



CITIZEN

CITIZEN REPORT
2020

CITIZEN

Our Corporate Philosophy

“Loved by citizens, working for citizens.”

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

Our Strategy

Medium-Term Management Plan 2021

Innovation for the next

Sense the Time and Create an Impression for the Future

Our Strength

Manufacture

Never matched
Creating the one and only
Outstanding technology and skills

The CITIZEN Group Corporate Story

The CITIZEN Group was founded in 1918 with the dream of producing a watch made in Japan. We have grown into a *manufacture d'horlogerie* capable of integrated in-house manufacture of everything from individual parts to completed products. Through our core Watches and Machine Tools businesses, we have contributed to the lives of people around the world. The company name "CITIZEN" embodies the aspiration of our Corporate Philosophy, "Loved by citizens, working for citizens." As such, our mission is to be sensitive to changing times, and to create inspiration for a sustainable future. We will continue to go beyond conventional manufacturing as we take on the challenge of creating new value.

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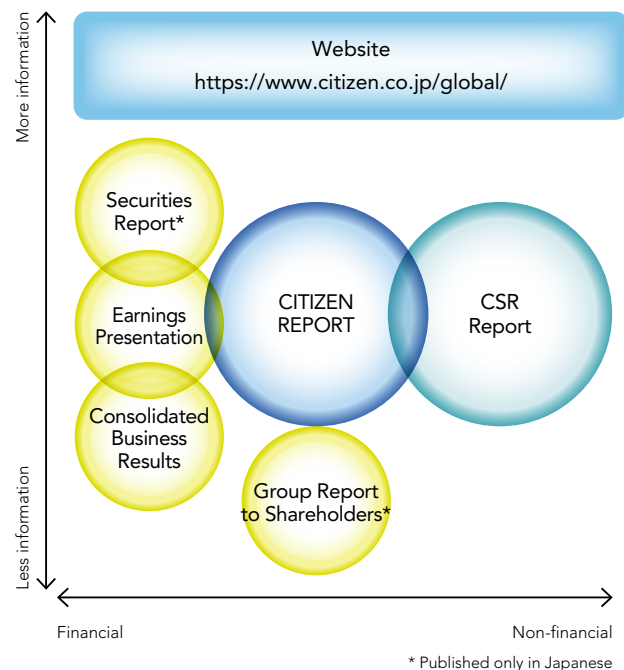
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Editorial Policy

Citizen Watch Co., Ltd. publishes the *CITIZEN REPORT* to communicate the mid- to long-term corporate value of the CITIZEN Group. This report has been compiled to convey the Group's position and business direction in plain terms to stakeholders.

Guide to Disclosure



Forward-Looking Statements

This report contains forward-looking statements regarding the CITIZEN Group's future performance. These statements are based on information currently available. Statements regarding future forecasts involve risks and uncertainties such as exchange rate fluctuations and changes in demand for products. Readers should understand that actual Group performance may differ from the outlook provided in this report.

Message from the President & CEO



“Loved by citizens, working for citizens.”

Even during difficult times, the goal of
the CITIZEN Group is sustainable growth.

Toshihiko Sato

Citizen Watch Co., Ltd.
President & CEO

The Operating Environment and Key Strategies Going Forward

Increasing Corporate Value through Business Efficiency

In FY2019, the CITIZEN Group launched its new medium-term management plan with the vision, Innovation for the next—Sense the Time and Create an Impression for the Future. The plan calls for us to be sensitive to changing times, going beyond traditional manufacturing and embracing our aspiration to create new value and a sustainable future. To that end, we have been executing a variety of strategies. Today, however, we are faced with the harsh environment brought on by COVID-19 as it continues to spread around the world with no end in sight. The impact of the pandemic on the global economy and on citizens' lives has been immense, and has forced us to reevaluate the value that we offer as a company. At the same time, we are keenly aware that we must make strides toward achieving sustainable growth and heightening our ability to adapt to this new era.

The year 2020 signals a period of major transformation not only for CITIZEN, but for the world and for society as a whole. In the past, consumer preferences and technology have always evolved contiguously with the times. However, the change brought about by the current pandemic has been discontinuous and had an enormous impact on the world. Measures such as stay-at-home recommendations have made the operation of physical stores unviable, and the effects continue to be felt across a wide range of industries and types of business.

