary Court</p> <p>April 2016 Conciliation Commissioner of Tachikawa Branch of Tokyo Family Court (present)</p>	—
	Reasons for nominating the candidate for Outside Audit & Supervisory Board Member	
	Ms. Yaeko Ishida has extensive experience and knowledge as an attorney-at-law, and since she will be able to utilize her professional point of view as an attorney-at-law to the audit the Company, the Company believes that she is suitable for the position of Outside Audit & Supervisory Board Member. While Ms. Yaeko Ishida has not been involved in the management of a company, the Company deems that she has thorough knowledge of corporate legal affairs as an attorney-at-law and will be able to properly perform her duties as Outside Audit & Supervisory Board Member, and newly nominated her as a candidate for Outside Audit & Supervisory Board Member.	

Notes:

1. The candidate Ms. Yaeko Ishida uses the name Yaeko Kitadai in her profession as an attorney-at-law.
2. No conflict of interest exists between the Company and the candidate.
3. The candidate Ms. Yaeko Ishida is a candidate for Outside Audit & Supervisory Board Member of the Company. The Company intends to appoint her as Independent Officer defined by the Tokyo Stock Exchange and will register her with the Exchange as such.
4. If the election of the candidate Ms. Yaeko Ishida is approved at the meeting, the Company, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, will enter into an agreement with her to limit her liability for damages under Article 423, Paragraph 1 of the Companies Act, in order to enable her to fully perform her duties as Outside Audit & Supervisory Board Member as expected. The amount of her total maximum liability for damages under such an agreement will be the higher of 10,000,000 yen or the minimum liability amount provided for under the relevant laws and regulations.

(Reference)

Criteria on Independence of Outside Officers

The Company deems that an Outside Director or Outside Audit & Supervisory Board Member of the Company (“Outside Officer”) or a candidate for Outside Officer possesses independence such that the interests of the Outside Officer or candidate for Outside Officer are unlikely to have conflict with the interests of general shareholders if, after the Company investigates to practically possible and reasonable extent, one or more of the following criteria do not apply with respect to the said individual.

- (1) A party who is now or was previously an officer (excluding the Company’s Outside Director or Outside Audit & Supervisory Board Member) or an employee of the Citizen Group (the “Citizen Group” refers to the group of companies made up of the Company and its subsidiaries; hereinafter the same).
- (2) A party whose major business partner is the Company (Note 1) or an executive of such party (“executive” refers to an executive as defined in Article 2, paragraph 3, item 6 of the Enforcement Regulations of the Companies Act (Order of the Ministry of Justice No. 12 of 2006); hereinafter, the same).
- (3) A major business partner of the Company (Note 2) or an executive of such party.
- (4) A consultant, accounting professional, or legal professional who receives cash or other financial benefits of 10 million yen or higher as payment from the Citizen Group for reasons other than Director’s or Audit & Supervisory Board Member’s remuneration (if the party receiving such financial benefits is an incorporated entity, association or other organization, then a person belonging to such organization).
- (5) A party receiving donations of cash or other financial benefits of 10 million yen or higher from the Citizen Group (if the party receiving such donation is an incorporated entity, association or other organization, then a person belonging to such organization).
- (6) A party directly or indirectly holding 10% or more of the total number of voting rights held by the Company’s shareholders or an executive of such party.
- (7) In the case that an officer or employee of the Citizen Group is serving as an outside officer at another company, an officer or employee of the company other than the aforementioned outside officer.
- (8) A person to whom any of the criteria (2) through (7) applied in the most recent fiscal year or the past three fiscal years of the Company.
- (9) A spouse or relative within the second degree of kinship of a person to whom any of the criteria (1) through (8) applies.

Notes:

1. “Party whose major business partner is the Company” refers to a party whose sales to the Citizen Group makes up 2% or more of the consolidated net sales of the party’s group (“group” refers to the group of companies made up of the party, its parent, and its subsidiaries; hereinafter the same).
2. “Major business partner of the Company” refers to a party whose group provides the Citizen Group with sales amounting to 2% or more of the consolidated net sales of the Company.

Item 4: Revision of Amount of Directors' Compensation, etc.

The maximum allowance for the total amount of compensation, etc. for Directors (excluding Outside Directors) has been set at 370 million yen per year as resolved at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, and the maximum allowance for the total amount of compensation, etc. for Outside Directors has been set at 30 million yen per year as resolved at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. The Company proposes to revise the maximum allowance for the total amount of compensation, etc. for Outside Directors to 40 million yen per year. This proposal aims for further enhancing corporate governance of the Citizen Group by increasing the number of Outside Directors and takes the necessity to secure human resources and other factors into consideration. However, no bonuses shall be paid to Outside Directors, as has been the case to date. (It is also proposed that, the maximum allowance for the total amount of compensation, etc. for Directors (excluding Outside Directors) be remained at 370 million yen per year, and as has been the case to date, employee salaries for employees who also serve as Directors not be paid.)

Whereas there are now ten (10) Directors (including two (2) Outside Directors), if Item 2 is approved and adopted as proposed, the number of Directors will be eleven (11) (including three (3) Outside Directors).

This item is submitted based on a recommendation made by the Compensation Committee which is headed by an Outside Director and the majority of which is comprised of Outside Directors.

BUSINESS REPORT

From April 1, 2018 to March 31, 2019

I. MATTERS RELATING TO THE CURRENT SITUATION OF THE GROUP**1. Review of Operations**

During the fiscal year under review, the Japanese economy maintained a moderated recovery, although consumer spending continued to be weak. In the United States, capital spending and consumer spending remained steady, despite concern over developments in conjunction with trade with other countries. The recovery of the European economy slowed due to the tension on trade issues and political uncertainties. The Asian economy maintained a trend of overall strength and recovery, despite some weakness indicated in the Chinese market.

Under these circumstances, as the final year of the medium-term management plan “Citizen Global Plan 2018” formulated in February 2013, the Citizen Group has been pursuing new growth strategies to become a true global company with particular focus on the watches business, while striving to strengthen profitability through manufacturing innovation.

The Citizen Group’s consolidated results included net sales of 321.652 billion yen (up 0.5% year-on-year) and operating profit of 22.411 billion yen (down 10.1% year-on-year), resulting in an increase in revenue but a decline in profits. Ordinary profit decreased to 26.602 billion yen (down 0.2% year-on-year) and profit attributable to owners of parent decreased to 13.369 billion yen (down 30.7% year-on-year) due to recording of extraordinary losses.

Consolidated Results

(Billions of yen)

Net sales	321.652 (up 0.5% year-on-year)
Operating profit	22.411 (down 10.1% year-on-year)
Ordinary profit	26.602 (down 0.2% year-on-year)
Profit attributable to owners of parent	13.369 (down 30.7% year-on-year)

Net sales by segment for the fiscal year under review were as follows:

[Watches]

For CITIZEN brand watches in the domestic market, sales of high-end models, such as The CITIZEN, rose while sales of major mid-range products, such as the xC, ATTESA, and PROMASTER, remained strong, thus pulling sales higher.

In the overseas market, although the European market showed some weakness, the North American market and the Asian market remained firm, resulting in an overall increase in overseas sales. In the North American market, sales at department stores and retail jewelry chains showed signs of recovery and online sales continued to expand, contributing to an increase in sales of new products such as PROMASTER and eco-drive GPS satellite-synchronized watches. Conditions remained difficult in most of the major European markets, as growing political uncertainty had a negative impact on consumer spending. In the Asian market, despite recently rising fears of an economic slowdown, economic conditions have been favorable since the beginning of the fiscal year, and sales growth in China was particularly strong.

Sales in the multiple brand area rose overall, as the Frederique Constant brand did well in the North American market and Italy, while the BULOVA brand posted higher sales, mainly of new models, in its key market of North America.

Sales of movements declined as demand for high value-added products stagnated in a harsh business environment that still shows little momentum toward recovery.

As a result of these developments, the watches segment recorded a decline in sales with net sales of 163.525 billion yen (down 0.1% year-on-year), due to tough competition resulted from lower-than-expected recovery of demand in the movement market, despite a pick-up in demand for finished products supported by the aggressive release of new products and the acceleration of advertising investments. Operating profit decreased to 12.440 billion yen (down 23.1% year-on-year) due to poor sales of movements, which was unable to be offset by the growth of high-end products that was promoted as one of the priority measures.

[Machine Tools]

Revenues from the domestic market increased thanks to solid capital expenditures in a wide range of industries, including products related to automobiles, medical equipment, construction equipment, and housing facilities. In the Americas, growth in capital expenditures continued, mainly in medical-related industries, although there were some signs of a slowdown due to a reaction to sales that remained at high levels. Despite growing uncertainty over the future, primarily because of unstable political conditions, revenues in the European market grew due to solid sales primarily of automobile-related products in Germany and continued favorable conditions in Switzerland and Italy. In the Asian market, sales of automobile-related products in particular were firm during the first half of the year, but revenues flattened out for the year as a whole due to signs of holding back on purchases due to the impact of the US-China trade dispute.

As a result of these developments, the machine tools segment as a whole recorded a significant increase in revenue with net sales of 72.164 billion yen (up 12.7% year-on-year), which was supported by favorable market conditions both in Japan and abroad and increased sales of machines equipped with low frequency vibration (LFV) cutting, one of the Citizen Group's unique technologies. Operating profit increased sharply, to 13.082 billion yen (up 25.3% year-on-year), in response to a considerable rise in net sales against the background of strong market conditions.

[Devices and Components]

Sales of precision machining components rose slightly overall, as solid growth of auto parts in the automobile market led to higher sales of engine components both domestically and overseas, even though sales of switches stagnated due to weakness in the smartphone market.

Among opto-devices, sales of LED chips for automobiles continued to be solid; however, sales remained sluggish as a result of efforts focused on proposing differentiating lighting products instead of making pricing compromises despite intensifying price competition. This resulted in a decrease in overall revenues from opto-devices.

Sales of quartz devices, among other products, lacked momentum, mainly reflecting a decline in the smartphone market. Sales of ferroelectric micro LCDs were affected by the stagnant state of the digital camera market, given that it is their main market. As a result, overall revenues in the other parts segment decreased.

As a result of these developments, overall sales in the devices and components segment declined to 60.807 billion yen (down 7.3 % year-on-year), mainly due to a fall-off in opto-devices. At the same time, operating profit declined to 2.543 billion yen (down 8.6% year-on-year), as a marketing strategy geared to profitability was unable to offset the lower sales.

[Electronic Products]

Among information equipment, sales of media and the main units of photo printers fell significantly, despite increased sales of existing POS printers and strong sales of new barcode printers. Consequently, revenues in the overall information equipment sector declined.

Revenues from healthcare equipment decreased after domestic sales declined, which was unable to be offset by growth of products for China, other parts of Asia, and the Americas in the overseas market.

As a result of these developments, the electronic products segment recorded decreases in both revenue and profits, with net sales of 19.330 billion yen (down 6.1% year-on-year) and operating profit of 0.438 billion yen (down 14.6% year-on-year), as the sales in the overall electronic products segment decreased on the back of sluggish sales growth of mainstay information equipment.

[Other Products]

Jewelry products revenues declined due to such factors as market inventory adjustments made in response to the prolongation of a severe business environment that exhibited no signs of improvement in the appetite to consume.

As a result of these developments, the other products segment as a whole recorded decreases in both revenue and profits with net sales of 5.824 billion yen (down 4.5% year-on-year) and operating profit of 0.146 billion yen (down 53.0% year-on-year), mainly reflecting the sluggish sales growth of jewelry products.

Note: The difference between each segment's operating profit of 28.651 billion yen in total and those of 22.411 billion yen (the Company's operating profit) is a miscellaneous expense used to write off transactions between each segment and not reported to each segment.

[Sales by Business Segment]

Business segment	Amount (Millions of yen)	Percentage of total (%)	Change from the previous fiscal year (%)
Watches	163,525	50.9	(0.1)
Machine Tools	72,164	22.4	12.7
Devices and Components	60,807	18.9	(7.3)
Electronic Products	19,330	6.0	(6.1)
Other Products	5,824	1.8	(4.5)
Total	321,652	100.0	0.5

Note: The rate of the sales in the overseas to the gross sales is 66.3%.

2. Financing

The Company issued its third unsecured bond of 10.0 billion yen on September 25, 2018, the proceeds of which were used to redeem bonds and other purposes.

3. Capital Expenditures

Capital expenditures during the fiscal year totaled 23.756 billion yen, the major expenditures of which are as follows:

- (1) 12.095 billion yen for production facilities in Watches
- (2) 3.260 billion yen for production facilities in Machine Tools
- (3) 7.113 billion yen for production facilities in Devices and Components
- (4) 0.425 billion yen for production facilities in Electronic Products

(5) 0.027 billion yen for production facilities in Other Products

4. Important corporate restructuring

On January 24, 2019, the Company and Citizen Financial Service Co., Ltd. carried out a merger among them in which the Company was the surviving company, with the effective date of April 1, 2019.

5. Acquisition or Disposition of Shares, Other Equity Interests, or Share Acquisition Rights of Other Companies

Not applicable

6. Challenges Going Forward

The Company in February 2019 established the “Citizen Group Medium-term Management Plan 2021” a medium-term management plan, which covers years until the fiscal year ending March 31, 2021 (hereinafter the “Management Plan”).

This Management Plan includes the Citizen Group’s medium-term management vision, titled “Innovation for the Next – *Sense the Time and Create an Impression for the Future*,” which will not merely continue manufacturing as in the past, but will create new, unique value and move toward a sustainable future.

To achieve the Group’s medium-term management vision contained in this Management Plan, we will tackle the following three key measures.

1. Promotion of growth in watches and machine tools

The Company will actively invest the Group’s management resources in the watches business, so that we can develop products that both provide the basics of quality assurance and superior technological and developmental capability as a *manufacture d’horlogerie* with a century of honing our skills, as well as offer the value of “experience” that engenders ever-new customer experiences.

