

Ticker Code: 7762

June 10, 2020

**NOTICE OF THE 135th 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,

We hereby notify you that the 135th Ordinary General Meeting of Shareholders of Citizen Watch Co., Ltd. (the “Company”) will be held as described below.

Other than attending the meeting in person, 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 Wednesday June 24, 2020.

[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.mufg.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 Thursday, June 25, 2020

*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 135th term (April 1, 2019 to March 31, 2020)

Item 2: Report on the Non-consolidated Financial Statements for the 135th term (April 1, 2019 to March 31, 2020)

Item to be resolved: Election of Ten (10) Directors

Information about countermeasures to prevent the spread of the novel coronavirus disease (COVID-19)

- From the perspective of preventing the spread of the COVID-19, we strongly recommend to exercise your voting right in advance in writing, via the Internet or any other means as much as possible and refrain from attending this General Meeting of Shareholders in person, regardless of your health conditions.
- In case of attending the meeting in person, we kindly ask you to wear a face mask, disinfect your hands with alcohol-based sanitizer and receive a temperature check using thermography.
- Note that enough space between seats will be provided to prevent the spread of infection, the number of seats available at the meeting will be considerably reduced from previous years. For this reason, we may refuse entry to the venue to some shareholders.
- Shareholders who appear to be unwell may be refused entry.
- We will check physical conditions of staff members beforehand, and they will wear a face mask to serve on that day.
- We intend to conduct the proceedings of this General Meeting of Shareholders in a shorter time than previous years.
- The aforementioned measures may be updated according to the situation of the spread of infection or what the government or other institution will announce, etc. by the date of the meeting. For those who intend to attend the meeting in person, please check our website provided on page 1. Your understanding and cooperation are highly appreciated.

Reference Materials for the General Meeting of Shareholders


Item: Election of Ten (10) Directors

The terms of office of all of the present eleven (11) Directors will expire at the conclusion of this General Meeting of Shareholders, and the Company proposes to elect ten (10) Directors.


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	Toshihiko Sato	President and CEO –	[For reelection]	17/17 (100%)
2	Norio Takeuchi	Managing Director Senior General Manager of Watch Business Division	[For reelection]	17/17 (100%)
3	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%)
4	Keiichi Nakajima	Director –	[For reelection]	17/17 (100%)
5	Shinji Shirai	Director Senior General Manager of Manufacturing Technology Division and in charge of Quality Assurance Department	[For reelection]	17/17 (100%)
6	Yoshitaka Oji	Director Senior General Manager of Product Development Division, Senior General Manager of R&D Center, and in charge of Watch Development Division	[For reelection]	17/17 (100%)
7	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]	17/17 (100%)
8	Fumiaki Terasaka	Outside Director –	[For reelection] [Outside] [Independent]	17/17 (100%)
9	Toshiko Kuboki	Outside Director –	[For reelection] [Outside] [Independent]	17/17 (100%)
10	Yoshio Osawa	Outside Director –	[For reelection] [Outside] [Independent]	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
1	 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) May 2019 President of JAPAN CLOCK & WATCH ASSOCIATION (present)	6,990
		<u>Reasons for nominating the candidate for Director</u>	Attendance at Board of Directors meetings
		In light of Mr. Toshihiko Sato's 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 he will continue to contribute to the promotion of the Citizen Group business, 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
2	 <p data-bbox="304 781 488 837">Norio Takeuchi (August 31, 1958)</p> <p data-bbox="325 869 467 898">For reelection</p>	<p data-bbox="517 311 1209 963"> April 1981 Joined the Company November 2005 Assigned to Marketing Department, Watch Business Division of the Company (assigned to Germany) June 2010 Operating Officer of Citizen Watch Co., Ltd. June 2011 Director of Citizen Watch Co., Ltd. June 2014 President of Citizen Watch Italy S.p.A. (present) October 2014 Chairman of the Board of Directors of Citizen Watch Company of America, Inc. (present) January 2015 In charge of Design Department of Citizen Watch Co., Ltd. April 2016 Citizen Brand Manager and in charge of BULOVA Department of Citizen Watch Co., Ltd. June 2016 In charge of Domestic Watch Sales Division of Citizen Watch Co., Ltd. June 2016 Director of the Company 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 April 2017 Senior General Manager of Watch Business Division of the Company (present) June 2017 Managing Director of the Company (present) </p>	9,030
		<p data-bbox="644 972 1082 994" style="text-align: center;"><u>Reasons for nominating the candidate for Director</u></p> <p data-bbox="517 999 1209 1137">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.</p>	
			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	 Toshiyuki Furukawa (January 19, 1963) For reelection	April 1986 Joined the Company March 1993 Assigned to Products Marketing Division of the Company (assigned to New York, U.S.A.) April 2009 Manager of Investor and Public Relations Department of the Company July 2010 Deputy General Manager of Corporate Planning Division of the Company June 2011 General Manager of Corporate Planning Division of the Company April 2015 Director of Citizen Watch Co., Ltd. April 2015 General Manager of Management Planning Division and in charge of Accounting Department of Citizen Watch Co., Ltd. April 2016 President of Citizen Financial Service Co., Ltd. June 2016 Director of the Company (present) June 2016 General Manager of Corporate Planning Division and in charge of Accounting Department and Public & Investor Relations Department of the Company (present) October 2016 In charge of IT Management Department of the Company (present)	6,352
		Reasons for nominating the candidate for Director 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.	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	
4	 Keiichi Nakajima (August 14, 1958) For reelection	April 1982	Joined the Company	18,895
		March 2001	President of Citizen Machinery Asia Co., Ltd.	
		August 2004	General Manager of Corporate Planning Division of CITIZEN PRECISION MACHINERY CO., LTD.	
		March 2008	President of Citizen (ZIBO) Precision Machinery Co., Ltd.	
		April 2008	Senior General Manager of Administration Center of CITIZEN MACHINERY CO., LTD.	
		June 2008	President of Citizen Machinery Asia Co., Ltd.	
		June 2008	President of Citizen Machinery Vietnam Co., Ltd.	
		June 2008	Director of CITIZEN MACHINERY CO., LTD.	
		March 2009	Outside Director of Miyano Machinery Japan Inc. (Currently CITIZEN MACHINERY CO., LTD.)	
		June 2010	Operating Officer of CITIZEN MACHINERY CO., LTD.	
		April 2011	Operating Officer of CITIZEN MACHINERY MIYANO CO., LTD. (Currently CITIZEN MACHINERY CO., LTD.)	
		April 2012	Director and Operating Officer of CITIZEN MACHINERY MIYANO CO., LTD.	
April 2013	President of CITIZEN MACHINERY MIYANO CO., LTD. (present)			
June 2013	Director of the Company (present)			
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
5	 Shinji Shirai (August 7, 1960) For reelection	March 1984 Joined Miyota Precision Co., Ltd. (Currently CITIZEN FINEDEVICE CO., LTD.) April 2010 President of Guangzhou Most Crown Electronics Ltd. June 2011 Operating Officer of Citizen Watch Miyota Co., Ltd. April 2013 Operating Officer of Citizen Watch Co., Ltd. April 2013 General Manager of Product Development Department, Technical Development Division of Citizen Watch Co., Ltd. August 2013 Deputy Senior General Manager of Technical Development Division of Citizen Watch Co., Ltd. October 2013 Deputy General Manager of Product Development Division of Citizen Watch Co., Ltd. November 2013 President of SUNCITI TRADING DONGGUAN LTD. April 2016 President of Sunciti Manufacturers Ltd. October 2016 Operating Officer of the Company October 2016 Deputy Senior General Manager of Product Development Division of the Company April 2017 Senior General Manager of Product Division of the Company June 2017 Director of the Company (present) June 2017 In charge of Quality Assurance Department (present) April 2019 Senior General Manager of Manufacturing Technology Division (present) April 2019 President of Citizen Watch Manufacturing Co., Ltd. (present)	5,923
		Reasons for nominating the candidate for Director 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.	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	
6	 <p data-bbox="293 913 499 969">Yoshitaka Oji (November 23, 1963)</p> <p data-bbox="328 1003 464 1025">For reelection</p>	<p data-bbox="520 309 1209 338">April 1986 Joined the Company</p> <p data-bbox="520 342 1209 398">August 2005 Assigned to Marketing Department, Watch Business Division of the Company (assigned to Singapore)</p> <p data-bbox="520 403 1209 459">April 2007 Assigned to CB Business Division of Citizen Watch Co., Ltd. (assigned to Singapore)</p> <p data-bbox="520 463 1209 533">June 2011 General Manager of Business Administration Department, Administration Division of Citizen Watch Co., Ltd.</p> <p data-bbox="520 537 1209 616">August 2011 General Manager of Business Management Department, Strategic Planning Division of Citizen Watch Co., Ltd.</p> <p data-bbox="520 620 1209 676">July 2012 General Manager of Management Planning Division of Citizen Watch Co., Ltd.</p> <p data-bbox="520 680 1209 736">April 2015 General Manager of Corporate Planning Division of the Company</p> <p data-bbox="520 741 1209 770">June 2016 Operating Officer of Citizen Watch Co., Ltd.</p> <p data-bbox="520 775 1209 831">June 2016 Deputy General Manager of Product Development Division of Citizen Watch Co., Ltd.</p> <p data-bbox="520 835 1209 864">October 2016 Operating Officer of the Company</p> <p data-bbox="520 869 1209 925">October 2016 Deputy Senior General Manager of Product Development Division of the Company</p> <p data-bbox="520 929 1209 985">April 2017 Deputy Senior General Manager of Watch Business Division of the Company</p> <p data-bbox="520 990 1209 1019">June 2017 Director of the Company (present)</p> <p data-bbox="520 1023 1209 1079">April 2019 Senior General Manager of Product Development Division and Senior General Manager of R&D Center of the Company (present)</p> <p data-bbox="520 1084 1209 1140">April 2019 Senior General Manager of Watch Development Division of the Company</p> <p data-bbox="520 1144 1209 1200">April 2020 In charge of Watch Development Division of the Company (present)</p>	6,685	
		Reasons for nominating the candidate for Director		
		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.		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	
7	 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)	5,584	
		<u>Reasons for nominating the candidate for Director</u>		Attendance at Board of Directors meetings
		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.		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	 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)	3,430	
		<u>Reasons for nominating the candidate for Outside Director</u>		Attendance at Board of Directors meetings
		To utilize Mr. Fumiaki Terasaka's 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.		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
9	 Toshiko Kuboki (February 26, 1960) For reelection 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 June 2019 Outside Director of the Company (present)	5,000
		Reasons for nominating the candidate for Outside Director 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 Officer of the Company, the Company believes she is suitable for the position of Outside Director. While she 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 again nominated her 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	 Yoshio Osawa (January 22, 1952) For reelection Candidate for Outside Director	April 2003 Corporate Officer and General Manager of Network Division of Sumitomo Corporation April 2005 Executive Officer and General Manager of Network Division of Sumitomo Corporation 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) June 2019 Outside Director of the Company (present)	—
		Reasons for nominating the candidate for Outside Director To utilize Mr. Yoshio Osawa's 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 13/13 (100%)