Conditions in our own business are also changing on a scale and at a rate beyond any possible expectations. Given this situation, accelerating the two growth strategies laid out in our medium-term management plan—to strengthen profitability in the Watch business and to promote the growth of the Machine Tools business—has become an urgent issue.

Strengthening profitability in the Watch business entails three key strategies: increasing profitability of the CITIZEN brand centered on Eco-Drive technology; expanding mechanical watches in the medium to long term; and shifting to a more profitable structure. At the same time, our focus in promoting the growth of the Machine Tools business, our second core business, also relies on three key strategies: establishing a firm business base through innovative manufacturing; further enhancing the competitiveness of existing businesses; and expanding the solutions business utilizing IoT.

To achieve the two growth strategies, we must strengthen the functions that underpin growth. We will advance our digital transformation, make strategic use of intellectual property and implement other measures aimed at achieving greater business efficiency. Doing so will in turn lead to enhanced corporate value.

Medium-Term Management Plan 2021

Innovation for the next

Sense the Time and Create an Impression for the Future

Sensitive to changes over time, CITIZEN will take on the challenge of creating new, unique value, not merely continuing manufacturing as in the past, and moving toward a sustainable future.

Medium-Term Management Plan FY2021 Targets

Net Sales	Operating Profit	ROE*
370.0 billion yen	30.0 billion yen	8.0%

* ROE = Annual net profit / Net worth

Key Strategies

Promotion of growth in Watches and Machine Tools	Promotion of sustainable management	Enhancement of quality compliance
--------------------------------------------------	-------------------------------------	-----------------------------------

Medium-to-Long-Term Measures to Rebuild Profit Structure

Offering Customers Products of Value will Drive Profitability

FY2019 was a difficult year in terms of performance for the CITIZEN Group's mainstay businesses, with both Watches and Machine Tools failing to meet expectations. In the Watch business, movement sales saw a particularly large drop, requiring immediate corrective measures to improve profitability. To date, operating profit has centered on high-value-added analog quartz movements, for which we were able to maintain high profitability. However, due to factors including the sudden growth in smartwatches with digital displays, the market for fashion brand watches has shrunk, causing movement sales to struggle. With the added impact of COVID-19, the business environment has become increasingly severe, and rebuilding our profit structure is a major issue.

The accelerating shift from traditional brick-and-mortar sales to e-commerce means that we are also facing a major change in our distribution structure. This trend has been particularly striking in the major North American market, where our current measures to strengthen sales in e-commerce need further work. By strengthening initiatives targeting the e-commerce market, which is projected to continue growing, and executing them with greater speed and efficiency, we expect to improve profitability.

The Machine Tools business is susceptible to economic cycles. Disruption caused by trade friction between the U.S. and China, as well as economic stagnation due to the pandemic, has resulted in the continuation of the



downward trend in the global market. Despite recent weak market conditions, we expect future demand from companies making capital investments and are therefore creating a structure for new growth that will lead to greater medium-to-long-term sales. This includes expanding production capacity in anticipation of a recovery, among other measures to maximize the efficiency of current management resources.

Meanwhile, in the Devices and Components and the Electronic Products businesses, we will apply a strategy of selection and concentration to focus on businesses and products for which we see a future need. In Devices and Components, we will move forward with structural reforms in Citizen Electronics-related businesses, seeking to improve productivity as well as the reorganization of production sites. We will also focus on products such as crystal devices and ceramics where we can leverage proprietary technologies, and establish a dominant competitive advantage in specific fields. In Electronic Products, we will take advantage of the strengths of the printer business, which is based on our high-precision technologies, and of the healthcare business, which contributes to resolving issues related to the aging of society, and aim to achieve stable profitability.

Business Portfolio Concept

Core	Watches	<ul style="list-style-type: none"> Actively invest Group management resources to promote the growth of the CITIZEN Group
	Machine Tools	<ul style="list-style-type: none"> Accelerate growth through continued investment in line with the expansion of the market
Generate profit	Automotive business (metal parts and LEDs)	<ul style="list-style-type: none"> Generate profit in parts processing business for automotive market Achieve top manufacturing capacity in the category
Improve profitability	Devices and Components, Electronic Products and Other Products	<ul style="list-style-type: none"> Selection and concentration of business and products

External
Influences and
Sustainable
Management

Accelerating the Evolution into a New CITIZEN Group

Sustainable management is an important focus of the CITIZEN Group. Society expects companies to play a role in addressing issues including those relating to the United Nations' Sustainable Development Goals (SDGs) and climate change. To us, sustainable management means responding to those expectations, reaffirming our role as a member of society and living up to our Corporate Philosophy of "Loved by citizens, working for citizens" through our businesses. Specifically, we will achieve Sustainable Factories, which bring about sustainability throughout our value chain, including suppliers, and create Sustainable Products, produced in those Sustainable Factories. Through eco-friendly and long-life products built using CITIZEN technologies, we will contribute to resolving social issues. In working with a wide range of stakeholders to create new products, we will ensure the sustainable growth of the CITIZEN Group.