For the machine tools business, the Company will strive to create the world’s most advanced production innovation solutions and thus establish our position as a new manufacturing (*monozukuri*) firm regardless of economic vicissitudes. This will be accomplished by continuing to make investments that are appropriate to market conditions, as this business is sensitive to changing economic conditions.

2. Promotion of Sustainable Development Goals (SDGs)

In accordance with our aim to be a company that continues its business on a permanent basis, the Citizen Group will work toward resolving the numerous social issues faced by its businesses so that it can achieve its SDGs, which constitute global social issues, by 2030.

As one effort in this regard, for our product manufacturing process, we will add contributions to our SDGs and hammer out the concept of the sustainable factory, and will strive to develop manufacturing that takes compliance, human rights, and labor practices into consideration in the overall supply chain, as well as environmental considerations.

3. Enhancement of compliance in quality

The Citizen Group took the finding of improper activities in 2017 very seriously. Now, we carry out initiatives to identify risks at an early stage, take the necessary steps and prevent their recurrence. To achieve this, the Group risk management committee performs management and controls to ensure functions of risk

management conducted by eight committees comprised of the Quality Compliance Committee and the seven business risk committees of legal, environmental, accounting, intellectual property, information, human resources, and business continuity effectively.

Strategies of each business segment

1. Watches

We will aim to provide more attractive services and products with value and functions that exceed those of traditional watches under the business slogan, “Creating new value and experiences over time.”

We will broaden our product range by realizing the results of our multi-brand strategy centering on the Citizen brand, as well as developing smartwatches and mechanical/luxury products that hold promise for the future over the medium-to long-term. We are also planning to promote digital marketing using digital technology and to improve our cost-competitiveness in movements and finished products through manufacturing innovation.

2. Machine tools

To create the world’s most advanced production innovation solutions and establish ourselves in the position of a new manufacturing (*monozukuri*) company, we will promote sales of our new automatic boards and sales in promising emerging markets, as well as achieve production innovations that will maximize the efficiency of our current management resources. In addition, we also plan to expand our solutions business in response to IoT.

3. Devices and components, and other businesses

In the devices and components business, we will start up next-growth businesses and establish ourselves in the top position in specific domains by proposing products that create differentiation in response to change.

Focusing on the automotive parts business, which uses small metalwork technology, one of the Citizen Group’s strengths, we will develop a variety of automotive use-related products, employing our advantage in technological superiority in assembly and grinding technologies. We will also expand our offerings of high-quality products and high value-added products, for which demand is growing, in response to changes in the market environment. This will encompass such products as LEDs and switches, which need to become smaller, thinner, and more durable.

In addition, in our other businesses, we will focus on the strengths of the Citizen Group so that we can choose and concentrate on businesses and products that will enhance our profitability and promote the stability of our business through improving and streamlining our production efficiency.

We are promoting the above programs and strategies with a view to achieving our Management Plan. We thank our shareholders for their continuing support.

7. Assets and Profit and Loss of the Company

	131 st (FY2015)	132 nd (FY2016)	133 rd (FY2017)	134 th (FY2018)
Net sales (millions of yen)	348,267	312,559	320,047	321,652
Ordinary profit (millions of yen)	30,619	21,985	26,664	26,602
Profit attributable to owners of parent (millions of yen)	13,201	16,573	19,303	13,369
Basic earnings per share (yen)	41.32	52.07	60.65	42.00
Total assets (millions of yen)	406,462	395,887	412,165	413,911
Net assets (millions of yen)	237,469	249,215	263,713	267,547
Net assets per share (yen)	715.38	752.21	797.75	808.87

Notes:

1. Basic earnings per share is calculated based on the number of shares by deducting the average total number of treasury shares during the term from the average total number of shares outstanding during the term. Net assets per share is calculated based on the number of shares by deducting the total number of treasury shares at the fiscal year-end from the total number of shares outstanding at the fiscal year-end.
2. The Company has introduced a performance-linked stock compensation plan utilizing the Board Incentive Plan (BIP) Trust from the fiscal year under review, and the shares of the Company held by the BIP Trust are presented as treasury shares in the net assets section. Accordingly, the number of shares of the Company held by the BIP Trust is included in the number of treasury shares that are deducted in the calculation of basic earnings per share and net assets per share.

8. Details of Important Subsidiaries

Name	Capital	Voting Right Percentage of the Company (%)	Major Business
Citizen Watch Manufacturing Co., Ltd.	300 million yen	100.0	Watches
Citizen Machinery Co., Ltd.	2,651 million yen	100.0	Machine Tools
Citizen Electronics Co., Ltd.	5,488 million yen	79.3	Devices and Components
Citizen Finedevice Co., Ltd.	1,753 million yen	100.0	Devices and Components
Citizen Systems Japan Co., Ltd.	450 million yen	100.0	Electronic Products
Citizen Financial Service Co., Ltd.	50 million yen	100.0	Financial Services in the Group
Citizen Watch Company of America, Inc.	US\$ 43.66 million	100.0	Watches
Citizen Watches (H.K.) Ltd.	HK\$ 10 million	100.0	Watches

Note: On April 1, 2019, the Company and Citizen Financial Service Co., Ltd. carried out a merger among them in which the Company was the surviving company.

9. Products of Principal Business (as of March 31, 2019)

Business segment	Principal products
Watches	Watches, movement
Machine Tools	NC automatic lathes
Devices and Components	Automotive parts, switches, LED, micro display devices, quartz crystals
Electronic Products	Printers, healthcare equipment, calculators
Other Products	Jewelry

10. Principal Places of Business (as of March 31, 2019)

Name		Location
Citizen Watch Co., Ltd.		Nishitokyo, Tokyo
Subsidiaries and others	Citizen Watch Manufacturing Co., Ltd.	Tokorozawa, Saitama
	Citizen Machinery Co., Ltd.	Kitasaku-gun, Nagano
	Citizen Electronics Co., Ltd.	Fujiyoshida, Yamanashi
	Citizen Finedevice Co., Ltd.	Minamitsuru-gun, Yamanashi
	Citizen Systems Japan Co., Ltd.	Nishitokyo, Tokyo
	Citizen Watch Company of America, Inc.	California, U.S.A.
Citizen Watches (H.K.) Ltd.		Hong Kong, China

11. Employees (as of March 31, 2019)

Business Segment	Number of employees		Change from the previous fiscal year-end	
Watches	6,363	[3,711]	(1,028)	[461]
Machine Tools	1,820	[303]	96	[22]
Devices and Components	5,028	[1,073]	(98)	[(58)]
Electronic Products	1,248	[72]	(81)	[28]
Other Products	182	[136]	2	[6]
General Corporate	268	[35]	3	[4]
Total	14,909	[5,330]	(1,106)	[463]

Notes:

1. The number of employees covers all those engaged in operations and figures in brackets represent average annual temporary workers in addition to the number of employees.
2. The decrease in the number of employees in the watches segment is mainly due to readjustments to the production system in overseas subsidiaries.

12. Principal Lenders (as of March 31, 2019)

(Millions of yen)

Name	Borrowed Amount
Mizuho Bank, Ltd.	13,400
MUFG Bank, Ltd.	12,500
Sumitomo Mitsui Banking Corporation	3,600
Nippon Life Insurance Company	3,600
The Hachijuni Bank, Ltd.	2,200
The Yamanashi Chuo Bank, Ltd.	1,000

II. MATTERS CONCERNING COMPANY STOCK AND SHARE ACQUISITION RIGHTS, ETC.

1. Condition of Stocks (as of March 31, 2019)

- (1) Total number of authorized shares: 959,752,000 shares
- (2) Total number of shares issued: 320,353,809 shares
- (3) Number of shareholders: 31,240
- (4) Major shareholders (Top 10)

Name	Number of the Company's shares held (Thousands of shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	38,054	11.95
Japan Trustee Services Bank, Ltd. (trust account)	28,222	8.86
Nippon Life Insurance Company	11,948	3.75
Nichia Corporation	10,000	3.14
Trust & Custody Services Bank, Ltd. (securities investment trust account)	6,680	2.10
SSBTC CLIENT OMNIBUS ACCOUNT	6,423	2.02
Mitsubishi UFJ Trust and Banking Corporation	5,375	1.69
NIKON CORPORATION	5,005	1.57
JPMorgan Securities Japan Co., Ltd.	4,543	1.43
Marubeni Corporation	4,496	1.41

Note: Shareholding ratio is calculated after deducting 1,971,869 treasury shares.

2. Status of Share Acquisition Rights (as of March 31, 2019)

Not applicable

III. MATTERS CONCERNING DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

1. Names, etc. of Directors and Audit & Supervisory Board Members (as of March 31, 2019)

Title	Name	Area of responsibility and significant concurrent role held at other companies (if any)
President and CEO Senior Managing Director	Toshio Tokura Toshihiko Sato	President of Citizen Watch Manufacturing Co., Ltd.
Managing Director	Norio Takeuchi	Senior General Manager of Watch Business Division Chairman of the Board of Directors of Citizen Watch Company of America, Inc. President of Citizen Watch Italy S.p.A.
Director	Toshiyuki Furukawa	General Manager of Corporate Planning Division and in charge of Accounting Department, Public & Investor Relations Department and IT Management Department President of Citizen Financial Service Co., Ltd.
Director	Keiichi Nakajima	President of Citizen Machinery Co., Ltd.
Director	Shinji Shirai	Senior General Manager of Product Division and in charge of Quality Assurance Department
Director	Yoshitaka Oji	Deputy Senior General Manager of Watch Business Division
Director	Yoshiaki Miyamoto	Group Risk Management, General Manager of General Affairs Division and in charge of Personnel Division
Outside Director	Masaaki Komatsu	Outside Audit & Supervisory Board Member of DAISYO CORPORATION
Outside Director	Fumiaki Terasaka	Outside Director of FUJITSU GENERAL LIMITED
Audit & Supervisory Board Member (Full-time)	Yoshio Takada	
Audit & Supervisory Board Member (Full-time)	Noboru Akatsuka	
Outside Audit & Supervisory Board Member		
Outside Audit & Supervisory Board Member	Toshiko Kuboki	Attorney-at-law Outside Director of Qol Holdings Co., Ltd.

Notes:

- At the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, Mr. Yoshiaki Miyamoto was newly elected as Director and assumed the position.
- At the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, Mr. Noboru Akatsuka was newly elected as Audit & Supervisory Board Member and assumed the position.
- In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with each Outside Director and Audit & Supervisory Board Member that limit the maximum liability for damages under Article 423, Paragraph 1 of the said Act. The maximum amount of liability for damages based on such agreements shall be the higher of 10 million yen or the lowest liability amount stipulated by laws and regulations.
- Full-time Audit & Supervisory Board Member Mr. Yoshio Takada has experience in accounting operations holding several managerial positions in accounting departments of the Company and its subsidiaries and has extensive knowledge of finance and accounting.
- Full-time Audit & Supervisory Board Member Mr. Noboru Akatsuka has been managing banks and companies for many years and has extensive knowledge of finance and accounting.
- Outside Audit & Supervisory Board Member Ms. Toshiko Kuboki is thoroughly experienced in corporate legal affairs as an attorney-at-law and has extensive knowledge of finance and accounting.
- The Company has appointed Outside Directors, Mr. Masaaki Komatsu and Mr. Fumiaki Terasaka and Outside Audit & Supervisory Board Members, Mr. Noboru Akatsuka and Ms. Toshiko Kuboki as Independent Officers defined by the Tokyo Stock Exchange and registered them with the Exchange as such.

8. The title and area of responsibility and significant concurrent role held at other companies of President and CEO Toshio Tokura, Senior Managing Director Toshihiko Sato, Directors Toshiyuki Furukawa, Shinji Shirai, Yoshitaka Oji and Yoshiaki Miyamoto changed on April 1, 2019 as follows:

Title	Name	Area of responsibility and significant concurrent role held at other companies (if any)
Chairman of the Board of Directors President and CEO	Toshio Tokura Toshihiko Sato	General Manager of Corporate Planning Division and in charge of Accounting Department, Public & Investor Relations Department and IT Management Department Senior General Manager of Manufacturing Technology Division and in charge of Quality Assurance Department President of Citizen Watch Manufacturing Co., Ltd. Senior General Manager of Product Development Division and Watch Development Division, and Senior General Manager of R&D Center Group Risk Management, General Manager of General Affairs Division and in charge of Personnel Division, CSR Department and Environmental Management Department
Director	Toshiyuki Furukawa	
Director	Shinji Shirai	
Director	Yoshitaka Oji	
Director	Yoshiaki Miyamoto	

Operating Officers as of April 1, 2019 are as follows:

Title	Name	Area of responsibility
Senior Operating Officer	Kanetaka Sekiguchi	President and CEO of Citizen Electronics Co., Ltd.
Senior Operating Officer	Ryuzo Kondo	President of Citizen Finedevice Co., Ltd.
Senior Operating Officer	Shuichi Ishiwata	President and CEO of Citizen Systems Japan Co., Ltd.
Operating Officer	Hisashi Utsunomiya	General Manager of Movement Division
Operating Officer	Mitsunori Morita	General Manager of Accounting Department
Operating Officer	Yoshio Miura	Senior General Manager of Domestic Watch Sales Division, Watch Business Division

2. Directors and Audit & Supervisory Board Members Who Retired during This Fiscal Year

Name	Retirement date	Reason for retirement	Position, area of responsibility, and significant concurrent role held at other companies at the time of retirement
Haruhisa Shiraishi	June 27, 2018	Resignation	Audit & Supervisory Board Member (Full-time) Outside Audit & Supervisory Board Member

3. Total Amount of Directors' and Audit & Supervisory Board Members' Compensation

	Number of officers	Total amount of compensation, etc. (millions of yen)	Amount of fixed compensation out of all compensation, etc. (millions of yen)	Amount of bonus out of all compensation, etc. (millions of yen)	Amount of performance-linked share-based compensation out of all compensation, etc. (millions of yen)
Director	10	271	174	85	11
[Out of which, Outside Directors]	[2]	[19]	[19]	[—]	[—]
Audit & Supervisory Board Member	4	42	42	—	—
[Out of which, Outside Audit & Supervisory Board Members]	[3]	[24]	[24]	[—]	[—]
Total	14	313	216	85	11
[Out of which, outside officers]	[5]	[44]	[43]	[—]	[—]

Notes:

1. The above figures include Audit & Supervisory Board Member who retired upon conclusion of the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018.
2. The above amount of the bonuses (85 million yen) for Directors (excluding Outside Directors) is the amount to be paid after the conclusion of the 134th Ordinary General Meeting of Shareholders scheduled to be held on June 26, 2019.
3. The above amount of performance-linked share-based compensation (11 million yen) for Directors (excluding Outside Directors and Directors who are non-residents of Japan) is the amount that was recorded as an expense in the fiscal year under review.
4. The maximum allowance for the total amount of compensation, etc. for Directors (excluding Outside Directors) was set at 370 million yen per year (inclusive of bonuses, etc.) at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018. Employee salaries for employees who also serve as Directors shall not be paid.
5. Separate from note 4 above, at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, the total amount of performance-linked share-based compensation for Directors (excluding Outside Directors and Directors who are non-residents of Japan) was set at not more than 300 million yen for every three fiscal years (starting in 2018, the first year, at not more than 100 million yen).
6. The maximum allowance for the total amount of compensation, etc. for Outside Directors was set at 30 million yen per year at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. No bonuses will be paid to Outside Directors.
7. The maximum allowance for the total amount of compensation, etc. for Audit & Supervisory Board Members was set at 80 million yen per year at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. No bonuses will be paid to Audit & Supervisory Board Members.