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 candidate Ms. Toshiko Kuboki's attendance at Board of Directors meetings includes her attendance at such meetings prior to the conclusion of the 134th Ordinary General Meeting of Shareholders held on June 26, 2019 as an Outside Audit & Supervisory Board Member.
5. The activities of the candidate Mr. Yoshio Osawa shown above were those during his term, for he was newly elected as Outside Director at the 134th Ordinary General Meeting of Shareholders held on June 26, 2019.
6. The candidates Mr. Fumiaki Terasaka, Ms. Toshiko Kuboki and Mr. Yoshio Osawa are candidates for Outside Directors of the Company. The Company has appointed all of those candidates as Independent Officers defined by the Tokyo Stock Exchange and registered them with the Exchange as such.

The term of office of Mr. Fumiaki Terasaka as Outside Director from his initial appointment will be three (3) years at the conclusion of this General Meeting of Shareholders. The terms of office of Ms. Toshiko Kuboki and Mr. Yoshio Osawa as Outside Director will be one (1) year 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 agreements with Mr. Fumiaki Terasaka, Ms. Toshiko Kuboki and Mr. Yoshio Osawa 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, and if their reelection is approved at the meeting, the Company intends to continue these agreements. The amount of each Director's total maximum liability for damages under such agreements is 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 (vi) 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.

BUSINESS REPORT

From April 1, 2019 to March 31, 2020

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

During the fiscal year under review, despite a moderate recovery trend on the back of improved employment conditions and other factors, the Japanese economy deteriorated sharply due to sluggish consumer spending resulting from the consumption tax hike, and the impact of the COVID-19 pandemic. Overseas economies were also seriously affected by the pandemic. Economic activities shrank dramatically in China, and other Asian economies also showed some weakness. In the United States and Europe, whose economies had been sluggish due to concern over developments in conjunction with trade with other countries, the pandemic put a great amount of downward pressure on businesses, further deepening uncertainty.

In this environment, the Citizen Group implemented a range of initiatives laid out for the “Citizen Group Medium-term Management Plan 2021” formulated in February 2019, such as facilitating the growth of the watches business and machine tools business, promoting sustainable management and strengthening compliance in quality, with a view not merely to continue manufacturing as in the past, but to address the challenge of new, unique value creation.

The consolidated results for the fiscal year under review recorded a decrease in both sales and profit, with net sales of 278.531 billion yen (down 13.4% year on year) and operating profit of 6.136 billion yen (down 72.6% year on year). Ordinary profit decreased to 7.531 billion yen (down 71.7% year-on-year), and profit attributable to owners of parent turned negative, at a loss of 16.667 billion yen (profit attributable to owners of parent of 13.369 billion yen in the previous fiscal year), due to the posting of extraordinary losses.

Consolidated Results

(Billions of yen)

Net sales	278.531 (down 13.4% year-on-year)
Operating profit	6.136 (down 72.6% year-on-year)
Ordinary profit	7.531 (down 71.7% year-on-year)
Loss attributable to owners of parent	16.667 (profit attributable to owners of parent of 13.369 in the previous fiscal year)

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

[Watches]

With respect to sales of CITIZEN brand watches in the domestic market, luxury items such as The CITIZEN and medium-priced models such as PROMASTER remained strong in the first half. However, sales were sluggish during the Christmas sales season due to deterioration of consumer confidence following the consumption tax hike. In addition, there was a sharp downturn attributable to the spread of the COVID-19 infection. Such factors resulted in a decrease in watch sales.

In the overseas market, sales in North America decreased substantially, reflecting the contraction of economic activities resulting from the COVID-19 pandemic, as well as the impact of the closure of physical stores, mainly of the jewelry chain. The European market likewise suffered a sharp slowdown although it had been relatively firm. In the Asian market, sales decreased due in part to the significant impact of economic slumps that

occurred on a large scale in many countries, including China.

In the multiple brand segment, sales of the BULOVA brand watches fell significantly in the main North American market, and sales for other brands also decreased.

Sales of movements declined due to sluggish demand for high value-added products still continuing to face tough conditions characterized by a weak market recovery.

As a result, the watches segment as a whole posted a decline in sales with net sales of 141.620 billion yen (down 13.4% year on year), reflecting a downturn in finished products due to sharply deteriorated economic conditions resulting from the spread of the COVID-19 infection, and sluggish sales of movements. Operating profit decreased to 3.938 billion yen (down 68.3% year on year) largely due to the significant impact of a sharp downturn in finished products and sluggish sales of movements despite the growth of high-end products that was promoted as one of the priority measures.