Our goal should not be to just trumpet our technologies and skills, but to bring joy to those who use our products. I believe that the new value people gain from our products comes from technology, design and the unique added benefits that only CITIZEN can provide. Now more than ever, in order to return to the roots of our Corporate Philosophy, "Loved by citizens, working for citizens," and to offer customers products of value, we must continue to adapt and take on new challenges amid the changing social and economic environment, while enhancing our corporate value.

In April 2020, we established a Sustainability Committee in order to enhance our framework for practicing sustainable management. As the body tasked with promoting sustainable management, the committee will not simply set targets, but work in cooperation with the Management Committee to quickly and appropriately roll out relevant strategies based on a PDCA cycle. We will not allow ourselves to be constrained by precedent or conventional modes of thinking as we accelerate our evolution into a new CITIZEN Group capable of adapting flexibly to changing times.

July 2020

Toshihiko Sato

President & CEO
Citizen Watch Co., Ltd.

Sustainable Products and Sustainable Factories

Sustainable Products

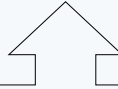
Awareness of the Global Environment

- ◆ Conservation of energy and resources
- ◆ Conservation of the environment
- ◆ Prevention of pollution
- ◆ Long useful life
- ◆ Repurposing, reuse and recycling of resources
- ◆ Management of hazardous substances



Awareness of Working Environments and People

- ◆ CSR procurement
- ◆ Conflict-free procurement
- ◆ Elimination of hazardous substances
- ◆ Respect for human rights
- ◆ Safe and secure working environments



Sustainable Factories

- ◆ Reduced energy at point of manufacture
- ◆ Reduced resources
- ◆ Prevention of pollution
- ◆ Human rights
- ◆ Labor practices
- ◆ Health and safety



CITIZEN Group factories
Suppliers

Sustainable Development Goals



The **Sustainable Development Goals (SDGs)** are international goals for achieving a more sustainable world by 2030. They are set out in the 2030 Agenda for Sustainable Development that was adopted at the United Nations General Assembly in September 2015, and are the successors to the Millennium Development Goals (MDGs) formulated in 2001. Consisting of 17 goals and 169 targets, the SDGs pledge to “leave no one behind.” They are a universal call to action that applies to both developing and developed countries, and Japan as a nation is taking an active role in promoting their achievement.

Sustainable Management

Contributing to Society through Sustainable Factories and Sustainable Products

The CITIZEN Group believes that the key to successfully practicing sustainable management is in Sustainable Factories and Sustainable Products. We define Sustainable Factories as production facilities that, in addition to giving ongoing consideration to the environment, comprehensively address issues such as compliance, human rights, labor practices, business continuity planning and productivity improvement throughout the value chain, including suppliers. Sustainable Products created in these Sustainable Factories not only emphasize the perspective of sustainability, but also take into consideration the creation of new value that leads to innovation.

These sustainability initiatives go beyond CITIZEN itself to encompass collaboration and cooperation with suppliers and a variety of other business partners. We will continue to focus on sustainable management practices in order to contribute to the lives of “citizens” everywhere and to society as a whole.