4. Matters Relating to Outside Officers

- (1) Relationships between the Company and organizations where important concurrent positions are held

The Company has no special interest with the organizations where Outside Officers hold important concurrent positions.

- (2) Major activities during the fiscal year ended March 31, 2019

Name	Title	Attendance at Board of Directors meetings (attendance rate)	Attendance at Audit & Supervisory Board meetings (attendance rate)	Principal comments
Masaaki Komatsu	Outside Director	17 of 17 (100%)	—	Comments as needed primarily from the viewpoint of a highly experienced executive
Fumiaki Terasaka	Outside Director	17 of 17 (100%)	—	Comments as needed primarily from the viewpoint of a highly experienced executive
Noboru Akatsuka	Outside Audit & Supervisory Board Member	13 of 13 (100%)	10 of 10 (100%)	Comments as needed primarily from the viewpoint of a highly experienced executive
Toshiko Kuboki	Outside Audit & Supervisory Board Member	17 of 17 (100%)	13 of 13 (100%)	Comments as needed primarily from the professional viewpoint of an attorney-at-law

Note: The activities of Outside Audit & Supervisory Board Member Mr. Noboru Akatsuka shown above were those during his term, for he was newly elected as Outside Audit & Supervisory Board Member at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018.

IV. INDEPENDENT AUDITORS

1. Name: Nihombashi Corporation

2. Amount of Compensation

	Millions of yen
(1) Compensation for Independent Auditors for the fiscal year under review	47
(2) Total amount of money and other material benefits to be paid to Independent Auditors by the Company and subsidiaries	83

Notes:

1. In the audit agreement by and between the Company and the Independent Auditors, the Company does not clearly differentiate, and it is also practically impossible to differentiate, between compensation for audits under the Companies Act and compensation for audits under the Financial Instruments and Exchange Act. Thus, the amount stated in (1) above includes compensation for audits under the both Acts.
2. The Audit & Supervisory Board consented to the amount of compensation, etc. of the Independent Auditors after determining that, among others, the content of the audit program, the execution status of accounting audits, and the basis for calculation of compensation estimates of the Independent Auditors were appropriate.
3. Citizen Watch Company of America, Inc. and Citizen Watches (H.K.) Ltd. each of which is the Company's important subsidiary, undertook an audit by KPMG LLP and PHILIP LEE & CO., CERTIFIED PUBLIC ACCOUNTANTS respectively.

3. Non-audit Services

The Company entrusts the Independent Auditors to provide advisory and guidance services concerning the preparation of Annual Reports.

4. Decision Making Policy for Dismissal or Non-reappointment of Independent Auditors

It is the policy of the Company that if the Independent Auditors fall under any of the dismissal events listed in the items of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board shall remove those Independent Auditors with the consents of all Audit & Supervisory Board Members. In this case, an Audit & Supervisory Board Member appointed by the Audit & Supervisory Board shall report on the decision of dismissal and its reasons at the first General Meeting of Shareholders convened after the dismissal.

In addition to the cases mentioned above, if the Audit & Supervisory Board determines that the incumbent Independent Auditors are inadequate as Independent Auditors in consideration of the audit quality, the effectiveness and efficiency of audit processes, the number of successive years for which they served as Independent Auditors, etc., it shall draft a proposal for dismissal or non-reappointment of Independent Auditors.

In addition, the Board of Directors shall request the Audit & Supervisory Board to discuss at a General Meeting of Shareholders the dismissal or non-reappointment of Independent Auditors if it determines it to be necessary due to, for example, difficulties in the execution of duties by the Independent Auditors. In this case, the Audit & Supervisory Board shall draft a proposal to be submitted to the General Meeting of Shareholders after determining whether the dismissal or non-reappointment is appropriate.

V. SYSTEM AND POLICIES OF THE COMPANY

1. System to Ensure the Appropriateness of the Company's Business and its Operation Status

(1) Summary of the decisions on the development of a system to ensure the appropriateness of the Company's business

(a) System to ensure that the Directors and employees perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation

- 1) The Company shall hold, in principle, a regular meeting of the Board of Directors at least once a month, and shall make decisions on significant matters concerning the performance of business and other matters to be submitted for discussion. In addition, the Company shall supervise the Directors' performance of their duties.
- 2) In order to ensure that Directors and employees of the Group perform their duties in conformance with relevant laws and regulations, the Articles of Incorporation, and other internal rules, and to ensure that the Company commits to corporate social responsibility, the Company shall stipulate the Citizen Group Code of Conduct (hereinafter the "Citizen Code of Conduct") as a code of conduct which is applicable in common to all of the companies constituting the Citizen Group. In addition, the Company shall establish the CSR Department, and shall thoroughly inform Directors and employees of the Group of the Citizen Code of Conduct in order to enhance their knowledge and awareness of compliance and foster their adherence to the Citizen Code of Conduct.
- 3) The Company shall also create an internal reporting system, and thereby aim to prevent, find at an early stage, and correct voluntarily any violation of laws and regulations or misconduct caused by fraudulent acts.
- 4) The Company shall establish the Internal Audit Department, which is directly controlled by the President and CEO, and the Internal Audit Department shall, based on the audit program, audit as to whether the business of the Group is performed in conformance with relevant laws and regulations and internal rules.
- 5) It shall be clearly stated in the Citizen Code of Conduct and the like that the Company will decisively reject anti-social forces that threaten social order and sound business activities. The Company shall also develop and enhance its system to cooperate with the police and other related external organizations and block any link with anti-social forces.

(b) System for storage and management, etc. of information relating to Directors' performance of their duties

- 1) The Company shall properly keep and manage the Minutes of General Meetings of Shareholders, Minutes of Board of Directors Meetings, Minutes of Management Committee Meetings, Written Requests for Managerial Decisions, and other information relating to the performance of the duties of Directors in accordance with relevant laws and regulations, the Articles of Incorporation, the Rules on Board of Directors, the Rules on Management Committee, the Rules on Request for Decisions, and other internal rules.

- 2) The Company shall develop and maintain a system to ensure that the Company is able to disclose information regarding the Directors' performance of their duties in a timely and appropriate manner pursuant to relevant laws and regulations, the Articles of Incorporation, the Rules on Information Control and Prevention of Insider Trading by the Citizen Group, and other internal rules, when such disclosure of information is requested by Directors, Audit & Supervisory Board Members, shareholders, creditors, and other interested parties, by setting up a position of the General Manager of Information Control and an Information Control Section.
- (c) Regulations and other systems relating to management of risks of loss
- 1) Business strategy risks inherent in significant decision-making made by the Citizen Group through resolutions of the Board of Directors or determinations by the President and CEO or the Directors in charge of respective operations shall be appropriately managed based on careful deliberations at the Management Committee meetings pursuant to the Rules on Management Committee, Affiliates Management Rules, Citizen Code of Conduct, the management policies and management plan, and the like.
 - 2) In addition to 1) above, the Company shall appropriately manage operational risks inherent in processes, the activities of Directors and employees, systems, external events, etc. through risk management based on our Basic Risk Management Regulations.
- (d) System to ensure the efficient performance of Directors' duties
- 1) The Company shall establish the Management Committee, and shall thoroughly discuss matters to be resolved at the Board of Directors meetings, and other significant matters relating to the management of the Company.
 - 2) Prior to the decision-making by the Board of Directors, sufficient and appropriate information shall be provided to each of the Directors.
 - 3) The Company shall develop a system in which the duties to be performed by, and the authorities and responsibilities of, each Director are specified by internal rules, resolutions of the Board of Directors, or by other similar decisions, and to ensure that all Directors smoothly and effectively perform their duties.
- (e) System to ensure the appropriateness of the Citizen Group's business
- 1) The Company shall manage or instruct the subsidiaries concerning the development of the management and internal control systems for the subsidiaries pursuant to the Affiliates Management Rules or other similar rules.
 - 2) Regarding individual business activities of the Citizen Group, the Company shall familiarize the Group companies (meaning companies belonging to the Citizen Group; the same shall apply hereinafter) with the management policies and the management plan established by the Company, and shall clearly define the authorities and responsibilities of the Group companies. Each of the Group companies shall independently carry out their management of business in consideration of the features of the industry in which each of the Group companies engages.

- 3) The Company shall hold meetings or liaison conference, or the like which consists of the Management Committee and other Group companies to share information and enhance the partnerships concerning the significant matters of business in the Citizen Group.
 - 4) The Company shall request that the subsidiaries regularly report to the Company at opportunities such as the Business Control and Management Committee meetings and Watch Group Control Committee meetings regarding whether the business of the subsidiaries is properly performed, and in addition, shall monitor the same by having the Internal Audit Department conduct an audit, etc.
- (f) Matters relating to employees who assist the Audit & Supervisory Board Members in their duties
- 1) At the request of the Audit & Supervisory Board Members for arranging employees who assist the Audit & Supervisory Board Members in their duties, the Company shall arrange auditing personnel with sufficient ability to assist the Audit & Supervisory Board Members in their duties.
 - 2) If the Company arranges for auditing personnel for a request mentioned in 1) above, the relevant auditing personnel shall exclusively engage in assistance with the duties of the Audit & Supervisory Board Members under the direction of the Audit & Supervisory Board Members in order to ensure the independence of such auditing personnel, and the appointment, dismissal or other personnel changes and personnel evaluations and disciplinary dispositions shall be subject to the prior consent of the Audit & Supervisory Board.
- (g) System relating to reporting to the Audit & Supervisory Board Members
- 1) Directors shall report any decisions that could seriously affect the business or the organization, and the results of internal audits of the Group, to the Audit & Supervisory Board without delay.
 - 2) The Directors shall immediately report to the Audit & Supervisory Board if they become aware of any material breach of relevant laws and regulations, the Articles of Incorporation, the Citizen Code of Conduct, or other internal rules, or any wrongdoing, any possible occurrence of such a breach or wrongdoing in connection with the Group's business, or any other fact which could cause material damage to the Company.
 - 3) If any of the employees of the Company and directors, audit & supervisory board members, and employees of a subsidiary of the Company comes to know the fact referred to in 2) above, such an employee of the Company or an audit & supervisory board member of a subsidiary of the Company may directly report that fact to an Audit & Supervisory Board Member of the Company and such a director or an employee of a subsidiary of the Company may, directly or through an audit & supervisory board member of the subsidiary, report that fact to an Audit & Supervisory Board Member of the Company.
 - 4) In addition to 1), 2) and 3) above, Directors and employees of the Company and directors, audit & supervisory board members and employees of its subsidiaries shall timely and appropriately make a business report at the request of the Audit & Supervisory Board Members.
 - 5) The Company shall ensure that a person who made a report referred to in

- 1) through 4) above to the Audit & Supervisory Board or an Audit & Supervisory Board Member will not be treated in a disadvantageous manner on the ground that he or she made such a report and take any necessary measures including the development of relevant internal rules.
- (h) Other systems to ensure the effectiveness of audits by the Audit & Supervisory Board Members
- 1) The Company shall have the Audit & Supervisory Board Members attend the Board of Directors meetings, Management Committee meetings, and other important meetings.
 - 2) In addition to 1) above, the Company shall maintain communication between the Audit & Supervisory Board Members and directors, audit & supervisory board members and employees of the Group companies by holding talks between the Representative Director and the Audit & Supervisory Board Members on a regular basis, while maintaining the fair attitude and independent position of the Audit & Supervisory Board Members, or by other means, and shall assist the Audit & Supervisory Board Members in collecting information necessary for the Audit & Supervisory Board Members to perform their duties and in improving the audit environment.
 - 3) Any expenses or obligations arising in the course of performance of duties by Audit & Supervisory Board Members shall be treated appropriately in accordance with the relevant laws and regulations and internal rules.
- (2) Summary of the operation status of the system to ensure the appropriateness of the Company's business
- (a) Compliance system
- As a result of a series of improper activities at Citizen Electronics Co., Ltd. and the suggestions of a committee composed of third parties, the Citizen Group is proactively implementing a total compliance and risk management system to prevent recurrences of such situations. One element of this system is the establishment of the Citizen Group Quality Assurance Code of Conduct for the purpose of further strengthening the Group's overall governance and quality assurance compliance, and we have held educational and training sessions and briefings for the officers and employees of our Group companies so that these guidelines will be disseminated and fully acknowledged through the Group.
- (b) System to ensure efficient execution of duties
- The Company holds, in principle, a regular meeting of the Management Committee, twice a month, and thoroughly discusses matters to be resolved at the Board of Directors meetings, determined by President and CEO and other significant matters relating to the management of the Company. In addition, the scope of matters to be submitted for deliberation by the Board of Directors and decision criteria have been specified so as to clarify the duties to be performed by, and the authorities and responsibilities of, each Director. At the same time, the Company appoints Operating Officers to commission the performance of duties, allocating the authority and responsibilities pertaining to specific decisions on business execution and thereby ensuring efficient execution of duties.