[Machine Tools]

In the domestic market, revenues decreased, reflecting the loss of momentum in sales of semiconductor-related products despite earlier signs of recovery, coupled with the growing sluggishness of automobile-related businesses.

In the overseas market as well, revenues decreased. Although there were movements for medical care- and IT-related businesses in the Chinese market, due to an economic slowdown and a large-scale stagnation in economic activities, other Asian markets, the Americas market and the European market remained sluggish across the board.

As a result, the machine tools segment as a whole posted a decrease in both sales and profit with net sales of 58.545 billion yen (down 18.9% year on year) and operating profit of 7.261 billion yen (down 44.5% year on year) due to an increasingly cautious stance toward capital expenditure both in Japan and abroad, although efforts were made to promote sales of machines equipped with low frequency vibration (LFV) cutting technology, one of the Citizen Group's unique technologies

[Devices and Components]

Sales of auto parts as part of precision machining components fell due to a decrease in new car sales, particularly in China, as well as growing worldwide uncertainty about the future, and sales of switches also declined owing to a decrease in models equipped with side switches for smartphones. Consequently, overall revenues from precision machining components decreased.

Overall revenues from opto-devices decreased due to a fall in sales of LED chips and back light units for vehicle use. The decrease also reflected initiatives undertaken with a focus on profitability instead of making pricing compromises with respect to LED for lighting products, despite intensifying price competition.

Sales of quartz devices, among other products, remained almost unchanged, mainly reflecting an increase in demand for communication devices such as smartphones.

As a consequence, net sales of the devices and components segment as a whole decreased to 55.946 billion yen (down 8.0% year on year), due to a fall mainly in sales of opto-devices. Operating profit decreased to 0.926 billion yen (down 63.6% year on year), primarily due to the impact of decreased sales, despite the implementation of strategies with a focus on profitability.

[Electronic Products]

Overall revenues from information equipment fell, reflecting sluggish sales of the mainstay

photo printers and POS printers largely due to a fall in appetite for capital expenditure, despite encouraging sales of bar code printers.

Revenues from healthcare equipment declined due to a drop in sales in Japan, which was not fully offset by strong sales in the Middle East and Asia.

Consequently, the overall electronic products segment suffered a decrease in both sales and profit with net sales of 16.875 billion yen (down 12.7% year on year) and operating loss of 0.257 billion yen (operating profit of 0.438 billion yen a year ago).

[Other Products]

Revenues from jewelry products decreased, chiefly due to a reactionary fall following the consumption tax hike and increasingly sluggish sales in department and specialty stores, particularly in regional markets, despite signs of rises in sales of luxury products, as well as the reduction of sales activities in consideration of company liquidation and the transfer of some businesses.

As a result, the other products segment as a whole posted a decrease in sales and profit with net sales of 5.543 billion yen (down 4.8% year on year) and operating profit of 0.041 billion yen (down 71.3% year on year).

Note: The difference between each segment's operating profit of 11.911 billion yen in total and that of 6.136 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	141,620	50.8	(13.4)
Machine Tools	58,545	21.0	(18.9)
Devices and Components	55,946	20.1	(8.0)
Electronic Products	16,875	6.1	(12.7)
Other Products	5,543	2.0	(8.0)
Total	278,531	100.0	(13.4)

Note: The rate of the sales in the overseas to the gross sales is 64.5%.

2. Financing

The Company raised funds of 15.0 billion yen through a syndicated loan, the proceeds of which were used to cover repayment funds for borrowings and expenses for business restructuring, etc.

3. Capital Expenditures

Capital expenditures during the fiscal year totaled 21.140 billion yen, the major expenditures of which are as follows:

- (1) 10.319 billion yen for production facilities in Watches
- (2) 4.185 billion yen for production facilities in Machine Tools
- (3) 4.226 billion yen for production facilities in Devices and Components
- (4) 0.361 billion yen for production facilities in Electronic Products
- (5) 0.011 billion yen for production facilities in Other Products

4. Important corporate restructuring

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.

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

Not applicable

6. Challenges Going Forward

As the business environment surrounding our company, we recognize the following environmental changes mainly in the watch business, which is our core business.

1. Shrinkage of the watch market centered on fashion watches in the United States along with the expansion of the digital display type smart watch market
2. Shrinkage of the analog quartz movement market
3. Rapid growth of e-commerce (EC) distribution and sluggish physical store distribution in countries such as China and the United States
4. Steady demand for mechanical watches centered on high-priced ones
5. Decline in consumption due to the current worldwide spread of COVID-19

Recognizing an increased risk for a downturn in business due to the impact of the changes in business environment as described above, we will address issues, prioritizing those in the core watch business.

Regarding businesses other than watches, we will continue our efforts in the “Citizen Group Medium-term Management Plan 2021” while paying close attention to downward risks such as changes in the business environment and the current COVID-19 impact.

In the movement business which has been the primary source of revenue for our watch business, securing profits are becoming difficult due to changes in the business environment, namely, the shrinkage of analog quartz watch market along with the expansion of the digital display type smart watch market. For the watch business, we will not excessively rely on the movement business from now on, aiming to increase profits in the finished products business centered on CITIZEN brand watches, and will prioritize the following four issues.

1. Rebuilding the movement business

Toward improving the profitability of the movement business, we will optimize the production scale of the analog quartz movement and rebuild our manufacturing system to meet the demand. Also, in addition to such production innovation for movements, we will promote rationalization such as consolidation and abolition of calibers to pursue cost reduction. Further, toward securing steady demand for mechanical movements, we will develop a pricing strategy according to demand to establish a stable profit foundation.

2. Strengthening the CITIZEN brand centered on Eco-Drive

-Eco-Drive is our core technology for driving watches with light power and our efforts have been highly evaluated, such as being the first wristwatch obtaining Eco Mark certification, a label managed by the Japan Environment Association (JEA), in 1996. From now on, in addition to further expanding PROMASTER, a professional sports watch and CITIZEN L, an ethical watch, which are being developed as global brands, we will further strengthen our domestic market business with the ATTESA and xC, established as major domestic brands, as well as expand sales into the Asian market.

3. Strengthening EC sales and digital marketing

Departing from the dependence on physical store distribution and strengthening of EC sales, as accelerated by the spread of the COVID-19 infections, are urgent and important tasks. The Company, in addition to promoting its existing EC sales, will

further strengthen EC sales by promptly establishing a direct sales EC platform in the domestic market, which is ahead in the U.S. market going forward. In addition, we will further enhance digital marketing such as Riiiver, FTS (Fine Tuning Service) and AI WATCH RECOMMEND services, which we are currently offering, to cultivate new customers and promote omni-channel marketing to lead to increased profits.

4. Priority area strategy

Until now, we have treated the Japanese and North American markets as priority markets, but in order to revitalize the Asian market, which is expected to grow in the future, and, in particular, put the Chinese market back on a growth track, we will work on expanding products for the younger generation as well as expanding EC sales. In the North American market, toward shifting to a profitable structure, we will work to optimize selling, general and administrative expenses through structural reforms, and focus on expanding EC sales more than ever.

We are promoting the above initiatives and strategies. We thank our shareholders for their continuing support.