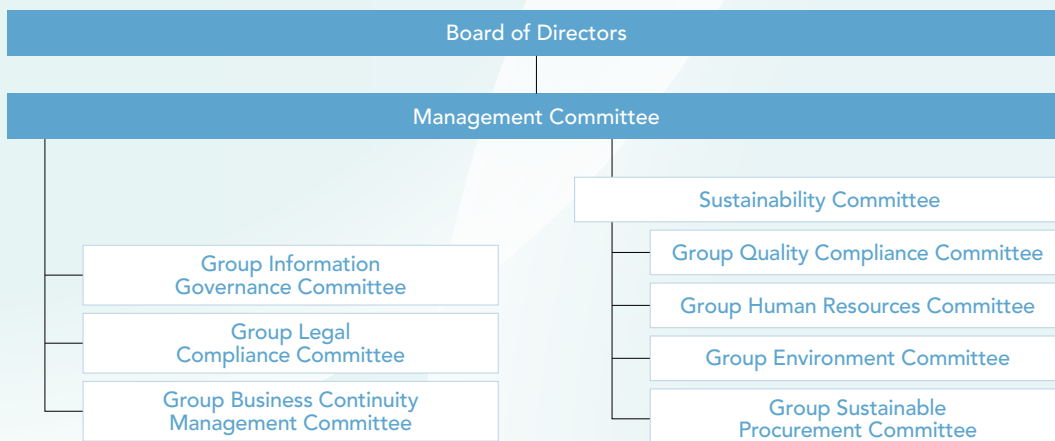
Overview of sustainable management

System for Promoting Sustainable Management

In April 2020, we established the Sustainability Committee to promote sustainable management practices, enabling us to contribute to solving specific material issues while continuing to provide Sustainable Products generated by Sustainable Factories. Chaired by the President of Citizen Watch Co., Ltd. (“the Company”), the committee includes the full-time Directors of the Company and the presidents of its operating subsidiaries. This committee is responsible for promoting sustainable management across the CITIZEN Group as a whole.

The Sustainability Committee secretariat (consisting of the CSR Department and the Corporate Planning Division of the Company) periodically holds Sustainability Secretariat meetings. These meetings, which bring together CSR managers, corporate planning divisions of the Group companies and Materiality Committee secretariats, regularly review sustainability issues at each company, the progress of initiatives and other matters. Each company submits proposals and reports to the Sustainability Committee for deliberation.

Sustainability Promotion System



Process for Identifying and Reviewing Materiality

Since FY2017, the CITIZEN Group has worked to identify priority material issues to fulfill its responsibility as a member of international society and to grow sustainably as a Solid Global Company.





















To do so, we have referred to the Sustainable Development Goals (SDGs), the United Nations Global Compact, ISO 26000, the Responsible Business Alliance (RBA), the GRI Standards and other principles and guidelines regarding CSR and sustainability. At the same time, we have worked to gain a comprehensive understanding of social issues important to broader society and our stakeholders, checking them against the CITIZEN Group Corporate Philosophy, Code of Conduct, medium-term management plans, and other business strategies, identifying issues of particularly high importance and grouping them together as material issues.

In FY2020, in line with the SDG Compass guidelines, we first worked to understand the positive and negative

impacts of our business activities throughout the value chain with regard to the SDGs, mapping these activities along two axes—their degree of impact on society and their importance to our business. In this way, we identified five material issues with both a high impact on society and a high degree of importance to our business. In an effort to strengthen quality-related compliance across the entire Group, in FY2020 we rephrased the material issue “Commitment to Quality” as “Enhancing Quality Compliance.” Further, to reflect that “Advancing Responsible Procurement” entails not only fulfilling our social responsibility but also generating new value, this material issue has been rephrased as “Promoting Sustainable Procurement.”

To ensure that the effectiveness of efforts to address these five material issues is enhanced, we created a roadmap to 2030, and established clear targets, strategies and KPIs.

New Materiality in FY2020

	Materiality	Relevant SDGs
Enhancing corporate governance	Aiming to grow the corporate value of the CITIZEN Group continually through the maintenance of internal control systems to secure the transparency and soundness of management and efficient business execution and appropriate supervision throughout the Group	 
Enhancing quality compliance	Striving to ensure thorough quality compliance in all manufacturing processes in accordance with the Group Quality Code based on the Corporate Philosophy, “Loved by citizens, working for citizens”	  
Respect for human rights and labor practices	Striving to respect and contribute to human rights throughout the entire value chain as a global business enterprise; also, strengthening our corporate culture based on respect for diversity and empowering one another to build workplaces where all members of the organization can work with safety and peace of mind	   
Promoting sustainable procurement	Aiming both to optimize procurement activities throughout the Group and to resolve social issues throughout the entire value chain	     
Promoting environmental innovation	Striving to create new value through eco-friendly business activities in all products of the CITIZEN Group and in the entire process of the value chain	    

Please visit our website to access the *CITIZEN Group CSR Report 2020*.
<https://www.citizen.co.jp/global/csr/report/index.html>

Basic Approach to Environmental Issues

Since its founding and based on its Corporate Philosophy of “Loved by citizens, working for citizens,” the CITIZEN Group has constantly taken people and the environment into consideration in its manufacturing.