(c) Audit & Supervisory Board Members' audit system

Audit & Supervisory Board Members attended the Board of Directors meetings, Management Committee meetings and other important meetings to monitor, among other things, the status of performance of duties and important decision-making processes by Directors and stated their opinions as necessary.

Audit & Supervisory Board Members are putting effort into the coordination of management supervision by holding regular meetings for exchange of opinions with the Representative Director and Independent Auditors, respectively, in addition to holding meetings with Outside Directors. In addition, Audit & Supervisory Board Members confirmed the development and the operation status of the internal control system of the Group by receiving reports on the development and the operation status of the risk management system, the operation status of the whistleblower program, results of monitoring, from the Internal Audit Department, the CSR Department, etc., and conducting on-site audits and demanding explanation as necessary. Audit & Supervisory Board Members have put in place a system for communication with audit & supervisory board members of the Group companies, and collect information about, among others, the status of performance of duties by directors of Group companies.

2. Corporate Governance

(1) Our corporate governance vision

The Company's corporate philosophy is "Loved by citizens, working for citizens," and it derives its name from this. 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 that it is important to secure transparency in management and monitor many fields of management. Accordingly, the Company is striving to expand and improve its corporate governance.

(2) The Company's organization

(a) Summary of the Company's organization

The Company has a Board of Directors, which is comprised of eight (8) Directors who are familiar with the Company's business lines, and two (2) Outside Directors who are independent from the Company's management. The Company also employs an Audit & Supervisory Board system and has an Audit & Supervisory Board comprised of three (3) Audit & Supervisory Board Members, two (2) of whom are Outside Audit & Supervisory Board Members.

(b) Details of the Company's organization and status of development of internal control system

The Company holds Management Committee meetings that are attended by the full-time Directors and full-time Audit & Supervisory Board Members to maintain prompt business judgment and management transparency. Matters to be resolved at the Board of Directors meetings and other important managerial issues are fully discussed and deliberated in advance at these meetings.

The Board of Directors makes decisions about the performance of business and supervises these performances. Management of business operations is carried out by the Representative Director, the Directors in charge of operations and the Operating Officers. The Board of Directors meetings were held seventeen (17) times during the fiscal year under review, and all Directors and all Audit & Supervisory Board Members attended all of the Board of Directors meetings held during the fiscal year under review during the term of their office.

(c) Nominating Committee and Compensation Committee

The Company has established the Nominating Committee and the Compensation Committee as voluntary institutions to improve the transparency of the management of the Company.

The main duties of the Nominating Committee include discussions on matters concerning the appointment of the Representative Director, the President and CEO, and the Chairman of the Board of Directors, and proposals of such matters to the Board of Directors.

The main duties of the Compensation Committee include discussions on matters concerning the policies and standards of the compensation to be received by Directors, and the provision of advice concerning the same to the Board of Directors.

Each of the above-mentioned Committees is composed of three (3) or more Directors who are appointed by a resolution of the Board of Directors, the majority of which are Outside Directors and which shall include at least one (1) Representative Director.

The Chairperson of each of the Committees shall be an Outside Director, and shall be elected by mutual election of the members of the Committees.

(d) Status of audits by Audit & Supervisory Board Members, audits by Independent Auditors and internal audits

Each Audit & Supervisory Board Member conducts strict audits on the Directors' performance of their duties, in accordance with the audit policy and audit program stipulated by the Audit & Supervisory Board, by attending the Board of Directors meetings, Management Committee meetings, division meetings, or other such meetings; receiving from the Directors and other officers reports on the status of the performance of their duties; reviewing important written decisions and other documents; and investigating the business and financial status of the Company. The Company also receives a financial audit report from Nihombashi Corporation, which is an Independent Auditor. The Company conducts effective audits on itself and its subsidiaries in collaboration with the Independent Auditor, and is working on the further expansion and improvement of corporate governance. Audit & Supervisory Board meetings were held thirteen (13) times during the fiscal year under review, and all Audit & Supervisory Board Members attended all of the Audit & Supervisory Board meetings held during the fiscal year under review during the term of their office.

With respect to the financial audits, the certified public accountants who independently audited the Company are Mr. Masahiko Kinoshita, Mr. Akira Ogura and Mr. Hidekazu Takahashi, associates of Nihombashi Corporation. In addition, six (6) certified public accountants, ten (10) successful candidates who have passed the Certified Public Accountants Examination, etc. assisted in the audit of the Company. The Company ensures fairness and independence while it is audited by the Independent Auditors.

Whether to reappoint the Independent Auditors is deliberated and decided by the Audit & Supervisory Board. If the Audit & Supervisory Board does not approve the reappointment of the Independent Auditors, such proposal will be deliberated on at the Ordinary General Meeting of Shareholders pursuant to the Companies Act.

For details of the decision-making policy for the dismissal or non-reappointment of the Independent Auditors, see p. 29 "IV. INDEPENDENT AUDITORS, 4. Decision Making Policy for Dismissal or Non-reappointment of Independent Auditors."

Further, the Company has established the Internal Audit Department as an internal audit division and conducts audits in accordance with an annual audit program to confirm that the business execution of the Company and its subsidiaries is appropriate and reasonable.

The auditing organizations, the internal audit division, and the internal control division closely communicate with each other.

(e) Relationship with outside officers

The Citizen Group has no special interest with Outside Directors, Mr. Masaaki Komatsu and Mr. Fumiaki Terasaka, and Outside Audit & Supervisory Board Members, Mr. Noboru Akatsuka and Ms. Toshiko Kuboki.

3. CSR Efforts

The Citizen Group has established the Citizen Group Code of Conduct as a behavioral guideline that embodies its corporate philosophy, "Loved by citizens, working for citizens." The Company considers its contributions to the resolution of social issues through its action

of disseminating this Citizen Group Code of Conduct to each and every employee and ensuring that it is practiced to be part of its CSR activities.

With respect to the social issues that we tackle, we consider how they fit in with the Citizen Group's Materiality (significant issues) that was newly established in 2018, and while linking them with actions aimed at problem resolution, we proactively report our progress to the public. Also, with respect to social contribution activities, a total of 210 employees voluntarily went to help out at seven locations inside and outside of Japan to engage in the resolution of social issues under the Citizen Group Social Contribution Activity Dispatch Program started in 2018 as a part of the project commemorating the 100th anniversary of the Company's founding. These activities will be continued going forward.

To sustainably develop with society, the Citizen Group will expand its business by contributing to solving social issues through its business including the achievement of the United Nations Sustainable Development Goals (SDGs), aiming to be a business group that continues business for the next 100 years.

4. Basic Policy Relating to Persons Who Control Decision-making over the Financial and Business Policies of the Company

(1) Basic Policy

The mission of the Citizen Group is to provide the best products and services to all citizens around the world, as its name implies. Under its corporate philosophy "Loved by citizens, working for citizens," the Company has been making its utmost efforts to protect and enhance the corporate value and the common interest of its shareholders, by contributing to the better lives of citizens all over the world through "manufacturing of products that are loved and trusted by citizens."

The Company believes that persons who control decision-making over its financial and business policies should appropriately and consistently implement the Group's management strategies with medium- to long-term perspectives, with a good understanding of its corporate philosophy and unique business profiles, thereby achieving the further creation and enhancement of the corporate value and the common interest of its shareholders.

Nonetheless, the Company holds a view that if a large-scale purchase of the Company's shares occurs, the Company will give consideration as long as such large-scale purchase is beneficial to its corporate value and the shareholders' common interest, and a decision of acceptance or rejection of the said issue should be made ultimately by its shareholders.

In light of the current legal framework and financial environment, however, it is difficult to deny the possibility of a large-scale purchase that would not be beneficial to the corporate value of the Company or the common interest of its shareholders. Examples of such a large-scale purchase would include those that, judging from the objectives and the manner in which large-scale purchases are conducted, do not seek rationalization of the management in good faith and could cause irreparable damage to the Company; those that may in effect force the shareholders to sell their shares of the Company; those that do not provide sufficient time and information for the shareholders and the Board of Directors of the targeted company to examine the purchase conditions, or for the Board of Directors of the targeted company to make alternative proposals; and those that necessitate further negotiation between the targeted company and the large-scale purchaser for the chance of a better bargain than that which has been offered by the purchaser.

The Company considers persons who carry out such large-scale purchases are not suitable for controlling decision-making over the financial and business policies of the Company; therefore, a certain framework is deemed necessary in order to prevent purchases that may impair the corporate value of the Company and the common interest of its shareholders.

(2) Special efforts to implement the Basic Policy

The Company has implemented various measures for the purpose of having many shareholders hold shares in the long run upon understanding the corporate value of the Company.

For example, in February 2013, the Company established the “Citizen Global Plan 2018,” a medium-term management plan that covers years until the fiscal year ended March 31, 2019 (hereinafter, the “Management Plan”), and made partial revisions to the Management Plan in February 2016.

During the first three years (FY2013 – FY2015) of the Management Plan, the Company implemented comprehensive structural reform and improvements, in an effort to establish a more robust management structure.

The following measures were implemented in the fiscal year ended March 31, 2019, which is the Management Plan’s final year and the ramp-up period for the new Management Plan.

- In commemoration of the 100th anniversary of the Company’s founding, held the CITIZEN 100th Anniversary Touch & Try Event that looked back on wristwatches over the years and presented “*Hajimari no toki*” (Time to Begin), which looks forward to the next 100 years, in five cities throughout Japan.
- Entered into a business collaboration agreement with Fossil Group, Inc. for expanding the market for hybrid smartwatches on a global scale.
- Decided to merge Citizen Watch Manufacturing Co., Ltd. with five of its subsidiaries in order to further strengthen the Company’s structure as a manufacturing company which plays a core role in the watch business.
- Decided to enlarge our Bangalore Tech Center and open a new office in the capital city of New Delhi in order to boost sales of our CNC automatic lathes in the Indian market, where demand for machine tools is expected to grow.
- Jointly developed a module for an AR/MR (augmented/mixed reality) glass-type head-mounted display with a company outside the Citizen Group.

Also, in February 2019, we established our new medium-term management plan, Citizen Group Medium-term Management Plan 2021, which will run through the fiscal year ending March 31, 2022. The details of this plan are given in “I. MATTERS RELATING TO THE CURRENT SITUATION OF THE GROUP, 6. Challenges Going Forward” (pp. 20-21).

(3) Details of efforts to prevent inappropriate persons from controlling the Company according to the Basic Policy

The Company resolved to renew the “Policy for a Large-Scale Purchase of Citizen Shares” with partial modifications at the Board of Directors meeting held on May 23, 2013 (hereinafter the “Old Plan”) and obtained approval from its shareholders at the 128th Ordinary General Meeting of Shareholders held on June 27, 2013.

Given the expiration of the Old Plan at the conclusion of the 131st Ordinary General Meeting of Shareholders held on June 28, 2016, the Board of Directors, in a meeting held on May 26, 2016, resolved to maintain the Basic Policy stipulated in (1) above. In addition, shareholders voted to approve renewal of the Old Plan, with some revisions, at the 131st Ordinary General Meeting of Shareholders held on June 28, 2016 (hereinafter, the revised version shall be referred to as the “Plan”).

The following are the details of the Plan:

(a) Type of purchases subject to the Plan

The type of purchases subject to the Plan are the purchase of the Company's stocks, etc. which will increase the voting rights ratio of a group of shareholders up to twenty percent (20%) or more.

(b) Procedures

It is prescribed that a large-scale purchaser must provide necessary and sufficient information to the Board of Directors beforehand, and that a large-scale purchase must be conducted only after the expiration of the review period during which the Board of Directors make necessary assessments.

(c) Summary of countermeasures

When a large-scale purchaser does not observe the prescribed procedures, or in other similar cases, the Board of Directors will implement the allotment of share acquisition rights without contribution to all of the then-current shareholders of the Company based on the recommendation made by the Independent Committee. Furthermore, when the Company implements the allotment of share acquisition rights without contribution, the Company may determine the exercise period, exercise conditions, and rights of the Company to acquire the share acquisition rights from the holders, taking into account the effects as a countermeasure against the large-scale purchase.

(d) Requirements of implementation of countermeasures

The Company may implement the allotment of share acquisition rights without contribution as countermeasures, in the event of the following:

- 1) Where a large-scale purchaser does not follow the prescribed procedures;
- 2) Where a large-scale purchaser intends to raise the share price of the Company and make the Company or the related parties of the Company purchase shares back from the purchaser at a higher price, while having no intention of taking part in the management of the Company;
- 3) Where a large-scale purchaser intends to temporarily control the management of the Company and transfer to the large-scale purchaser or its group companies the assets and others of the Company or the Group companies;
- 4) Where a large-scale purchaser intends to control the management of the Company and appropriate those assets of the Company or the Group companies by posting those assets as collateral of debts or tendering those assets for the payment of debts owed by the large-scale purchaser or its group companies;
- 5) Where the large-scale purchaser intends to temporarily control the management of the Company and sell or otherwise dispose of the assets, make a large payment of dividends using the proceeds of the disposition and/or raise the price of the Company's shares by a large payment of dividends using the proceeds of the disposition with a view to selling its shares of the Company at a price raised as a result of the payment of the large dividends; or
- 6) Where the large-scale purchaser employs a strategy that may in effect force the shareholders of the Company to sell the Company's shares to the large-scale purchaser, including implementation of a TOB where the large-scale

purchaser does not solicit all of the shares of the Company and the terms of the second TOB after the completion of the first TOB will be made less favorable to the remaining shareholders or the terms of the second TOB are not clearly disclosed at the time of the first TOB.