7. Assets and Profit and Loss of the Company

	132 nd (FY2016)	133 rd (FY2017)	134 th (FY2018)	135 th (FY2019)
Net sales (millions of yen)	312,559	320,047	321,652	278,531
Ordinary profit (millions of yen)	21,985	26,664	26,602	7,531
Profit attributable to owners of parent (millions of yen)	16,573	19,303	13,369	(16,667)
Basic earnings per share (yen)	52.07	60.65	42.00	(53.07)
Total assets (millions of yen)	395,887	412,165	413,911	369,575
Net assets (millions of yen)	249,215	263,713	267,547	230,791
Net assets per share (yen)	752.21	797.75	808.87	709.21

Notes:

- The figures of profit attributable to owners of parent and basic earnings per share in parentheses represent losses.
- 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.
- The Company has introduced a performance-linked stock compensation plan utilizing the Board Incentive Plan (BIP) Trust from the 134th term, 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 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, 2020)

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, 2020)

Name	Location
Citizen Watch Co., Ltd.	Nishitokyo, Tokyo
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, 2020)

Business Segment	Number of employees		Change from the previous fiscal year-end	
Watches	6,506	[3,084]	143	[(627)]
Machine Tools	1,832	[238]	12	[(65)]
Devices and Components	5,098	[1,042]	70	[(31)]
Electronic Products	1,161	[30]	(87)	[(42)]
Other Products	177	[135]	(5)	[(1)]
General Corporate	250	[40]	(18)	[5]
Total	15,024	[4,569]	115	[(761)]

Note: 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.

12. Principal Lenders (as of March 31, 2020)

(Millions of yen)

Name	Borrowed Amount
Mizuho Bank, Ltd.	11,100
MUFG Bank, Ltd.	10,400
Nippon Life Insurance Company	3,600
Sumitomo Mitsui Banking Corporation	3,000
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, 2020)

- (1) Total number of authorized shares: 959,752,000 shares
 (2) Total number of shares issued: 314,353,809 shares

Note: The total number of shares issued decreased by 6,000,000 shares in comparison with the number as of March 31, 2019 as a result of the cancellation of treasury shares conducted on September 30, 2019.

- (3) Number of shareholders: 34,986
 (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)	35,424	11.32
Japan Trustee Services Bank, Ltd. (trust account)	25,104	8.02
Nippon Life Insurance Company	11,948	3.82
Nichia Corporation	10,000	3.20
SSBTC CLIENT OMNIBUS ACCOUNT	6,063	1.94
Mitsubishi UFJ Trust and Banking Corporation	5,375	1.72
STATE STREET BANK AND TRUST COMPANY 505001	5,221	1.67
Trust & Custody Services Bank, Ltd. (securities investment trust account)	5,041	1.61
NIKON CORPORATION	5,005	1.60
Japan Trustee Services Bank, Ltd. (trust account 7)	4,967	1.59

Note: Shareholding ratio is calculated after deducting 1,337,807 treasury shares.

2. Status of Share Acquisition Rights (as of March 31, 2020)

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, 2020)

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	
Managing Director	Toshihiko Sato	President of JAPAN CLOCK & WATCH ASSOCIATION
	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
Director Director	Keiichi Nakajima Shinji Shirai	President of Citizen Machinery Co., Ltd. Senior General Manager of Manufacturing Technology Division and in charge of Quality Assurance Department President of Citizen Watch manufacturing Co., Ltd.
Director	Yoshitaka Oji	Senior General Manager of Product Development Division and Watch Development Division, and Senior General Manager of R&D Center of the Company
Director	Yoshiaki Miyamoto	Group Risk Management, General Manager of General Affairs Division and in charge of Personnel Division, CSR Department and Environmental Management Department
Outside Director	Fumiaki Terasaka	Outside Audit & Supervisory Board Member of DAISYO CORPORATION Outside Director of FUJITSU GENERAL LIMITED
Outside Director	Toshiko Kuboki	Attorney-at-law Outside Director of Qol Holdings Co., Ltd.
Outside Director Audit & Supervisory Board Member (Full-time)	Yoshio Osawa	Outside Director of Canon Marketing Japan Inc.
Audit & Supervisory Board Member (Full-time)	Yoshio Takada	
Outside Audit & Supervisory Board Member	Noboru Akatsuka	
Outside Audit & Supervisory Board Member	Yaeko Ishida	Attorney-at-law

Notes:

- At the 134th Ordinary General Meeting of Shareholders held on June 26, 2019, Ms. Toshiko Kuboki and Mr. Yoshio Osawa were newly elected as Directors and assumed the position.
- At the 134th Ordinary General Meeting of Shareholders held on June 26, 2019, Ms. Yaeko Ishida was newly elected as Audit & Supervisory Board Member and assumed the position. Ms. Yaeko Ishida uses the name Yaeko Kitadai in her profession as an attorney-at-law.
- 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.

6. Outside Audit & Supervisory Board Member Ms. Yaeko Ishida is thoroughly experienced in corporate legal affairs as an attorney-at-law and has extensive knowledge of finance and accounting.
7. The Company has appointed Outside Directors, Mr. Fumiaki Terasaka, Ms. Toshiko Kuboki and Mr. Yoshio Osawa, and Outside Audit & Supervisory Board Members, Mr. Noboru Akatsuka and Ms. Yaeko Ishida 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 by Chairman of the Board of Directors Mr. Toshio Tokura and Director Mr. Yoshitaka Oji changed on April 1, 2020 as follows:

Title	Name	Area of responsibility and significant concurrent role held at other companies (if any)
Executive Advisor	Toshio Tokura	
Director	Yoshitaka Oji	Senior General Manager of Product Development Division, Senior General Manager of R&D Center, and in charge of Watch Development Division

Operating Officers as of April 1, 2020 are as follows:

Title	Name	Area of responsibility
Senior Operating Officer	Katsuhiro Miwa	Senior General Manager of Watch Development Division
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, Watch Business 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
Masaaki Komatsu	June 26, 2019	Expiration of term of office	Outside Director
Toshiko Kuboki	June 26, 2019	Resignation	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 [Out of which, Outside Directors]	12 [4]	245 [26]	210 [26]	35 [—]	— [—]
Audit & Supervisory Board Member [Out of which, Outside Audit & Supervisory Board Members]	4 [3]	42 [24]	42 [24]	— [—]	— [—]
Total [Out of which, outside officers]	16 [7]	287 [50]	252 [50]	35 [—]	— [—]

Notes:

1. The above figures include Director and Audit & Supervisory Board Member who retired upon conclusion of the 134th Ordinary General Meeting of Shareholders held on June 26, 2019.
2. The above amount of the bonuses (35 million yen) for Directors (excluding Outside Directors) is the amount to be paid after the conclusion of the 135th Ordinary General Meeting of Shareholders scheduled to be held on June 25, 2020.
3. 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.
4. Separate from note 3 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).
5. The maximum allowance for the total amount of compensation, etc. for Outside Directors was set at 40 million yen per year at the 134th Ordinary General Meeting of Shareholders held on June 26, 2019. No bonuses will be paid to Outside Directors.
6. 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, 2020

Name	Title	Attendance at Board of Directors meetings (attendance rate)	Attendance at Audit & Supervisory Board meetings (attendance rate)	Principal comments
Fumiaki Terasaka	Outside Director	17 of 17 (100%)	—	Comments as needed primarily from the viewpoint of a highly experienced executive
Toshiko Kuboki	Outside Audit & Supervisory Board Member	4 of 4 (100%)	3 of 3 (100%)	Comments as needed primarily from the professional viewpoint of an attorney-at-law
	Outside Director	13 of 13 (100%)	—	Comments as needed primarily from the professional viewpoint of an attorney-at-law
Yoshio Osawa	Outside Director	13 of 13 (100%)	—	Comments as needed primarily from the viewpoint of a highly experienced executive
Noboru Akatsuka	Outside Audit & Supervisory Board Member	16 of 17 (about 94%)	12 of 13 (about 92%)	Comments as needed primarily from the viewpoint of a highly experienced executive
Yaeko Ishida	Outside Audit & Supervisory Board Member	13 of 13 (100%)	10 of 10 (100%)	Comments as needed primarily from the professional viewpoint of an attorney-at-law

Notes:

- Since Outside Director Ms. Toshiko Kuboki resigned from the position of Outside Audit & Supervisory Board Member at the conclusion of the 134th Ordinary General Meeting of Shareholders held on June 26, 2019 and -was newly elected as Outside Director, her activities shown above were those as Outside Audit & Supervisory Board Member about the Board of Directors and Audit & Supervisory Board meetings held prior to that General Meeting of Shareholders and those as Outside Director about the Board of Directors meetings held thereafter.
- The activities of Outside Director Mr. Yoshio Osawa and Outside Audit & Supervisory Board Member Ms. Yaeko Ishida shown above were those during their terms, for they were newly elected as Outside Director or Outside Audit & Supervisory Board Member at the 134th Ordinary General Meeting of Shareholders held on June 26, 2019.
- Outside Audit & Supervisory Board Member Ms. Yaeko Ishida uses the name Yaeko Kitadai in her profession as an attorney-at-law.