In FY2019, we revised the CITIZEN Group Environmental Policy, which serves as the foundation for Group environmental initiatives, and CITIZEN Environmental Vision 2050, which is based on that policy. In doing so, we reemphasized our

determination to contribute to enriching society through a focus on decarbonization, resource recycling, safety and security.

Addressing Climate Change Risks and Opportunities

The CITIZEN Group promotes global environmental management throughout its value chain. The impact of climate change is a global concern. In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we are using scenario analysis to identify and evaluate risks and opportunities that may have a significant impact on the Group’s business and finances.

Climate change-related risks and opportunities with a financial impact on the CITIZEN Group

<p>Transition risk (2°C scenario) assumptions*1</p>	<ul style="list-style-type: none"> ◆ Policy and regulatory risks Rising costs of electricity and other energy purchases due to factors such as introduction of decarbonization tax and strengthening of laws and regulations related to energy conservation ◆ Market risks Exclusion of non-eco-friendly products from the market due to rising environmental awareness among consumers 	<p>Opportunities (both scenarios)</p> <ul style="list-style-type: none"> ◆ Resource efficiency Leading to reduced emissions and lower energy costs due to progress in areas, such as productivity improvements and increased efficiency in logistics, resulting from factors, such as adoption of emissions trading systems and increasing calls for eco-friendly management ◆ Products and services Improved product competitive strengths resulting from development and production of eco-friendly products and efforts to improve quality ◆ Resilience Enhancement of production and supply structures through establishment of conditions reflecting consideration for risks, such as those related to water and disasters, in the criteria for choosing locations for new facilities
<p>Physical risk (4°C scenario) assumptions*2</p>	<ul style="list-style-type: none"> ◆ Acute risks Suspension of operation of production facilities and reduced production capacity due to increasingly frequent extreme weather and resulting flooding and other disasters ◆ Chronic risks Difficulty of operation of production facilities at low elevations due to rising sea levels and resulting decreases in production capacity and costs of facility relocation and new construction 	

*1. Only the impacts of transition risks are considered, with the assumption that there would be no major physical risks.
 *2. Only the impacts of physical risks are considered, with the assumption that the physical risks of climate change would be severe.

Basic Approach to Sustainable Procurement

The CITIZEN Group has set forth the concept of Sustainable Factories—encompassing not only its own factories, but the entire manufacturing process—as an important pillar of sustainable management. This concept is aimed at turning the entire value chain, including suppliers, into a sustainable “factory.” Another pillar of sustainable management is to provide society with Sustainable Products that are made in these Sustainable Factories. To achieve this, we believe we must collaborate with key suppliers in the upstream of our value chain to ensure sustainable procurement and establish production systems that comprehensively take into account compliance, human rights, labor practices, productivity improvement, business continuity planning and other issues.

productivity from a business perspective. We are also stepping up efforts in diversity management from the perspective of gender diversity by addressing conditions for female employees. The diversity of our employees is a source of competitive strength. Our goal is to create an organization in which each employee can fulfill her or his potential and continue to work for a long time.

Basic Approach to Labor Practices

The CITIZEN Group endeavors to create a pleasant and rewarding working environment for employees. As part of those efforts, we issued a Health Declaration and are promoting management of employee health and

Basic Approach to Human Rights

Since becoming a signatory to the United Nations Global Compact in 2005, the CITIZEN Group has endeavored as an enterprise operating globally to support, respect and act on the 10 principles of the compact regarding human rights, labor, the environment and anti-corruption. Article 4 of the CITIZEN Group Code of Conduct also sets forth our basic policy—that we shall “Respect human rights and diversity, and provide a safe and pleasant working environment”—and we have established guidelines for respecting human rights and creating safe, healthy, and pleasant workplaces. In FY2019, in accordance with a decision of the Board of Directors to reaffirm the CITIZEN Group’s responsibilities and position regarding respect for human rights, we formulated the CITIZEN Group Human Rights Policy.

Stakeholder Engagement

To maximize the value it offers society, the CITIZEN Group believes it is important to conscientiously respond to the wishes and expectations of a variety of stakeholders by incorporating them in its management. By working to communicate with our stakeholders, we aim to embody our Corporate Philosophy.