(e) Process prior to the implementation of countermeasures

If a large-scale purchaser submits a confirmation letter of its intention concerning a large-scale purchase, the Independent Committee will deliver to the large-scale purchaser, within ten (10) business days, a list of information which is required to be provided by the large-scale purchaser at the first stage. If the Independent Committee determines that the information provided at the first stage is insufficient, the Independent Committee may request submission of additional information until satisfactory information is provided. The Independent Committee may also request the Board of Directors to submit its opinion regarding the large-scale purchase, setting the deadline date for the Board's response to sixty (60) days maximum. After the completion of the provision of information from the large-scale purchaser and the Board of Directors, the Independent Committee will assess, examine, negotiate and form opinions concerning the large-scale purchase within sixty (60) days (the Committee may extend the period for up to thirty (30) days).

Based on the above-mentioned information provided, the Independent Committee will make recommendations to the Board of Directors on whether or not to implement the countermeasures, and the Board of Directors will make a resolution on such matter, as an organization under the Companies Act, based on the recommendations made by the Independent Committee. Additionally, the Independent Committee may make a recommendation to assure the Board of Directors that the proposal of the implementation of the countermeasures to the General Meeting of Shareholders is appropriate, and in that case, the Board of Directors shall convene a General Meeting of Shareholders and propose the implementation of the countermeasures.

(f) Effective term of the Plan

The Plan remains effective until the conclusion of the Ordinary General Meeting of Shareholders to be held in the last fiscal year ending within three (3) years from the 131st Ordinary General Meeting of Shareholders held on June 28, 2016.

(4) Opinion of the Board of Directors on the efforts mentioned in (2) and (3) above and reasons thereof

(a) Special efforts to implement the Basic Policy

The purpose of the efforts mentioned in (2) above is to protect and enhance the corporate value and common interest of the shareholders of the Company, which, as a result, will help the Company to implement the Basic Policy. Therefore, the Company believes that such efforts are implemented not for the sake of the Company's officers maintaining their position, but to comply with the Basic Policy and meet the shareholders' common interest.

(b) Efforts to prevent inappropriate persons from controlling the Company according to the Basic Policy

The Company believes, after factoring in the following items, that the efforts to prevent inappropriate persons from controlling the Company according to the Basic Policy are implemented not for the sake of the Company's officers maintaining their position, but to comply with the Basic Policy and meet the shareholders' common interest.

- 1) Full satisfaction of the requirements under the guidelines for anti-takeover measures, etc.

The Plan fully satisfies the requirements of the three principles stipulated in the “Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders’ Common Interest” jointly released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005, and is also based upon “Takeover Defense Measures in Light of Recent Environmental Changes” released by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry on June 30, 2008, and Principle 1.5 and Supplementary Principle 1.5.1 of Japan’s Corporate Governance Code.

- 2) Respect of shareholders’ intentions

The Company obtained the approval of shareholders concerning the Plan at the 131st Ordinary General Meeting of Shareholders held on June 28, 2016. In addition, since the Plan is attached with the Sunset Provision which makes its effective term about three (3) years and the term of office of the Directors of the Company is limited to one (1) year, the shareholders will be able to express their intention for the Plan through the election of Directors, even during the effective period of the Plan.

- 3) Respect of judgment of independent outside officers and disclosure of information

For the purposes of prevention of arbitrary judgments of the Directors, the Company has the Independent Committee as an organization to make substantive decisions in an objective manner as to the issues of the Plan, including decisions to implement or abolish the Plan. The Board of Directors will appoint the members of this Independent Committee from among the outside officers of the Company, all of whom are independent from the Company’s management responsibility for the business of the Company.

When a large-scale purchase is actually proposed for the Company’s shares, the Independent Committee will make recommendations to the Board of Directors pursuant to Independent Committee Rules based upon its judgments as to, among other things, whether or not the large-scale purchase damages the Company’s corporate value or the shareholders’ common interest. The Board of Directors, respecting such recommendations to the fullest extent, will make resolutions as an organization under the Companies Act on whether or not to implement the allotment of share acquisition rights without contribution.

In this way, the Independent Committee will closely see to it that the Directors should not arbitrarily implement the countermeasures, and the gist of the judgment of the Independent Committee will be disclosed to the shareholders. Thus the Company believes that the Company has established a structure to ensure that the Plan is applied in a transparent manner and serves for the benefit of the corporate value of the Company and the common interest of its shareholders.

As of March 31, 2019, the members of the Independent Committee are: Mr. Masaaki Komatsu and Mr. Fumiaki Terasaka, who are Outside Directors of the Company, and Ms. Toshiko Kuboki, who is an Outside Audit & Supervisory Board Member of the Company.

- 4) Rational and objective conditions that are prerequisites for the countermeasures

As discussed in (3) (d) above, the Company has set in the Plan rational and objective conditions which need to be satisfied before the countermeasures can be implemented. This will prevent the Board of Directors from making arbitrary decisions to implement the countermeasures.

- 5) Third-party professional opinion available to the Independent Committee

When a large-scale purchaser or other similar person comes about, the Independent Committee is entitled to obtain advice from independent third parties (including financial advisers, certified public accountants, attorneys-at-law, consultants, and other professionals) at the expense of the Company. Thus, the fairness and objectivity of the Independent Committee's judgment will be further secured.

- 6) The Plan does not have an anti-takeover provision similar to a "dead-hand" or "slow-hand" provision

The Plan can be abolished at any time based on the judgment of the Board of Directors, of which members are elected at the General Meeting of Shareholders of the Company. It is entirely possible for a large-scale purchaser to elect its nominees as Directors and have them abolish the Plan by way of the resolutions of the Board of Directors. Therefore, the Plan is not a dead-hand anti-takeover measure (which means that countermeasures cannot be prevented by changing a majority of the Directors on the Board).

In addition, the term of office of the Company's Directors is one (1) year, and the Company has not adopted a system to appoint Directors at different times. Therefore, the Plan is not a slow-hand anti-takeover measure (which means that prevention of countermeasures takes time because the Directors cannot be replaced all at one time) either.

Note: In this Business Report, all monetary amounts and numbers of shares are rounded down to the specified unit; provided, however, that ratios, basic earnings per share and net assets per share are rounded off to the specified unit.

Consolidated Balance Sheet

(As of March 31, 2019)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		LIABILITIES	
Current assets	258,985	Current liabilities	81,741
Cash and deposits	86,875	Notes and accounts payable - trade	20,496
Notes and accounts receivable - trade	64,139	Electronically recorded obligations - operating	14,896
Electronically recorded monetary claims - operating	1,225	Notes payable - facilities	246
Merchandise and finished goods	55,614	Electronically recorded obligations - non-operating	859
Work in process	22,982	Short-term loans payable	13,987
Raw materials and supplies	19,605	Income taxes payable	2,139
Consumption taxes receivable	3,131	Accrued expenses	13,395
Other	6,522	Provision for bonuses	5,712
Allowance for doubtful accounts	(1,111)	Provision for directors' bonuses	247
		Provision for product warranties	1,428
Non-current assets	154,926	Provision for loss on business restructuring and liquidation	484
Property, plant and equipment	89,669	Other	7,846
Buildings and structures	42,496	Non-current liabilities	64,622
Machinery, equipment and vehicles	22,685	Bonds payable	10,000
Tools, furniture and fixtures	7,364	Long-term loans payable	27,077
Land	10,326	Deferred tax liabilities	791
Leased assets	1,360	Provision for loss on business restructuring and liquidation	816
Construction in progress	5,437	Net defined benefit liability	23,328
Intangible assets	8,732	Asset retirement obligations	74
Software	4,402	Other	2,534
Leased assets	7	Total liabilities	146,363
Other	4,323	NET ASSETS	267,547
Investments and other assets	56,524	Shareholders' equity	246,889
Investment securities	39,974	Capital stock	32,648
Long-term loans receivable	942	Capital surplus	34,019
Deferred tax assets	11,847	Retained earnings	181,995
Other	4,050	Treasury shares	(1,773)
Allowance for doubtful accounts	(268)	Accumulated other comprehensive income	10,559
Allowance for investment loss	(23)	Valuation difference on available-for-sale securities	8,111
		Foreign currency translation adjustment	3,303
		Remeasurements of defined benefit plans	(855)
		Non-controlling interests	10,098
		Total net assets	267,547
Total assets	413,911	Total liabilities and net assets	413,911

Note: Figures are rounded down to the nearest millions of yen.

Consolidated Statement of Income

(Year ended March 31, 2019)

(Millions of yen)

Account title	Amount
Net sales	321,652
Cost of sales	198,094
Gross profit	123,557
Selling, general and administrative expenses	101,146
Operating profit	22,411
Non-operating income	5,232
Interest income	525
Dividend income	1,775
Rent income	190
Share of profit of entities accounted for using equity method	896
Foreign exchange gains	492
Subsidy income	754
Other	598
Non-operating expenses	1,041
Interest expenses	387
Loss on sales of notes payable	88
Depreciation of assets for rent	46
Other	518
Ordinary profit	26,602
Extraordinary income	2,809
Gain on sales of investment securities	2,195
Gain on sales of non-current assets	279
Other	334
Extraordinary losses	10,160
Loss on sales of non-current assets	40
Loss on retirement of non-current assets	884
Impairment loss	5,688
Loss on business restructuring and liquidation	2,507
Special compliance expenses, etc.	216
Other	823
Profit before income taxes	19,251
Income taxes - current	7,010
Income taxes - deferred	(1,550)
Profit	13,792
Profit attributable to non-controlling interests	422
Profit attributable to owners of parent	13,369

Note: Figures are rounded down to the nearest millions of yen.

Consolidated Statement of Changes in Equity
(Year ended March 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2018	32,648	34,000	176,117	(1,783)	240,983
Changes of items during period					
Purchase of shares of consolidated subsidiaries		19			19
Dividends of surplus			(7,480)		(7,480)
Profit attributable to owners of parent			13,369		13,369
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		(10)		10	0
Transfer of loss on disposal of treasury shares		10	(10)		–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	19	5,877	9	5,906
Balance as of March 31, 2019	32,648	34,019	181,995	(1,773)	246,889

	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 as of April 1, 2018	11,909	2,067	(1,047)	12,928	9,801	263,713
Changes of items during period						
Purchase of shares of consolidated subsidiaries						19
Dividends of surplus						(7,480)
Profit attributable to owners of parent						13,369
Purchase of treasury shares						(1)
Disposal of treasury shares						0
Transfer of loss on disposal of treasury shares						–
Net changes of items other than shareholders' equity	(3,797)	1,236	192	(2,368)	297	(2,071)
Total changes of items during period	(3,797)	1,236	192	(2,368)	297	3,834
Balance as of March 31, 2019	8,111	3,303	(855)	10,559	10,098	267,547

Note: Figures are rounded down to the nearest millions of yen.

Notes to Consolidated Financial Statements

1. Premise of going concern

Not applicable

2. Basis of presenting the consolidated financial statements

(1) Scope of consolidation

(a) Number of consolidated subsidiaries 92

The names of main consolidated subsidiaries are Citizen Machinery Co., Ltd., Citizen Electronics Co., Ltd., Citizen Finedevice Co., Ltd. and Citizen Systems Japan Co., Ltd.

Effective from the beginning of the fiscal year under review, Walop Ltd., Citizen Micro Devices (Suzhou) Co., Ltd., and Alpina Frederique Constant USA Inc. were excluded from the scope of consolidation because the former two were liquidated and the latter was merged with Citizen Watch Company of America, Inc., a consolidated subsidiary of the Company. In addition, Bulova Watch Co., Ltd. and Citizen Watch of Canada, Ltd. were also excluded from the scope of consolidation because both of them were dissolved due to a consolidation-type merger. Citizen Watch Canada, Ltd., a new consolidation company, was in turn included in the scope of consolidation. Besides the above changes, Citizen Watch Espana S.A.U changed its trade name into Citizen Watch Iberica S.A.U.

(b) Status of non-consolidated subsidiaries

The name of a main non-consolidated subsidiary is HESTIKA FRANCE S.A.S.

The reason for exclusion is because the total assets, net sales, profit/loss (equivalent portion for equity holdings), and retained earnings (equivalent portion for equity holdings) of the non-consolidated subsidiary excluded from the scope of consolidation were individually immaterial in comparison to net assets, net sales, profit/loss and retained earnings, as reported on the consolidated financial statements, and also would not materially impact the consolidated financial statements taken together.

(2) Application of the equity method

(a) Number of non-consolidated subsidiaries under the equity method –

(b) Number of affiliates under the equity method 2

The names of affiliates under the equity method are Marubeni Citizen-Cincom Inc. and First Cainta Resources Corporation.

(c) Status of non-consolidated subsidiaries and affiliates to which the equity method is not applied

The major non-consolidated subsidiary to which the equity method is not applied is HESTIKA FRANCE S.A.S., and the main affiliate to which the equity method is not applied is VELDT Inc.

The reason for non-application is based on the immateriality of the individual impacts of their profit/loss (equivalent portions for equity holdings), retained earnings (equivalent portions for equity holdings), and other financial measures on the consolidated financial statements, and based on the overall lack of importance of each of these companies to the consolidated group.