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	48
(2) Total amount of money and other material benefits to be paid to Independent Auditors by the Company and subsidiaries	80

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 Citizen 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

The Company is working to promote compliance by establishing the Citizen Code of Conduct as a code of conduct which is applicable in common to all of the companies constituting the Citizen Group, and by thoroughly informing Directors and employees of the Citizen Code of Conduct to enhance their knowledge and awareness of compliance. In addition, we conduct a CSR awareness survey to Directors and employees of the Citizen Group every year to grasp the awareness of CSR and corporate ethics.

(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 three (3) 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 about 94% or more 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 about 92% or more 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. Shigehiro Chiba, Mr. Hidekazu Takahashi and Mr. Yoichi Endo, associates of Nihombashi Corporation. In addition, seven (7) certified public accountants, eight (8) 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 p25 "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. Fumiaki Terasaka, Ms. Toshiko Kuboki or Mr. Yoshio Osawa, or Outside Audit & Supervisory Board Members, Mr. Noboru Akatsuka or Ms. Yaeko Ishida.

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 2019, 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, under the Citizen Group Social Contribution Activity Dispatch Program, in FY 2019, a total of 159 employees voluntarily went to help out at six locations inside and outside Japan to engage in the resolution of social issues. We will continue these activities, which were started as part of the project commemorating the 100th anniversary of the Company's founding, 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, exceptionally, not suitable for controlling decision-making over the financial and business policies of the Company. Therefore, to those who intend to conduct large-scale purchases, to secure the corporate value of the Company and the common interest of its shareholders, the Company will request to provide necessary and sufficient information for the shareholders to make appropriate judgements, disclose the opinions of the Board of Directors, etc. and take appropriate measures based on the Financial Instruments and Exchange Act, the Companies

Act and other related laws and regulations, while striving to keep time and information for shareholders to consider the matter.

(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 2019, the Company established its new medium-term management plan, “Citizen Group Medium-term Management Plan 2021,” a medium-term management plan, which covers years until the fiscal year ending March 31, 2022 (hereinafter the “Management Plan”) by incorporating the challenges left over from the “Citizen Global Plan 2018” that covered years until the fiscal year ended March 31, 2019, as well as new challenges going forward.

In the Management Plan, we are working on the three key measures below toward realizing the Citizen Group’s medium-term management vision, titled “Innovation for the Next – *Sense the Time and Create an Impression for the Future*”: 1. promotion of growth in watches and machine tools; 2. promotion of Sustainable Development Goals (SDGs); 3. enhancement of compliance in quality.

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

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.

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, 2020)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		LIABILITIES	
Current assets	235,655	Current liabilities	71,271
Cash and deposits	80,168	Notes and accounts payable - trade	16,485
Notes and accounts receivable - trade	43,254	Electronically recorded obligations - operating	9,223
Electronically recorded monetary claims - operating	1,395	Notes payable - facilities	508
Merchandise and finished goods	58,708	Electronically recorded obligations - non-operating	784
Work in process	20,563	Short-term borrowings	17,227
Raw materials and supplies	21,920	Income taxes payable	1,551
Consumption taxes receivable	2,586	Accrued expenses	8,160
Other	8,090	Provision for bonuses	4,855
Allowance for doubtful accounts	(1,033)	Provision for bonuses for directors (and other officers)	170
		Provision for product warranties	1,133
Non-current assets	133,919	Provision for environmental measures	87
Property, plant and equipment	78,532	Provision for loss on reorganization	1,840
Buildings and structures	40,222	Other	9,242
Machinery, equipment and vehicles	17,014	Non-current liabilities	67,511
Tools, furniture and fixtures	6,162	Bonds payable	10,000
Land	10,164	Long-term borrowings	27,929
Leased assets	1,264	Deferred tax liabilities	585
Construction in progress	3,704	Provision for loss on reorganization	829
Intangible assets	4,552	Retirement benefit liability	24,038
Software	3,830	Asset retirement obligations	66
Leased assets	11	Other	4,061
Other	710	Total liabilities	138,783
Investments and other assets	50,833	NET ASSETS	230,791
Investment securities	33,449	Shareholders' equity	220,165
Long-term loans receivable	408	Share capital	32,648
Deferred tax assets	14,604	Capital surplus	33,730
Other	2,657	Retained earnings	154,855
Allowance for doubtful accounts	(239)	Treasury shares	(1,069)
Allowance for investment loss	(46)	Accumulated other comprehensive income	1,560
		Valuation difference on available-for-sale securities	3,578
		Foreign currency translation adjustment	(1,095)
		Remeasurements of defined benefit plans	(921)
		Non-controlling interests	9,066
		Total net assets	230,791
Total assets	369,575	Total liabilities and net assets	369,575

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

Consolidated Statement of Income

(Year ended March 31, 2020)

(Millions of yen)

Account title	Amount
Net sales	278,531
Cost of sales	177,431
Gross profit	101,100
Selling, general and administrative expenses	94,964
Operating profit	6,136
Non-operating income	3,459
Interest income	479
Dividend income	1,378
Rental income	171
Share of profit of entities accounted for using equity method	801
Subsidy income	230
Other	396
Non-operating expenses	2,063
Interest expenses	406
Loss on sales of notes receivable - trade	88
Depreciation of assets for rent	39
Foreign exchange losses	919
Bad debts expenses	213
Other	396
Ordinary profit	7,531
Extraordinary income	1,941
Gain on sales of investment securities	1,860
Gain on sales of non-current assets	75
Other	5
Extraordinary losses	24,559
Loss on sales of non-current assets	34
Loss on retirement of non-current assets	252
Impairment loss	19,272
Loss on valuation of investment securities	1
Reorganization cost	1,404
Extra retirement payments	2,835
Other	758
Loss before income taxes	15,086
Income taxes - current	4,126
Income taxes - deferred	(1,754)
Loss	17,458
Loss attributable to non-controlling interests	790
Loss attributable to owners of parent	16,667

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

Consolidated Statement of Changes in Equity

(Year ended March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2019	32,648	34,019	181,995	(1,773)	246,889
Cumulative effects of changes in accounting policies			(199)		(199)
Restated balance	32,648	34,019	181,796	(1,773)	246,690
Changes during period					
Purchase of shares of consolidated subsidiaries		0			0
Increase by merger			363		363
Change in scope of consolidation		(289)	5		(283)
Dividends of surplus			(6,936)		(6,936)
Loss) attributable to owners of parent			(16,667)		(16,667)
Cancellation of treasury shares		(3,703)		3,703	-
Purchase of treasury shares				(3,001)	(3,001)
Disposal of treasury shares		(2)		2	0
Transfer of loss on disposal of treasury shares		2	(2)		-
Transfer from retained earnings to capital surplus		3,703	(3,703)		-
Net changes in items other than shareholders' equity					
Total changes during period	-	(288)	(26,940)	704	(26,525)
Balance as of March 31, 2020	32,648	33,730	154,855	(1,069)	220,165