In FY2019, we set forth "Promotion of Sustainable Management" as a key strategy under the newly launched

Medium-Term Management Plan 2021. In line with this, employees of the Company engaged with an international environmental NGO to reassess how we might contribute to solving social issues through our business. We hope such stakeholder collaboration will tie into strategies going forward by broadening employees' perspectives and values.

Examples of stakeholder engagement

Stakeholder	Method	Results/evaluation	Future initiatives/plans
Customers	Responding to inquiries and requests received by customer service centers	Improving products and services, ensuring safety, promoting universal design principles	Implementing social campaigns
Suppliers	Holding briefings for suppliers on sustainable procurement	Evaluation of results of supplier surveys, evaluation based on on-site fact-finding	Enhancing human rights due diligence
Employees	Conducting employee satisfaction surveys, interviews with supervisors, labor-management conferences, providing information on the intranet	Enhancing work-life balance, employee health promotion, adoption of flextime systems, adoption of a talent management system	Improving employee satisfaction, enhancing work-life balance programs, developing workplaces where employees can work with peace of mind, developing workplaces where employees can demonstrate their abilities to the maximum extent
NGOs and NPOs	Cooperation in projects that contribute to society, holding discussions with international environmental NGOs	Dispatching personnel to joint social-contribution activity 12 times with a total of 164 employees participating; holding briefings to report on results of Social Contribution Mission Program	Holding briefings to report on the results of Social Contribution Mission Program
Local communities	Conducting community contribution activities (including watch assembly classes and donation/sponsorship activities), participating in community events, accepting plant tours, exchange through table tennis (official corporate sport)	Total number of employees participating in beautification activities: 2,112; number of plant tours accepted: 172; number of watch assembly classes held: 32; donations to social contribution activities: 37.5 million yen; number of table-tennis lessons held: 27	Inviting community residents to events held on business sites, contributing to stable communities through mutual understanding, enhancing activities to contribute to local society through our businesses, improving table-tennis skills in the community

Major External Recognition

The CITIZEN Group implements its Corporate Philosophy of "Loved by citizens, working for citizens" in its business. The Group is engaged in a wide variety of CSR activities aimed at resolving social issues and contributing to the creation of a sustainable society. These activities are based on the belief that we must never violate social norms, cause distrust among our customers and suppliers or be dishonest. Our approach and related initiatives have been recognized by third-party institutions, and CITIZEN has been selected for inclusion in ESG-related stock indices.

FTSE4Good Index Series and
FTSE Blossom Japan Index



FTSE4Good



FTSE Blossom
Japan

Sompo Sustainability Index

2020



Sompo Sustainability Index

MSCI Japan ESG Select Leaders Index and
MSCI Japan Empowering Women Index (WIN)

2020 CONSTITUENT MSCI JAPAN
ESG SELECT LEADERS INDEX

2020 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX (WIN)

2020 Certified Health & Productivity
Management Outstanding Organization
(Large Enterprise Category)



2020
健康経営優良法人
Health and productivity

Our Businesses

- 1918 Company founded

“We want to produce a watch made in Japan.”

In 1918, at a time when imports dominated, Shokosha Watch Research Institute, the forerunner of Citizen Watch, was founded with the goal of producing a watch made in Japan. The finished pocket watch, based on an original design, was given the name “CITIZEN” by the Mayor of Tokyo, Count Shinpei Goto, in the hope that it would be widely loved by citizens over the ages. This became the inspiration for the company name we have today.



The CITIZEN Caliber 0100 (Watches)



Multi-function movements (Movements)



1924
The company's first pocket watch, CITIZEN, after which the company was later named.

A Portfolio of Watchmaking Assets

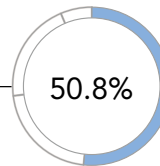
- 1956 Parashock
First Japanese-made watch featuring a shock-proof mechanism (Parashock)
- 1959 Parawater
First fully waterproof Japanese-made watch
- 1971 Hi-sonic
First Japanese-made tuning fork electronic watch
- 1973 Citizen Quartz
CITIZEN's first quartz watch
- 1976 Chrystron Solar Cell
World's first analog light-powered watch
- 1993 Radio-Controlled Watch
World's first multi-band analog radio-controlled watch (Japan, Germany, U.K.)
- 2003 ATTESA Eco-Drive Radio-Controlled Watch
World's first thin-type radio-controlled watch with a full-metal case (Eco-Drive)
- 2011 Eco-Drive Satellite Wave
World's first satellite system analog watch
- 2016 Eco-Drive One
World's thinnest* analog light-powered watch (case thickness of 2.98 millimeters)
- 2018 Announcement of Caliber 0100
World's most precise* light-powered movement with timekeeping accuracy of ±1 second per year (Eco-Drive)