- (3) Fiscal year of consolidated subsidiaries
- (a) Consolidated subsidiaries whose closing date is different from the closing date for the consolidated financial statements are as follows:
- December 31 72
- (b) When preparing consolidated financial statements, the necessary calculations are made to prepare the financial statements which form the basis for the consolidated financial statements prepared on the consolidated closing date.
- (4) Accounting policies
- (a) Valuation standards and method for major assets
- 1) Securities
- Available-for-sale securities
- Those with determinable market values are stated at market value method based on market price as of the consolidated closing date (valuation differences are reported as components of net assets and the cost of securities sold is primarily calculated based on the moving average method).
- Those without determinable market values are stated at cost based on the moving average method.
- 2) Derivatives
- Derivatives are stated at market value method.
- 3) Inventories
- Inventories are primarily stated at cost on the gross average method (with balance sheet values reflecting write downs for decreased profitability).
- (b) Depreciation and amortization methods used for important depreciable assets
- 1) Depreciation of property, plant and equipment (excluding leased assets) is calculated using the straight-line method.
- Primary useful lives are as follows:
- | | |
|-----------------------------------|---------------|
| Buildings and structures | 2 to 60 years |
| Machinery, equipment and vehicles | 2 to 10 years |
- 2) Amortization of intangible assets (excluding leased assets) is calculated using the straight-line method.
- 3) Leased assets related to finance lease transactions that do not transfer ownership of the leased assets to the lessee are depreciated using the straight-line method with useful lives equal to lease terms and zero residual values.
- (c) Method of accounting for significant deferred assets
- Bond issuance cost
- Amortized in lump sum in the fiscal year in which they occur.

(d) Basis of accounting for major reserves

1) Allowance for doubtful accounts

In setting aside an allowance for possible losses related to accounts receivable, loans receivable, etc. for the Company and its domestic consolidated subsidiaries, an amount equivalent to the portion judged to be uncollectible is recorded; ordinary receivables are based on the loan loss ratio, and receivables regarded as doubtful are based on individual evaluation for collectability.

For overseas consolidated subsidiaries, individual receivables are evaluated for collectability and required loss estimates are recorded.

2) Allowance for investment loss

To provide for possible losses due to extreme devaluation in shares of non-consolidated subsidiaries (excluding shares subject to impairment accounting), an allowance for investment loss is provided for an amount considering the actual share prices as of the end of the fiscal year.

3) Provision for bonuses

In the Company and some consolidated subsidiaries, the provision for bonuses to employees is stated at an amount based on the estimated forthcoming payments.

4) Provision for directors' bonuses

In the Company and some consolidated subsidiaries, the provision for bonuses to directors is stated at an amount based on the estimated forthcoming payments.

5) Provision for product warranties

At some consolidated subsidiaries, certain rates of net sales are provided as an allowance for the possible expenses required for after-sales service of products.

6) Provision for loss on business restructuring and liquidation

An estimated amount is recorded in preparation for expenses or losses associated with business restructuring.

(e) Translation standards of major foreign currency assets or liabilities

Foreign currency amounts are translated into Japanese yen at the spot rate on the consolidated closing date for accounts receivables and accounts payable. The translation adjustments are stated as gains/losses.

In addition, assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen using the spot rate on the consolidated closing date, whereas revenues and expenses are translated into Japanese yen using the weighted-average rate. The translation adjustments are included in foreign currency translation adjustment and non-controlling interests in net assets section.

(f) Method of hedge accounting

1) Method of hedge accounting

Hedging activities are accounted for under the deferred hedge method. The exceptional treatments are applied to interest rate swaps if the requirements for applying the method are met.

2) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting is applied are as follows:

Hedging instrument: Interest rate swap

Hedged item: Interest on loans payable

3) Hedging policy

The Company enters into hedging transactions for the purpose of avoiding interest-rate risk on certain loans payable.

4) Method of assessing hedge effectiveness, etc.

As the exceptional treatments are applied to interest rate swaps, assessment of hedging effectiveness is omitted.

(g) Method and period of amortization of goodwill

Goodwill is amortized in equal amounts over an estimated period during which its effects are manifested (within twenty (20) years after recording).

In addition, when the difference to be deleted is negligible, it is accounted for gains/losses for the fiscal year in which it occurred.

(h) Other important matters for presenting the consolidated financial statements

1) Accounting treatment regarding retirement benefits

i) The method of attributing expected retirement benefit to periods

With respect to the method of attributing expected retirement benefit to periods up to the end of the fiscal year under review, we adopt benefit formula basis for the calculation of retirement benefit liabilities.

ii) Actuarial difference and past service costs

Past service costs are recognized as expense and amortized over an average remaining service period of employees at the time of accrual (five years with the declining-balance method in principle).

Actuarial difference is recognized as expense starting from the fiscal year following the year in which it occurs and amortized over an average remaining service period of employees at the time of accrual (five years with the declining-balance method in principle).

2) Accounting method for consumption taxes

Consumption taxes are calculated using a tax exclusion method.

3) Application of consolidated taxation system

Consolidated taxation system is applied.

(5) Changes in presentation method

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year under review. Accordingly, deferred tax assets, if any, were presented under “Investments and other assets” and deferred tax liabilities, if any, were presented under “Non-current liabilities.”

3. Notes to Consolidated Balance Sheet

(Accumulated depreciation of property, plant and equipment) 213,186 million yen

4. Notes to Consolidated Statement of Income

For the fiscal year under review, the Group recognized impairment loss on the asset groups as shown below.

Location	Use	Type
Switzerland	Other	Intangible assets
China	Operating assets	Buildings and structures
Other	Operating assets	Tools, furniture, fixtures, etc.

The Company and its subsidiaries group their assets into the smallest unit that generates cash flow, which is, in principle, a business unit based on the business classification for managerial accounting purposes. The Group treats some of its consolidated subsidiaries as independent asset groups depending on their size of business. The assets that cannot clearly be associated with specific businesses, such as head office, are treated as corporate assets.

For the fiscal year under review, the Group recognized impairment loss on those assets that were no longer expected to be used in the future or belonged to businesses with deteriorated profitability. In addition, the Group wrote down the book value of intangible assets to its recoverable amount and the written-down amount is recognized as impairment loss because it could no longer expect the initially assumed return in the business plan formulated at the time of share acquisition. The total amount of impairment loss presented as extraordinary losses amounted to 5,688 million yen, consisting primarily of 4,004 million yen for goodwill, 979 million yen for other intangible assets, 349 million yen for tools, furniture and fixtures, and 316 million yen for buildings and structures.

The recoverable amount is determined based on the net selling price or the value in use. The net selling price is estimated based on the disposal value of assets and the value in use is determined mainly by discounting future cash flows at a discount rate of 7%.

5. Notes to Consolidated Statement of Changes in Equity

(1) Total number of issued shares

Type of shares	No. of shares at the beginning of current fiscal year	Increase during the fiscal year	Decrease during the fiscal year	No. of shares at the end of current fiscal year
Common shares	320,353,809	-	-	320,353,809

(2) Cash dividends

(a) Cash dividend payment

1) Dividends approved at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018

- Total amount of dividends 4,296 million yen
- Dividends per share 13.50 yen
- Record date March 31, 2018
- Effective date June 28, 2018

2) Dividends approved at the meeting of the Board of Directors held on November 9, 2018

- Total amount of dividends 3,183 million yen
(The amount above includes dividends of 0 million yen for shares of the Company held by the BIP Trust.)
- Dividends per share 10.00 yen
- Record date September 30, 2018
- Effective date December 4, 2018

(b) Of the cash dividends with record date during the fiscal year under review, those with effective date in the next fiscal year

The following matters will be placed on the agenda at the 134th Ordinary General Meeting of Shareholders, which is scheduled to be held on June 26, 2019.

- Total amount of dividends 3,183 million yen
(The amount above includes dividends of 0 million yen for shares of the Company held by the BIP Trust.)
- Dividend resource Retained earnings
- Dividends per share 10.00 yen
- Record date March 31, 2019
- Effective date June 27, 2019

6. Notes on financial instruments

(1) Status on financial instruments

As a Group policy, the Company and consolidated subsidiaries restrict their investments only in short term deposits or the like and obtain funds mainly by borrowing from financial institutions including banks and bond issuance.

The customer credit risk associated with notes and accounts receivable is mitigated in accordance with the internal rules on receivables management procedures of each company belonging to the Group.

The foreign exchange fluctuation risk associated with operating receivables denominated in foreign currencies, arisen from the overseas operations, is partially hedged by employing foreign exchange contract, except for such receivables of which the amounts are below the operating debt denominated in the same foreign currencies.

Investment securities mainly consist of equity securities, and their market prices and the financial conditions of the issuers are periodically monitored.

Loans payable and bonds payable are made for the purpose of re-financing of long-term liabilities and funds for strategic investments. Interest rate swaps are employed to fix the interest expenses of long-term loans payables that are exposed to the fluctuation risk of interest rates.

Derivatives are utilized solely to avoid the fluctuation risks of foreign exchanges and interest rates, in accordance with the internal management rules of the Company and each subsidiary.

(2) Fair values of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2019, as well as their differences.

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Differences
(1) Cash and deposits	86,875	86,875	—
(2) Notes and accounts receivable - trade	64,139	64,139	(0)
(3) Electronically recorded monetary claims - operating	1,225	1,225	—
(4) Investment securities			
Available-for-sale securities	22,727	22,727	—
(5) Long-term loans receivable	942	943	0
(6) Claims provable in bankruptcy, claims provable in rehabilitation (Note 1)	76		
Allowance for doubtful accounts (Note 2)	(76)		
	—	—	—
Assets, total	175,911	175,911	(0)
(1) Notes and accounts payable - trade	20,496	20,496	—
(2) Electronically recorded obligations - operating	14,896	14,896	—
(3) Short-term loans payable	3,987	3,987	—
(4) Bonds payable	10,000	10,045	45
(5) Long-term loans payable (Note 3)	37,077	37,309	231
Liabilities, total	86,457	86,734	276
Derivatives (Note 4)			
(1) Hedge accounting is not applied	[19]	[19]	—
(2) Hedge accounting is applied	—	—	—

Notes:

1. On the consolidated balance sheet, claims provable in bankruptcy, claims provable in rehabilitation is recorded in "Other" under investments and other assets.
2. Claims provable in bankruptcy, claims provable in rehabilitation is stated net of relevant allowance for doubtful accounts.
3. The amount includes the current portion of long-term loans payable.
4. Derivatives are stated net of assets and liabilities. The figures in square brackets indicate net liabilities.

Note 1: Method of fair value measurement of financial instruments and matters regarding securities and derivatives

Assets:

(1) Cash and deposits

The fair value of these accounts approximates their book value because these accounts are settled in a short period of time. Thus, the book value is deemed as their fair value.

(2) Notes and accounts receivable - trade

The fair value of certain accounts receivable - trade, that take time to collect, is measured as present value obtained by discounting the amounts classified by aging at a rate reasonably calculated with corresponding terms to maturities. For other notes and accounts receivables - trade, that are settled in a short period of time, the fair value of these accounts approximates their book value, therefore, the book value is used as their fair value.

(3) Electronically recorded monetary claims - operating

The fair value of electronically recorded monetary claims - operating approximates their book value because they are settled in a short period of time. Thus, the book value is used as their fair value.

(4) Investment securities

The fair values of investment securities are based on the prices at exchange market.

(5) Long-term loans receivable

The fair value of long-term loans receivable is measured as present value obtained by discounting the future cash flows classified by certain period at an adequate rate such as market rate with credit-spread taken into account. However, as the interest rates of long-term loans receivable with floating rate are to be revised by certain prescribed period, their fair values approximate their book value. Thus, the book value is used as the fair value.

(6) Claims provable in bankruptcy, claims provable in rehabilitation

As allowance for doubtful accounts is recorded at the amount equivalent to the portion judged to be uncollectible individually based on evaluation for collectability, their fair values approximate amounts obtained by subtracting allowance for doubtful accounts from their book values, and these values are used as their fair values.

Liabilities:

(1) Notes and accounts payable - trade, (2) Electronically recorded obligations - operating and (3) Short-term loans payable

The fair value of these accounts approximates their book value because these accounts are settled or repaid in a short period of time. Thus, the book value is used as their fair value.

(4) Bonds payable

For bonds payable, the fair value of those with determinable market prices is measured based on market price, and the fair value of those without determinable market prices is measured as present value obtained by discounting amounts of principles, interests and guarantee fees at a rate with term to maturity and credit risk taken into account.

(5) Long-term loans payable

The fair value of long-term loans payable is measured as present value obtained by discounting total amount of principles and interests at an assumed rate for similar new borrowings. However, as the interest rates of long-term loans payable with floating rate are to be revised by certain prescribed period, their fair values approximate their book value. Thus, the book value is used as the fair value.

Derivatives:

(1) Derivatives to which hedge accounting is not applied

• Currency

(Millions of yen)

Classification	Type, etc. of derivatives	Contract amount		Fair value (Note)	Valuation gain (loss)
			Over 1 year		
Transactions other than at the exchange	Foreign exchange forward contract	7,193	—	(19)	(19)

Note: The fair value of foreign exchange forward contract is obtained from the counterparty financial institutions.

(2) Derivatives to which hedge accounting is applied

All derivatives to which hedge accounting is applied are interest rate swaps to which exceptional treatment is applied.

Since these swaps are accounted for as an integral part of long-term loans payable, which are hedged items, their fair value is included in the fair value of associated long-term loans payable.

Note 2: Unlisted equity securities (consolidated balance sheet amount: 12,360 million yen) are not included in “(4) Investment securities, Available-for-sale securities” since their market prices are not available and it is not possible to estimate their future cash flows, and therefore it is deemed extremely difficult to assume their fair value.

7. Notes to per share information

Net assets per share 808.87 yen

Basic earnings per share 42.00 yen

Note: Net assets per share was calculated using the number of shares by deducting the number of treasury shares at the period end and the number of shares at the period end held by the BIP trust from the total number of shares issued at the period end. Basic earnings per share was calculated using the number of shares by deducting the average number of treasury shares during the period and the average number of shares during the period held by the BIP trust from the average total number of shares issued during the period.

For the fiscal year under review, the average number of shares during the period held by the BIP trust was 99,100, and the number of shares at the period end held by the BIP trust was 99,100.