	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, 2019	8,111	3,303	(855)	10,559	10,098	267,547
Cumulative effects of changes in accounting policies						(199)
Restated balance	8,111	3,303	(855)	10,559	10,098	267,348
Changes during period						
Purchase of shares of consolidated subsidiaries						0
Increase by merger						363
Change in scope of consolidation						(283)
Dividends of surplus						(6,936)
Profit (loss) attributable to owners of parent						(16,667)
Cancellation of treasury shares						–
Purchase of treasury shares						(3,001)
Disposal of treasury shares						0
Transfer of loss on disposal of treasury shares						–
Transfer from retained earnings to capital surplus						–
Net changes in items other than shareholders' equity	(4,533)	(4,399)	(66)	(8,999)	(1,032)	(10,031)
Total changes during period	(4,533)	(4,399)	(66)	(8,999)	(1,032)	(36,556)
Balance as of March 31, 2020	3,578	(1,095)	(921)	1,560	9,066	230,791

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 84

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, Prothor Holdings S.A., Prototec S.A., Arnold & Son S.A. and Angelus S.A. were excluded from the scope of consolidation because those four companies were merged with Manufacture La Joux-Perret S.A., a consolidated subsidiary of the Company. Citizen Yubari Co., Ltd. and Citizen Watch Kagoshima Co., Ltd. were also excluded from the scope of consolidation because those two were merged with Citizen Watch Manufacturing Co., Ltd., a consolidated subsidiary of the Company. Citizen Financial Service Co., Ltd. and Bulova de Mexico, S de R.L.de C.V. were also excluded from the scope of consolidation because the former was merged with the Company and the latter was merged with Citizen De Mexico, S.DE R.L. DE C.V. Further, Citizen Watch Goodrington (China) Ltd. was excluded from the scope of consolidation because it was liquidated.

HESTIKA FRANCE S.A.S. which used to be a non-consolidated subsidiary was included in the scope of consolidation because of increased materiality. Citizen De Mexico, S.A.DE C.V. changed its trade name to Citizen De Mexico, S.DE R.L. DE C.V.

- (b) Status of non-consolidated subsidiaries

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

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 Egasca S.A., 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 65
- (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 environmental measures

An estimated amount is recorded based on its reasonably estimated amount in preparation for expenses associated with environmental measures in the future.

7) Provision for loss on reorganization

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 tax effect accounting for the translation from the consolidated taxation system to the group tax sharing system

Concerning the items for which the transition to the group tax sharing system, which was established by the “Act for Partial Revision of the Income Tax Act,

etc.” (Act No. 8 of 2020), is made and the non-consolidated taxation system is revised in accordance with the said transition, the Company and some domestic consolidated subsidiaries have not applied paragraph (44) of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) based on paragraph (3) of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Practical Issues Task Force No. 39, March 31, 2020), and have followed the provisions of the pre-revision Income Tax Act concerning deferred tax assets and deferred tax liabilities.

(5) Changes in accounting policies

(Application of IFRS 16 Leases)

Starting from the beginning of the fiscal year under review, some overseas consolidated subsidiaries of the Citizen Group applied IFRS 16 Leases. Accordingly, with respect to almost all leases, assets and liabilities are recognized from the perspective of a lessee’s accounting treatment. Application of this accounting standard has a minor impact on consolidated financial statements of the fiscal year under review.

(Application of ASC No. 606 “Revenue from Contracts with Customers”)

Starting from the beginning of the fiscal year under review, the Group’s overseas subsidiaries applying the US GAAP factored in requirements for “Revenue from Contracts with Customers” (ASC 606).

As a result, the balance of retained earnings at the beginning of the fiscal year under review has decreased by 199 million yen. The impact on net assets per share and basic earnings per share for the fiscal year under review is minor.

3. Notes to Consolidated Balance Sheet

Accumulated depreciation of property, plant and equipment 219,006 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
Japan	Manufacturing facilities for movements, etc.	Machinery, equipment and vehicles; buildings and structures; and tools, furniture and fixtures, etc.
Japan	Assets associated with hybrid smart watch business	Other intangible assets, etc.
Japan, etc.	Manufacturing facilities for electronic device, etc.	Buildings and structures, etc.
Other	Other	Other intangible assets, 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. The total amount of impairment loss presented as extraordinary losses amounted to 19,272 million yen, consisting primarily of 9,081 million yen for machinery and equipment, 4,402 million yen for other intangible assets, 2,750 million yen for buildings and structures, and 1,894 million yen for Tools, furniture and fixtures.

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	-	6,000,000	314,353,809

(Note) The decrease in the total number of issued shares is due to the cancellation of treasury shares.

(2) Cash dividends

(a) Cash dividend payment

1) Dividends approved at the 134th Ordinary General Meeting of Shareholders 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.)

- Dividends per share 10.00 yen
- Record date March 31, 2019
- Effective date June 27, 2019

2) Dividends approved at the meeting of the Board of Directors held on November 8, 2019

- Total amount of dividends 3,752 million yen
(The amount above includes dividends of 2 million yen for shares of the Company held by the BIP Trust.)

- Dividends per share 12.00 yen
- Record date September 30, 2019
- Effective date December 3, 2019

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

Not applicable

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, 2020, as well as their differences.

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Differences
(1) Cash and deposits	80,168	80,168	—
(2) Notes and accounts receivable - trade	43,254	43,254	(0)
(3) Electronically recorded monetary claims - operating	1,395	1,395	—
(4) Investment securities			
Available-for-sale securities	16,735	16,735	—
(5) Long-term loans receivable	408	407	(0)
(6) Claims provable in bankruptcy, claims provable in rehabilitation (Note 1)	69		
Allowance for doubtful accounts (Note 2)	(69)		
	—	—	—
Assets, total	141,963	141,962	(0)
(1) Notes and accounts payable - trade	16,485	16,485	—
(2) Electronically recorded obligations - operating	9,223	9,223	—
(3) Short-term borrowings	3,527	3,527	—
(4) Bonds payable	10,000	9,968	(32)
(5) Long-term borrowings (Note 3)	41,629	41,699	69
Liabilities, total	80,866	80,904	37
Derivatives (Note 4)			
(1) Hedge accounting is not applied	11	11	—
(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.

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	4,267	-	11	11

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: 10,744 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	709.21 yen
Basic earnings per share	(53.07) 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 178,494, and the number of shares at the period end held by the BIP trust was 376,600.

8. Other notes

(1) Additional Information

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 243 million yen and 376,600 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, 2020)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		LIABILITIES	
Current assets	78,881	Current liabilities	53,869
Cash and deposits	31,739	Notes payable - trade	116
Notes receivable - trade	400	Accounts payable - trade	8,756
Electronically recorded monetary claims - operating	130	Electronically recorded obligations - operating	1,792
Accounts receivable - trade	6,220	Notes payable - facilities	140
Finished goods	19,948	Electronically recorded obligations - non-operating	256
Work in process	33	Current portion of long-term borrowings	13,700
Raw materials	424	Accounts payable - other	767
Consumption taxes receivable	968	Accrued expenses	1,682
Short-term loans receivable	12,985	Deposits received	24,135
Accounts receivable - other	5,813	Provision for bonuses	674
Income taxes receivable	1,692	Provision for bonuses for directors (and other officers)	35
Other current assets	741	Provision for loss on reorganization	443
Allowance for doubtful accounts	(2,217)	Other current liabilities	1,367
Non-current assets	154,066	Non-current liabilities	46,816
Property, plant and equipment	15,940	Bonds payable	10,000
Buildings and structures	10,013	Long-term borrowings	27,600
Machinery and equipment	1,197	Provision for retirement benefits	6,000
Vehicles	0	Provision for share-based remuneration for directors (and other officers)	7
Tools, furniture and fixtures	916	Provision for loss on guarantees	1,358
Land	3,746	Provision for loss on reorganization	536
Leased assets	4	Asset retirement obligations	43
Construction in progress	62	Long-term lease obligations	3
Intangible assets	2,048	Long-term accounts payable - other	1,180
Software	2,042	Other noncurrent liabilities	86
Other intangible assets	6	Total Liabilities	100,685
Investments and other assets	136,077	NET ASSETS	
Shares of subsidiaries and associates	103,992	Shareholders' equity	128,790
Investment securities	25,958	Share capital	32,648
Long-term loans receivable	200	Capital surplus	36,029
Long-term prepaid expenses	205	Legal capital surplus	36,029
Deferred tax assets	5,588	Retained earnings	61,180
Other investments and other assets	247	Other retained earnings	61,180
Allowance for doubtful accounts	(69)	Reserve for tax purpose reduction entry	240
Allowance for investment loss	(46)	Retained earnings brought forward	60,940
		Treasury shares	(1,069)
		Valuation and translation adjustments	3,471
		Valuation difference on available-for-sale securities	3,471
		Total net assets	132,262
Total assets	232,947	Total liabilities and net assets	232,947