Our Core Technologies

- Miniaturization
- Precision processing
- Low power consumption

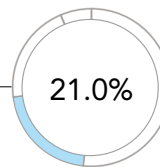
Business Characteristics

Watches



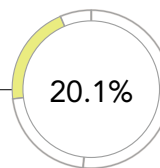
Inspiring people through beautiful designs perfected with the latest technology—the fusion of technology and beauty guides CITIZEN in providing citizens around the world with better watches. We are one of the world's few *manufactures d'horlogerie*, capable of integrated in-house manufacture of everything from individual parts to completed products.

Machine Tools



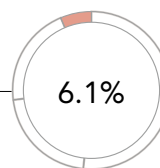
We began the production of machine tools in 1936, leveraging technology and expertise gained in the manufacture of watch parts, which must be compact and extremely precise. Machine tools for creating components essential for a wide range of industries—including the automotive, medical and IT fields—support today's technology advances and social development.

Devices and Components



We leverage our core technologies developed through the Watch business, including miniaturization, precision processing and low power consumption technologies, to manufacture devices for use in everyday electronic products. Our devices enable lower power consumption and longer product lifespan, thus reducing environmental impact and creating more comfortable and convenient lifestyles.

Electronic Products



We apply precision processing and assembly technologies developed through the Watch business to manufacture point-of-sales systems, barcode printers and high-resolution digital photo printers, which play important roles in retail stores, factories and society in general. Electronic thermometers and electronic blood pressure monitors assist people in managing their health, and contribute to healthy living.

Other Products

* As a light-powered watch. As of June 2020, CITIZEN survey.



CNC automatic lathes
(Machine tools)



LEDs for lighting
(Opto-devices)



Automotive components
(Precision processed components)



Line thermal printer
(Electronic products)

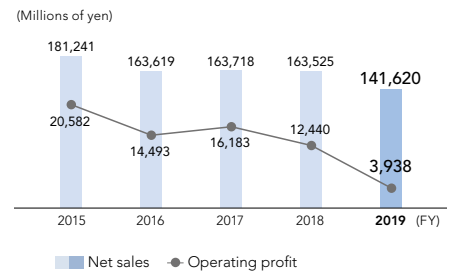
Main Products

- Watches
- Movements
- System clocks

Main Customers

- General consumers
- Retail stores
- Dealers
- and others

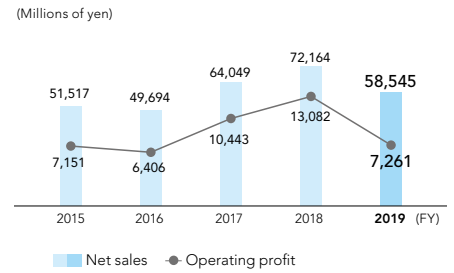
Net Sales and Operating Profit



- > Top share of the U.S. mid-priced market
- > A global leader in movement sales

- Cincom, sliding headstock type CNC automatic lathe
- Miyano, fixed headstock type CNC automatic lathe
- MC20, multi-station machining cell
- alkapplysolution, solution service utilizing IoT

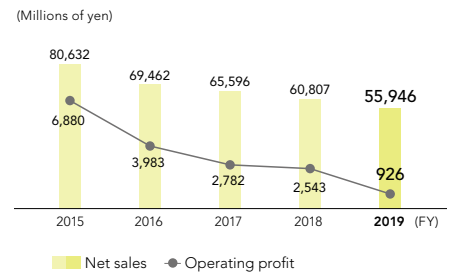
- Automotive parts manufacturers
- Medical device manufacturers
- Semiconductor production equipment manufacturers
- and others



- > A leader in global share for small- and mid-sized computer numerical control (CNC) automatic lathes

- Automotive components
- Compact switches
- Chip LEDs
- LEDs for lighting
- Crystal devices
- Ferroelectric LCDs

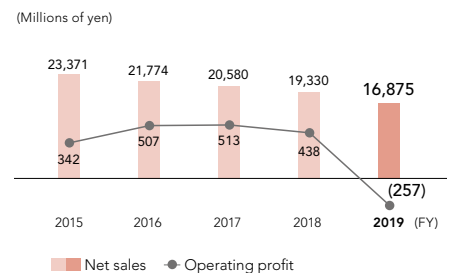
- Automotive manufacturers
- Lighting manufacturers
- Home appliance manufacturers
- Consumer electronics manufacturers
- and others



- > A global leader in compact chip LEDs

- Digital photo printers
- Line thermal printers
- Calculators
- Electronic thermometers
- Electronic blood pressure monitors

- Retailers
- Wholesalers
- Household appliance retailers
- and others



- > Application of compact precision technology

FY2019 Full-Year Results and Capital Strategy



We will achieve greater capital efficiency, and aim to balance investment and shareholder returns.