8. Other notes

(1) Additional Information

Introduction of performance-linked stock compensation plan

(a) Overview of the plan

From the fiscal year under review, the Company has introduced a new performance-linked stock compensation plan (hereinafter “the Plan”) for directors of the Company (excluding Outside Directors and Directors that are non-residents of Japan. Hereinafter “Directors”). The purpose is to clarify the link between Directors’ compensation and share value of the Company and raise awareness of making a contribution to enhancing the medium- to long-term results and increasing corporate value.

A mechanism called the officer compensation Board Incentive Plan (BIP) trust (hereinafter the “BIP trust”) will operate the Plan. The BIP trust will deliver and provide to Directors the Company’s shares and money equivalent to the converted cash of the Company shares in accordance with their title and level of achievement, like a performance-linked stock compensation (Performance Share) plan and a transfer restricted stock compensation (Restricted Stock) plan in the U.S.

(b) The number of residual shares of the Company in the BIP trust

The residual shares of the Company in the BIP trust were presented as treasury shares in the net assets section. At the end of the fiscal year under review, the book value and the number of such treasury shares were 74 million yen and 99,100 shares, respectively.

(2) Figures are rounded down to the nearest millions of yen. However, as for ratios, net assets per share and basic earnings per share, fractional amounts are rounded off.

Non-Consolidated Balance Sheet

(As of March 31, 2019)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		LIABILITIES	
Current assets	58,247	Current liabilities	33,260
Cash and deposits	20,914	Notes payable - trade	62
Notes receivable - trade	489	Accounts payable - trade	9,654
Electronically recorded monetary claims - operating	143	Electronically recorded obligations - operating	1,916
Accounts receivable - trade	11,182	Notes payable - facilities	117
Finished goods	16,816	Electronically recorded obligations - non-operating	204
Work in process	11	Short-term loans payable	6,394
Raw materials	325	Current portion of long-term loans payable	10,000
Consumption taxes receivable	521	Accounts payable - other	589
Short-term loans receivable	891	Accrued expenses	2,364
Accounts receivable - other	5,821	Deposits received	141
Other current assets	1,210	Provision for bonuses	882
Allowance for doubtful accounts	(80)	Provision for directors' bonuses	85
Non-current assets	163,054	Provision for loss on business restructuring and liquidation	88
Property, plant and equipment	16,089	Other current liabilities	758
Buildings and structures	10,109	Non-current liabilities	43,850
Machinery and equipment	1,183	Bonds payable	10,000
Vehicles	0	Long-term loans payable	26,300
Tools, furniture and fixtures	816	Provision for retirement benefits	5,959
Land	3,749	Provision for share-based remuneration for directors (and other officers)	11
Construction in progress	229	Provision for loss on guarantees	793
Intangible assets	4,424	Provision for loss on business restructuring and liquidation	650
Software	2,388	Asset retirement obligations	50
Other intangible assets	2,035	Other non-current liabilities	86
Investments and other assets	142,541	Total Liabilities	77,111
Shares of subsidiaries and associates	112,135	NET ASSETS	
Investment securities	31,820	Shareholders' Equity	136,281
Long-term loans receivable	370	Capital stock	32,648
Long-term prepaid expenses	201	Capital surplus	36,029
Deferred tax assets	3,160	Legal capital surplus	36,029
Other investments	2,283	Retained earnings	69,376
Allowance for doubtful accounts	(985)	Other retained earnings	69,376
Allowance for investment loss	(6,445)	Reserve for reduction entry	190
		Retained earnings brought forward	69,186
		Treasury shares	(1,773)
		Valuation and translation adjustments	7,909
		Valuation difference on available-for-sale securities	7,909
		Total net assets	144,191
Total assets	221,302	Total liabilities and net assets	221,302

Note: Figures are rounded down to the nearest millions of yen.

Non-Consolidated Statement of Income

(Year ended March 31, 2019)

(Millions of yen)

Account title	Amount
Net sales	100,055
Cost of sales	73,502
Gross profit	26,552
Selling, general and administrative expenses	26,062
Operating profit	490
Non-operating income	10,992
Interest income	18
Dividend income	10,539
Rent income	24
Foreign exchange gains	161
Other	247
Non-operating expenses	663
Interest expenses	401
Loss on sales of notes receivable - trade	87
Provision of allowance for doubtful accounts	38
Other	135
Ordinary profit	10,818
Extraordinary income	2,196
Gain on sales of non-current assets	1
Gain on sales of investment securities	2,195
Extraordinary losses	7,300
Loss on retirement of non-current assets	61
Impairment loss	27
Loss on valuation of shares of subsidiaries	315
Provision of allowance for investment loss	6,419
Provision for loss on guarantees	366
Special compliance expenses, etc.	86
Other	24
Profit before income taxes	5,714
Income taxes - current	550
Income taxes - deferred	287
Profit	4,876

Note: Figures are rounded down to the nearest millions of yen.

Non-Consolidated Statement of Changes in Equity
(Year ended March 31, 2019)

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings	
					Reserve for reduction entry	Retained earnings brought forward	
Balance as of April 1, 2018	32,648	36,029	—	36,029	134	71,858	71,992
Changes of items during period							
Dividends of surplus						(7,480)	(7,480)
Profit						4,876	4,876
Provision of reserve for reduction entry					55	(55)	—
Purchase of treasury shares							
Disposal of treasury shares			(10)	(10)			
Transfer of loss on disposal of treasury shares			10	10		(10)	(10)
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	—	—	55	(2,671)	(2,615)
Balance as of March 31, 2019	32,648	36,029	—	36,029	190	69,186	69,376

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance as of April 1, 2018	(1,783)	138,887	11,684	11,684	150,572
Changes of items during period					
Dividends of surplus		(7,480)			(7,480)
Profit		4,876			4,876
Provision of reserve for reduction entry		—			—
Purchase of treasury shares	(1)	(1)			(1)
Disposal of treasury shares	10	0			0
Transfer of loss on disposal of treasury shares		—			—
Net changes of items other than shareholders' equity			(3,775)	(3,775)	(3,775)
Total changes of items during period	9	(2,606)	(3,775)	(3,775)	(6,381)
Balance as of March 31, 2019	(1,773)	136,281	7,909	7,909	144,191

Note: Figures are rounded down to the nearest millions of yen.

Notes to Non-Consolidated Financial Statements

1. Premise of going concern

Not applicable

2. Major accounting policies

(1) Valuation standards and method for marketable securities

- (a) Shares of subsidiaries and affiliates are stated at cost based on the moving average method.

- (b) Available-for-sale securities

Those with determinable market values are stated at market value method based on market price as of the end of the fiscal year under review. (valuation differences are reported as components of net assets and the cost of securities sold is calculated based on the moving average method).

Those without determinable market values are stated at cost based on the moving average method.

(2) Valuation standards for derivatives

Derivatives are stated at market value method.

(3) Valuation standards and method for inventories

Inventories are stated at cost on the gross average method (with balance sheet values reflecting write downs for decreased profitability).

(4) Depreciation methods used for non-current assets

- (a) Depreciation of property, plant and equipment

Calculated using the straight-line method.

Primary useful lives are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	1 to 10 years

- (b) Amortization of intangible assets

Calculated using the straight-line method.

(5) Basis of accounting for reserves

- (a) Allowance for doubtful accounts

In setting aside an allowance for possible losses related to accounts receivable, loans receivable, etc., an amount equivalent to the portion judged to be uncollectible is recorded; ordinary receivables are based on the loan loss ratio, and receivables regarded as doubtful are based on individual evaluation for collectability.

- (b) Allowance for investment loss

To provide for possible losses due to extreme devaluation in shares of subsidiaries (excluding shares subject to impairment accounting), an allowance for investment loss is provided for an amount considering the actual share prices as of the end of the fiscal year under review.

- (c) Provision for bonuses

The provision for bonuses is stated at an amount based on the estimated forthcoming payments.
- (d) Provision for directors' bonuses

The provision for directors' bonuses is stated at an amount based on the estimated forthcoming payments.
- (e) Provision for defined retirement benefits

The provision for defined retirement benefits is stated at the amount deemed to be correct as of the end of the fiscal year under review. The amount is based on estimated accounts of defined retirement benefit liabilities and pension assets as of the end of the fiscal year under review.

 - 1) The method of attributing expected retirement benefit to periods

With respect to the method of attributing expected retirement benefit to periods up to the end of the fiscal year under review, we adopt benefit formula basis for the calculation of retirement benefit liabilities.
 - 2) Actuarial difference and past service costs

Past service costs are recognized as expense and amortized over on an average remaining service period of employees at the time of accrual (five years with the declining-balance method in principle).

Actuarial difference is recognized as expense starting from the fiscal year following the year in which it occurs and amortized over an average remaining service period of employees at the time of accrual (five years with the declining-balance method in principle).
- (f) Provision for share-based remuneration for directors (and other officers)

Provision for share-based remuneration for directors (and other officers) is provided based on the estimated amount of stock benefit obligation as of the end of the fiscal year under review in order to prepare for granting shares of the Company's stock to Directors (excluding Outside Directors and Directors who are non-residents of Japan) in accordance with the share delivery regulations.
- (g) Provision for loss on guarantees

Provision for loss on guarantees is provided to cover the estimated amount of payments for such loss in consideration of the financial position and other factors of guarantees.
- (h) Provision for loss on business restructuring and liquidation

An estimated amount is recorded in preparation for expenses or losses associated with business restructuring.
- (6) Method of hedge accounting
 - (a) Method of hedge accounting

Exceptional treatment is applied for interest rate swaps.
 - (b) Hedging instruments and hedged items

Interest rate swaps are used with respect to the interest on some loans.

- (c) Hedging policy
Hedging is effected with respect to interest rate risk for some loans.
- (d) Method of assessing hedge effectiveness, etc.
The assessment of hedge effectiveness is omitted because exceptional treatment is applied for interest rate swaps.
- (7) Method of accounting for deferred assets
Bond issuance cost
Amortized in lump sum in the fiscal year in which they occur.
- (8) Method of accounting for retirement benefits
The accounting treatment for the balance of unrecognized actuarial differences and unrecognized past service costs for retirement benefits is different to the treatment for these items in the consolidated financial statements.
- (9) Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
- (10) Consolidated taxation system is applied.

3. Changes in presentation method

(Changes due to the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year under review. Accordingly, deferred tax assets, if any, were presented under “Investments and other assets” and deferred tax liabilities, if any, were presented under “Non-current liabilities.”

4. Notes to Non-Consolidated Balance Sheet

(1) Short-term monetary claims from subsidiaries and associates	10,893 million yen
Short-term monetary liabilities to subsidiaries and associates	14,733 million yen
Long-term monetary claims from subsidiaries and associates	1,285 million yen
Long-term monetary liabilities to subsidiaries and associates	7 million yen
(2) Accumulated depreciation of property, plant and equipment	27,803 million yen
(3) Export bills discounted	2,639 million yen
(4) Guarantee obligation	
Guarantees for loans of subsidiaries and associates from financial institutions	954 million yen
Guarantees for loans of subsidiaries and associates from in-group financial subsidiaries, etc.	4,665 million yen
Concurrent obligations for payments for electronic monetary claims transactions of subsidiaries and associates	3,217 million yen
Guarantees for real estate lease agreement of subsidiaries and associates	51 million yen
	(total amount of monthly rent)

5. Notes to Non-Consolidated Statement of Income

(1) Net sales concerning subsidiaries and associates	37,414 million yen
(2) Purchases from subsidiaries and associates	76,972 million yen
(3) Other operating transaction with subsidiaries and associates	21,260 million yen
(4) Non-operating transaction with subsidiaries and associates	10,081 million yen

6. Notes to Non-Consolidated Statement of Changes in Equity

Type and total number of treasury shares at the fiscal year-end

Type of shares	No. of shares at the beginning of current fiscal year	Increase during the fiscal year	Decrease during the fiscal year	No. of shares at the end of current fiscal year
Common shares	2,068,553	101,539	99,123	2,070,969

Notes:

1. The 101,539 share increase in treasury shares resulted from the acquisition of 99,100 shares by the BIP trust and the purchase of 2,439 shares, which were less than one unit, from shareholders.
2. The 99,123 share decrease in treasury shares resulted from the disposal of treasury shares of 99,100 shares by third-party allotment to the Board Incentive Plan (BIP) Trust and sale of shares to shareholders originally acquired as shares less than one unit of 23 shares.
3. The number of shares at the end of the current fiscal year includes 99,100 shares held by the BIP trust.

7. Tax effect accounting

Breakdown of deferred tax assets and deferred tax liabilities by the cause of its occurrence

Deferred tax assets

Shares of subsidiaries and associates and investment securities	12,576 million yen
Provision for retirement benefits	1,824 million yen
Allowance for investment loss	1,973 million yen
Other	3,188 million yen
Subtotal	19,563 million yen
Valuation provision	(14,256) million yen
Total	5,307 million yen

Deferred tax liabilities

Valuation difference on available-for-sale securities	2,030 million yen
Other	115 million yen
Total	2,146 million yen
Net deferred tax assets	3,160 million yen

8. Transactions with related parties

Attribute	Name	Voting rights or ownership	Relationship		Transactions	Transaction amount (Millions of yen)	Item	Balance at the year-end (Millions of yen)
			No. of interlocking directors	Business relations				
Subsidiary	Citizen Watch Manufacturing Co., Ltd.	Ownership (direct) 100%	2	Manufacturing of the products of the Company	Purchase of products (Note) 1	41,969	Accounts payable - trade	4,890
					Purchase of raw materials on behalf of others (Note) 1	9,880	Accounts receivable - other	1,164
Subsidiary	Sunciti Manufacturers Ltd.	Ownership (direct) 100%	1	Manufacturing of the products of the Company	Purchase of products (Note) 1	20,392	Accounts payable - trade	1,394
					Purchase of raw materials on behalf of others (Note) 1	5,185	Accounts receivable - other	1,335
					Dividend income	2,040	—	—
Subsidiary	ROYAL TIME CITI CO., LTD.	Ownership (direct) 87.44%	—	Manufacturing of the products of the Company	Purchase of products (Note) 1	10,056	Accounts payable - trade	763
Subsidiary	Citizen Watch Company of America, Inc.	Ownership (direct) 100%	2	Sales of the products of the Company	Sales of products (Note) 1	16,848	Accounts receivable - trade	1,421
Subsidiary	Citizen Machinery Co., Ltd.	Ownership (direct) 100%	3	Leasing of real-estate, etc.	Dividend income	4,641	—	—
					Debt guarantee (Note) 2	2,192	—	—
Subsidiary	Citizen Jewelry Co., Ltd.	Ownership (direct) 100%	2	Leasing of real-estate, etc.	Debt guarantee (Note) 2, 3	2,283	—	—
Subsidiary	Citizen Financial Service Co., Ltd.	Ownership (direct) 100%	2	In-group financial subsidiary, leasing of real-estate, etc.	Borrowing of money (Note) 4, 5	419	Short-term loans payable	6,394

The above transaction amount does not include consumption taxes.