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

Non-Consolidated Statement of Income

(Year ended March 31, 2020)

(Millions of yen)

Account title	Amount
Net sales	91,302
Cost of sales	70,420
Gross profit	20,881
Selling, general and administrative expenses	25,137
Operating loss	4,255
Non-operating income	13,935
Interest income	78
Dividend income	13,683
Rental income	28
Subsidy income	100
Other	44
Non-operating expenses	2,150
Interest expenses	349
Loss on sales of notes receivable - trade	88
Foreign exchange losses	84
Provision of allowance for doubtful accounts	1,448
Other	179
Ordinary profit	7,529
Extraordinary income	1,922
Gain on sales of non-current assets	30
Gain on sales of investment securities	1,853
Gain on extinguishment of tie-in shares	38
Extraordinary losses	8,014
Loss on retirement of non-current assets	176
Loss on sales of non-current assets	1
Impairment loss	4,504
Loss on valuation of shares of subsidiaries	1,671
Loss on valuation of investment securities	1
Provision of allowance for investment loss	23
Provision for loss on guarantees	1,197
Provision for loss on reorganization	325
Reorganization cost	114
Other	0
Profit before income taxes	1,437
Income taxes - current	(110)
Income taxes - deferred	(899)
Profit	2,446

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

Non-Consolidated Statement of Changes in Equity
(Year ended March 31, 2020)

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings		Total retained earnings
				Reserve for tax purpose reduction entry	Retained earnings brought forward		
Balance as of April 1, 2019	32,648	36,029	–	36,029	190	69,186	69,376
Changes during period							
Dividends of surplus						(6,936)	(6,936)
Profit						2,446	2,446
Provision of reserve for tax purpose reduction entry					50	(50)	–
Purchase of treasury shares							
Disposal of treasury shares			(2)	(2)			
Cancellation of treasury shares			(3,703)	(3,703)			
Transfer of loss on disposal of treasury shares			2	2		(2)	(2)
Transfer from retained earnings to capital surplus			3,703	3,703		(3,703)	(3,703)
Net changes in items other than shareholders' equity							
Total changes during period	–	–	–	–	50	(8,246)	(8,195)
Balance as of March 31, 2020	32,648	36,029	–	36,029	240	60,940	61,180

	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, 2019	(1,773)	136,281	7,909	7,909	144,191
Changes during period					
Dividends of surplus		(6,936)			(6,936)
Profit		2,446			2,446
Provision of reserve for reduction entry		–			–
Purchase of treasury shares	(3,001)	(3,001)			(3,001)
Disposal of treasury shares	2	0			0
Cancellation of treasury shares	3,703	–			–
Transfer of loss on disposal of treasury shares		–			–
Transfer from retained earnings to capital surplus		–			–
Net changes in items other than shareholders' equity			(4,437)	(4,437)	(4,437)
Total changes during period	704	(7,491)	(4,437)	(4,437)	(11,929)
Balance as of March 31, 2020	(1,069)	128,790	3,471	3,471	132,262

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 (excluding leased assets)

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 (excluding leased assets)

Calculated using the straight-line method.
 - (c) Leased assets

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.
- (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 reorganization

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) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
Concerning the items for which the transition to the group tax sharing system, which was established by the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), is made and the non-consolidated taxation system is revised in accordance with the said transition, the Company has not applied paragraph (44) of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) based on paragraph (3) of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Practical Issues Task Force No. 39, March 31, 2020), and has followed the provisions of the pre-revision Income Tax Act concerning deferred tax assets and deferred tax liabilities.

3. Notes to Non-Consolidated Balance Sheet

(1) Short-term monetary claims from subsidiaries and associates	21,716 million yen
Short-term monetary liabilities to subsidiaries and associates	33,407 million yen
Long-term monetary claims from subsidiaries and associates	200 million yen
Long-term monetary liabilities to subsidiaries and associates	7 million yen
(2) Accumulated depreciation of property, plant and equipment	28,306 million yen
(3) Export bills discounted	2,050 million yen
(4) Guarantee obligation	
Concurrent obligations for payments for electronic monetary claims transactions of subsidiaries and associates	1,861 million yen
Guarantees for real estate lease agreement of subsidiaries and associates	25 million yen
	(total amount of monthly rent)

4. Notes to Non-Consolidated Statement of Income

(1) Net sales concerning subsidiaries and associates	38,576 million yen
(2) Purchases from subsidiaries and associates	78,385 million yen

- (3) Other operating transaction with subsidiaries and associates 20,866 million yen
(4) Non-operating transaction with subsidiaries and associates 12,691 million yen

5. 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	2,070,969	5,921,049	6,277,611	1,714,407

Notes:

- The 5,921,049 share increase in treasury shares resulted from the purchase of 5,640,400 shares from the market, the acquisition of 277,500 shares by the BIP trust and the purchase of 3,149 shares, which were less than one unit, from shareholders.
- The 6,277,611 share decrease in treasury shares resulted from the cancellation of treasury shares of 6,000,000 shares, the disposal of treasury shares of 277,500 shares by third-party allotment to the Board Incentive Plan (BIP) Trust and additional sale of 111 shares, which were less than one unit, to shareholders.
- The number of shares at the beginning of the current fiscal year includes 99,100 shares held by the BIP trust.
- The number of shares at the end of the current fiscal year includes 376,600 shares held by the BIP trust.

6. 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	15,260 million yen
Provision for retirement benefits	1,837 million yen
Depreciable assets	2,199 million yen
Other	3,491 million yen
Subtotal	22,789 million yen
Valuation allowance for tax loss carryforward (Note)	(237) million yen
Valuation allowance for the total of deductible temporary differences, etc.	(16,335) million yen
Valuation allowance	(16,573) million yen
Total	6,215 million yen

Deferred tax liabilities

Valuation difference on available-for-sale securities	502 million yen
Other	124 million yen
Total	626 million yen
Net deferred tax assets	5,588 million yen

(Note) Valuation allowance for tax loss carryforward

(Millions of yen)

	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 year within 5 years	Over 5 years	Total
Tax loss carryforward (*)	-	-	-	-	-	237	237
Valuation allowance	-	-	-	-	-	(237)	(237)
Deferred tax assets	-	-	-	-	-	-	-

* Tax loss carryforward is the amount obtained by multiplying by the effective statutory tax rate.

7. 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%	3	Manufacturing of the products of the Company	Purchase of products (Note) 1	42,475	Accounts payable - trade	4,496
					Purchase of raw materials on behalf of others (Note) 1	10,043	Accounts receivable - other	1,354
Subsidiary	Sunciti Manufacturers Ltd.	Ownership (direct) 100%	1	Manufacturing of the products of the Company	Purchase of products (Note) 1	15,747	Accounts payable - trade	735
					Purchase of raw materials on behalf of others (Note) 1	4,297	Accounts receivable - other	996
					Dividend income	1,376	-	-
Subsidiary	ROYAL TIME CITI CO., LTD.	Ownership (direct) 87.44%	-	Manufacturing of the products of the Company	Purchase of products (Note) 1	11,107	Accounts payable - trade	453
					Purchase of raw materials on behalf of others (Note) 1	2,293	Accounts receivable - other	780
Subsidiary	Citizen Watch Company of America, Inc.	Ownership (direct) 100%	2	Sales of the products of the Company	Sales of products (Note) 1	17,094	Accounts receivable - trade	836
Subsidiary	Citizen Watches (H.K.) Ltd.	Ownership (direct) 100%	1	Sales of the products of the Company	Dividend income	2,253	Accounts receivable - other	2,253
Subsidiary	Citizen Machinery Co., Ltd.	Ownership (direct) 100%	2	Control/management of business activities Leasing of real-estate, etc.	Dividend income	6,115	-	-
					Lending of money (Note) 2, 3	6,104	Short-term loans receivable	6,178
Subsidiary	Citizen Electronics Co., Ltd.	Ownership (direct) 79.33%	2	Control/management of business activities	Collecting of money (Note) 2, 3	1,000	Deposits received	14,000
Subsidiary	TOKYO BIJUTSU Co., Ltd.	Ownership (direct) 71.86%	2	Control/management of business activities	Collecting of money (Note) 2, 3	306	Deposits received	2,897

The above transaction amount does not include consumption taxes.

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

1. 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.
2. The interest rates for lending and collecting money shall be determined in view of the market interest rates.
3. The amount of transaction through the lending and collecting of money is the amount arising from transactions under the CMS (cash management system), and the amount stated is the increase/decrease (net amount) during the fiscal year under review.

8. Per share information

Net assets per share 423.05 yen

Basic earnings per share 7.79 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 178,494, and the number of shares held by the BIP trust at the period end was 376,600.

9. Other notes

(1) Business combinations

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

(a) 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.

(b) Summary of the Merger

1) Names of the constituent companies and their business contents

• Surviving company

Company name: Citizen Watch Co., Ltd.

Business: 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

• Merged company

Company name: Citizen Financial Service Co., Ltd.

Business: Operations of accepting deposits from and lending funds to participating companies of the Citizen Group, etc.

2) Date of business combination

April 1, 2019

3) Legal form of business combination

An absorption-type merger with the Company as the surviving company; Citizen Financial Services Co., Ltd. has dissolved as a result.

4) Company name after business combination

Citizen Watch Co., Ltd.

(c) Summary of accounting treatment

This transaction was accounted for as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” and the

“Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.”

(2) Additional information

(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

(3) 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, 2020

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

Nihombashi Corporation
Chuo-ku, Tokyo
Shigehiro Chiba [seal]
Designated Partner and Engagement
Partner, C.P.A.
Hidekazu Takahashi [seal]
Designated Partner and Engagement
Partner, C.P.A.
Yoichi Endo [seal]
Designated Partner and Engagement
Partner, C.P.A.

Opinion

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. (the "Company") for the fiscal year from April 1, 2019 to March 31, 2020. These statements comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group consisted of the Company and its consolidated subsidiaries as of March 31, 2020, and the consolidated results of its operations for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is further stated in the *Auditor's responsibility for the audit of the consolidated financial statements* section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our opinion.

Responsibility of management, the Audit & Supervisory Board Members and the Audit & Supervisory Board for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Audit & Supervisory Board Members and Audit & Supervisory Board are responsible for monitoring the Directors' performance of duties related to maintenance and operation the financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the consolidated financial statements from an independent point of view in an auditor's report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or in the aggregate, influence the decisions of users taken on the basis of the consolidated financial statements.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures responsive to those risks. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Assess the appropriateness of accounting policies adopted by management and their method of application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes thereto.
- Determine whether it is appropriate for management to prepare the consolidated financial statements on the premise of a going concern and, based on the audit evidence obtained, whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we determine that there is a significant uncertainty concerning the premise of a going concern, we are required to call attention to the notes to the consolidated financial statements in our auditor's report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, to issue a qualified opinion with exceptions on the consolidated financial statements. While our conclusions are based on the audit evidence obtained up to the date of our auditor's report, depending on future events or conditions, the Group may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, assess whether the presentation, structure, and content of the consolidated financial statements including related notes thereto, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. We are responsible for the instruction, supervision, and performance of the audit of the consolidated financial statements, and remain solely responsible for our audit opinion.

We report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the planned scope and timing of the audit, material audit findings including any material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

We also report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements as well as matters that are reasonably considered to have an impact on the auditor's independence and where applicable, any safeguards that are in place to eliminate or reduce obstruction factors.

Interest

We or engagement partners have no interests in the Company and its consolidated subsidiaries, which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Financial Audit Report on Non-Consolidated Financial Statements

Independent Auditors' Report on Non-Consolidated Financial Statements

May 20, 2020

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

Nihombashi Corporation
Chuo-ku, Tokyo
Shigehiro Chiba [seal]
Designated Partner and Engagement
Partner, C.P.A.
Hidekazu Takahashi [seal]
Designated Partner and Engagement
Partner, C.P.A.
Yoichi Endo [seal]
Designated Partner and Engagement
Partner, C.P.A.

Opinion

Pursuant to the provisions of Article 436, paragraph (2), item (i) of the Companies Act, we have audited the non-consolidated financial statements and the supplementary schedules (hereinafter the "Financial Statements, etc.") of Citizen Watch Co., Ltd. (the "Company") for the 135th business term from April 1, 2019 to March 31, 2020. The non-consolidated financial statements comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, and the notes to the non-consolidated financial statements.

In our opinion, the Financial Statements, etc. referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2020, and the results of its operations for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for opinion

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

Responsibility of management, the Audit & Supervisory Board Members and the Audit & Supervisory Board for the Financial Statements, etc.

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

In preparing the Financial Statements, etc., management is responsible for assessing whether it is appropriate to prepare the Financial Statements, etc. in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the Directors' performance of duties related to maintenance and operation the financial reporting process.

Auditor's responsibility for the audit of the Financial Statements, etc.

Our responsibility is to obtain reasonable assurance about whether the Financial Statements, etc. as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the Financial Statements, etc. from an independent point of view in our auditor's report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or in the aggregate, influence the decisions of users taken on the basis of the Financial Statements, etc.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures responsive to those risks. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit of the Financial Statements, etc. in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the Financial Statements, etc. is not expressing an opinion on the effectiveness of the Company's internal control.
- Assess the appropriateness of accounting policies adopted by management and their method of application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes thereto.
- Determine whether it is appropriate for management to prepare the Financial Statements, etc. on the premise of a going concern and, based on the audit evidence obtained, whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If We determine that there is a significant uncertainty concerning the premise of a going concern, we are required to call attention to the notes to the Financial Statements, etc. in our auditor's report, or if the notes to the Financial Statements, etc. pertaining to the significant uncertainty are inappropriate, to issue a qualified opinion with exceptions on the Financial Statements, etc. While our conclusions are based on the audit evidence obtained up to the date of our auditor's report, depending on future events or conditions, the Company may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the Financial Statements, etc. are in accordance with accounting standards generally accepted in Japan, assess whether the presentation, structure, and content of the Financial Statements, etc. including related notes thereto, and whether the Financial Statements, etc. fairly present the transactions and accounting events on which they are based.

We report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the planned scope and timing of the audit, material audit findings including any material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

We also report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements as well as matters that are reasonably considered to have an impact on the auditor's independence and where applicable, any safeguards that are in place to eliminate or reduce obstruction factors.

Interest

We or engagement partners have no interests in the Company, which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Audit Report of the Audit & Supervisory Board

Audit Report

With regard to the performance of the Directors' duties for the 135th business term from April 1, 2019 to March 31, 2020, 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, paragraphs (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, 2020

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)

Yaeko Ishida [seal]
Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member)