Notes: Business terms and decision-making policy of business terms, etc.

- Purchase and sales of products and purchase of raw materials on behalf of others are determined in accordance with price negotiating that gives consideration to market prices, etc.
- Debt guarantees shall be provided for loans of each subsidiary.
- With regard to the debt guarantee owed by Citizen Jewelry Co., Ltd., the Company recorded provision for loss on guarantees of 632 million yen.
- The interest rate of borrowing of money shall be determined in view of the market interest rate.
- The amount of transaction through the borrowing of money is the amount arising from borrowings under the CMS (cash management system), and the amount stated is the increase/decrease (net amount) during the fiscal year under review.

9. Per share information

Net assets per share 453.03 yen

Basic earnings per share 15.32 yen

Note: Net assets per share was calculated using the number of shares by deducting the number of treasury shares at the period end and the number of shares held by the BIP trust at the period end from the total number of shares issued at the period end. Basic earnings per share was calculated using the number of shares by deducting the average number of treasury shares during the period and the average number of shares held by the BIP trust during the period from the average total number of shares issued during the period.

For the fiscal year under review, the average number of shares held by the BIP trust during the period was 99,100, and the number of shares held by the BIP trust at the period end was 99,100.

10. Significant subsequent events

The Company implemented an absorption-type merger (“the Merger”) between the Company and its wholly owned subsidiary Citizen Financial Service Co., Ltd. effective April 1, 2019 as resolved at the meeting of Board of Directors held on January 24, 2019.

(1) Purpose of the Merger

With the goal of consolidating management resources and conducting efficient organizational management, the Company has decided to absorb Citizen Financial Service Co., Ltd., a subsidiary that has been fulfilling its role as a core company for intragroup financing in the Citizen Group.

(2) Summary of the Merger

(a) Method of the Merger

The Merger was conducted as an absorption-type merger, with the Company as the surviving company, and Citizen Financial Service Co., Ltd. was dissolved.

(b) Schedule of the Merger

Board of Directors meeting to approve the merger agreement: January 24, 2019

Date of the merger agreement: January 24, 2019

Effective date of the merger agreement: April 1, 2019

As the Merger is a simplified merger as provided for in Article 796, Paragraph 2 of the Companies Act for the Company and a short-form merger provided for in Article 784, Paragraph 1 of the Companies Act for Citizen Financial Service Co., Ltd., it was implemented without obtaining approval by resolutions of the two companies’ general meetings of shareholders.

(c) Details of allotment pertaining to the Merger

There is no allotment of shares or money, etc. due to the Merger.

(d) Handling of share acquisition rights and bonds with share acquisition rights associated with the Merger

Not applicable

(3) Overview of the merged company

(a)	Name	Citizen Financial Service Co., Ltd.	
(b)	Location	6-1-12 Tanashi-cho, Nishi-Tokyo-shi, Tokyo	
(c)	Title and name of representative	Toshiyuki Furukawa, President and Representative Director	
(d)	Business description	Operations of accepting deposits from and lending funds to participating companies of the Citizen Group, etc.	
(e)	Capital	50 million yen	
(f)	Date of establishment	March 8, 2002	
(g)	Number of shares issued	1,000 shares	
(h)	Fiscal year-end	March 31	
(i)	Major shareholders and the percentage of ownership (as of March 31, 2019)	Citizen Watch Co., Ltd. 100%	
(j)	Financial conditions and operating results of the immediately preceding fiscal year	Fiscal year-end	Fiscal year ended March 31, 2019 (non-consolidated)
		Net assets	88 million yen
		Total assets	23,265 million yen
		Net assets per share	88 thousand yen
		Net sales	76 million yen
		Operating profit	8 million yen
		Ordinary profit	8 million yen
		Profit	5 million yen
		Basic earnings per share	5 thousand yen

(4) Status after the Merger

(a)	Name	Citizen Watch Co., Ltd.
(b)	Location	6-1-12, Tanashi-cho, Nishi-Tokyo-shi, Tokyo
(c)	Title and name of representative	Toshihiko Sato, President and CEO
(d)	Business description	Manufacture and sale of watches and clocks and their parts and the formulation and promotion of management strategies of the Group, the audit of the Group management, the technical development of the Group and the management of its intellectual property and other business management, etc. as a holding company
(e)	Capital	32,648 million yen
(f)	Fiscal year-end	March 31

11. Other notes

(1) Additional Information

(Introduction of performance-linked stock compensation plan)

The note on the transactions in which shares of the Company are delivered to Directors, etc. through a trust is omitted as the same description can be found in “8. Other notes” of the notes to the consolidated financial statements.

(2) Figures are rounded down to the nearest millions of yen. However, as for ratios, net assets per share and basic earnings per share, fractional amounts are rounded off.

Financial Audit Report on Consolidated Financial Statements

Independent Auditors' Report on Consolidated Financial Statements

May 20, 2019

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

Nihombashi Corporation
Masahiko Kinoshita [seal]
Designated Partner and Engagement
Partner, C.P.A.
Akira Ogura [seal]
Designated Partner and Engagement
Partner, C.P.A.
Hidekazu Takahashi [seal]
Designated Partner and Engagement
Partner, C.P.A.

Pursuant to the provisions of Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements of Citizen Watch Co., Ltd. for the fiscal year from April 1, 2018 to March 31, 2019. These statements consisted of the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity, and notes to consolidated financial statements.

Responsibility of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Japanese generally accepted accounting principles. The responsibility includes designing, implementing and maintaining internal control, judged by the management as necessary for the preparation and fair presentation of consolidated financial statements that are free from material misstatement due to fraud or error.

Responsibility of the auditor

Our responsibility is to express an opinion on the consolidated financial statements based on our audit from an independent point of view. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedure selected depends on the auditors' judgment including the assessment of the risks of material misstatement of the consolidated financial statements due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporate Group comprised of Citizen Watch Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of its operations for the fiscal year then ended in accordance with Japanese generally accepted accounting principles.

Interest

We have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountant Act of Japan.

Financial Audit Report on Non-Consolidated Financial Statements

Independent Auditors' Report on Non-Consolidated Financial Statements

May 20, 2019

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

Nihombashi Corporation
Masahiko Kinoshita [seal]
Designated Partner and Engagement
Partner, C.P.A.
Akira Ogura [seal]
Designated Partner and Engagement
Partner, C.P.A.
Hidekazu Takahashi [seal]
Designated Partner and Engagement
Partner, C.P.A.

Pursuant to the provisions of Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements and the supplementary schedules of Citizen Watch Co., Ltd. for the 134th business term from April 1, 2018 to March 31, 2019. The non-consolidated financial statements consisted of the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity, and notes to non-consolidated financial statements.

Responsibility of management for the non-consolidated financial statements and the supplementary schedules

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and the supplementary schedules in accordance with Japanese generally accepted accounting principles. The responsibility includes designing, implementing and maintaining internal control, judged by the management as necessary for the preparation and fair presentation of non-consolidated financial statements and the supplementary schedules that are free from material misstatement due to fraud or error.

Responsibility of the auditor

Our responsibility is to express an opinion on the non-consolidated financial statements and the supplementary schedules based on our audit from an independent point of view. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the non-consolidated financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the supplementary schedules. The procedure selected depends on the auditors' judgment including the assessment of the risks of material misstatement of the non-consolidated financial statements and the supplementary schedules due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position of Citizen Watch Co., Ltd. as of March 31, 2019, and the results of its operations for the fiscal year then ended in accordance with Japanese generally accepted accounting principles.

Emphasis of matters

As stated in “Significant subsequent events,” the Company implemented an absorption-type merger between the Company and its wholly owned subsidiary Citizen Financial Service Co., Ltd. effective April 1, 2019 as resolved at the meeting of the Board of Directors held on January 24, 2019.

This matter does not have any impact on our opinion.

Interest

We have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountant Act of Japan.

Audit Report of the Audit & Supervisory Board

Audit Report

With regard to the performance of the Directors' duties for the 134th business term from April 1, 2018 to March 31, 2019, we have prepared this Audit Report, with the uniformed opinion of all Audit & Supervisory Board Members, after examining the audit reports prepared by each Audit & Supervisory Board Member and hereby report as follows:

1. Auditing Methods of the Audit & Supervisory Board Members and Audit & Supervisory Board, and Details of Such Audits
 - (1) We established the audit policy, allocation of duties, and other relevant matters, and we received reports from each Audit & Supervisory Board Member regarding the status of their audits and the results thereof. We also received reports from the Directors and others, and the Independent Auditors regarding the performance of their duties, and asked them to provide explanations when needed.
 - (2) According to the audit standards, each Audit & Supervisory Board Member conformed to the audit policy and allocation of duties and other relevant matters prescribed by the Audit & Supervisory Board; maintained communications with the Directors, the internal audit division, employees, and others; made efforts to establish an environment for collecting information and auditing; and implemented auditing in the following manner.
 - (a) We attended the Board of Directors meetings and other important meetings; received reports from the Directors, employees and others on the performance of their duties; asked the Directors, employees and others to provide explanations when needed; reviewed important written decisions and other items; and studied the business and financial conditions of the Company at its head office, etc.
 - (b) We have periodically received reports from Directors and employees, among others, required explanation when necessary, and provided opinions with respect to matters mentioned in the business report. Such matters consist of the details of the resolution of the Board of Directors regarding the development of a system established to ensure that the Directors perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation and other systems stipulated in Article 100, Paragraph 1 and 3 of the Enforcement Regulations of the Companies Act, which are necessary to ensure the appropriateness of the operations of the Corporate Group comprised of the Company and its subsidiaries, as well as the status of operations regarding the system developed under such resolution (the "internal control system").

With respect to internal control over financial reporting, we received reports from Directors and Nihombashi Corporation regarding the evaluation and status of audit of the internal control, and asked them to provide explanations when needed.
 - (c) Regarding the Basic Policy Relating to Persons who Control Decision-making over the Financial and Business Policies of the Company mentioned in the Business Report, we also considered the contents in light of the circumstances, etc. of deliberations by the Board of Directors and other bodies.

- (d) With respect to subsidiaries, the Full-Time Audit & Supervisory Board Member concurrently served as audit & supervisory board member of the important subsidiaries, and in addition to attending meeting of the important subsidiaries including meetings of the board of directors, maintained communications and exchanged information with directors, audit & supervisory board members, and others of subsidiaries, and received business reports from subsidiaries when needed. From the standpoint of group auditing, the Full-Time Audit & Supervisory Board Member held regular meetings with the full-time audit & supervisory board members of the Group companies, maintained communications, shared information, and exchanged opinions.
- (e) We monitored and examined whether the Independent Auditors performed proper audits while retaining their independence, and received reports from the Independent Auditors on the performance of their duties and asked them to provide explanations when needed. In addition, we were notified by the Independent Auditors that the “system to ensure proper performance of its duties” (matters stipulated in items in Article 131 of the Company Accounting Regulations) has been developed in accordance with the “Quality Control Standards for Audits” (issued by the Business Accounting Council on October 28, 2005), and other relevant standards, and we asked the Independent Auditors to provide explanations when needed.

Based on the above methods, we reviewed the business report and its supplementary schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity, and notes to non-consolidated financial statements) and their supplementary schedules, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity, and notes to consolidated financial statements) for this business term.

2. Audit Results

(1) Audit Results of Business Report and Other Documents

- (a) We are of the opinion that the Business Report and the supplementary schedules fairly present the situation of the Company in accordance with relevant laws and regulations and the Articles of Incorporation.
- (b) We have found no significant evidence of wrongful acts or violations of relevant laws and regulations or the Articles of Incorporation with regard to the Directors’ performance of their duties.
- (c) We are of the opinion that the resolutions of the Board of Directors regarding the internal control system are proper and correct. Furthermore, with respect to the internal control system in question, we have confirmed that its architecture and operations are being continually improved. We have found no matters which we need to point out regarding the details described in the Business Report and the Directors’ performance of their duties in connection with the relevant internal control system and the internal control over financial reporting.

- (d) We have found no matters which we need to point out regarding the Basic Policy Relating to Persons who Control Decision-making over the Financial and Business Policies of the Company mentioned in the Business Report. We are of the opinion that the Company's efforts based on such Basic Policy do not impair the common interests of the Company's shareholders, and do not aim to protect the officers' positions in the Company.
- (2) Audit Results of Non-Consolidated Financial Statements and Supplementary Schedules
We are of the opinion that the methods and results of the audit made by the Independent Auditors, Nihombashi Corporation, are appropriate.
- (3) Audit Results of Consolidated Financial Statements
We are of the opinion that the methods and results of the audit made by the Independent Auditors, Nihombashi Corporation, are appropriate.

May 28, 2019

The Audit & Supervisory Board
Citizen Watch Co., Ltd.

Yoshio Takada [seal]
Full-time Audit & Supervisory Board Member

Noboru Akatsuka [seal]
Full-time Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member)

Toshiko Kuboki [seal]
Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member)