Toshiyuki Furukawa Director

Implementing Changes to Businesses to Improve Profitability

Full-year results for FY2019 showed weak performance, including the CITIZEN Group's first loss attributable to owners of parent in seven years, due to the impact of the COVID-19 pandemic and other factors.

During the first half of the year, there was some positive news pointing toward a recovery in the Watch business, with domestic sales growing in the mid-price product segment. However, the second half saw sluggish demand linger following Japan's consumption tax hike, and sales also failed to take off in the U.S. during the key shopping season. The global COVID-19 pandemic further contributed to a significant decrease in revenue as lockdowns and temporary store closings expanded to every region. Movement sales also continued to face a challenging market, and the added impact associated with COVID-19

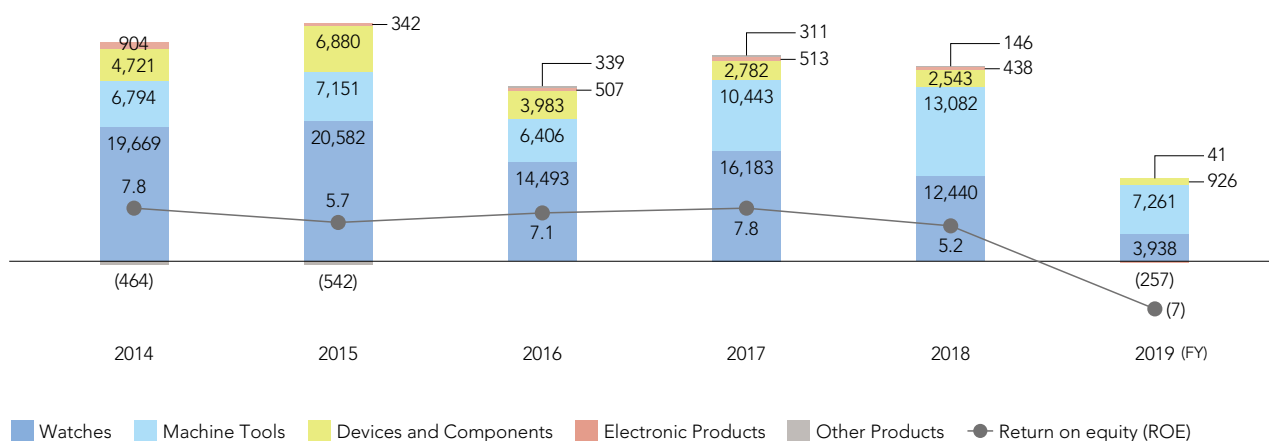
led to a significant decline in sales. Despite cost-saving initiatives, a major drop in sales in the North American and domestic markets and in movements also resulted in a significant decline in operating profit.

The Machine Tools business, which was already seeing companies around the world take a more cautious approach to capital investments, was similarly affected by the COVID-19 pandemic. As a result, new orders fell below expectations, and there is increased uncertainty about the timing of any recovery in demand going forward.

In addition to costs associated with structural reforms advanced to date in the Devices and Components business and other businesses, we also booked risk asset impairment losses, primarily in the Watch business, posting an extraordinary loss of 24.5 billion yen as a result. These

Business Results (Operating Profit by Segment / ROE)

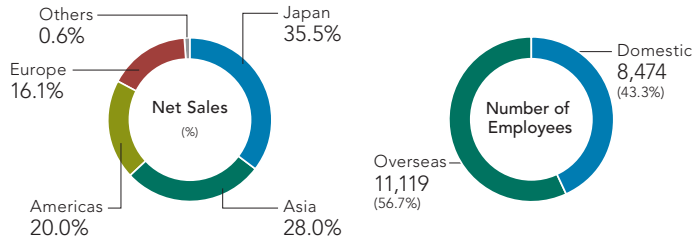
(Millions of yen)



FY2019 Results

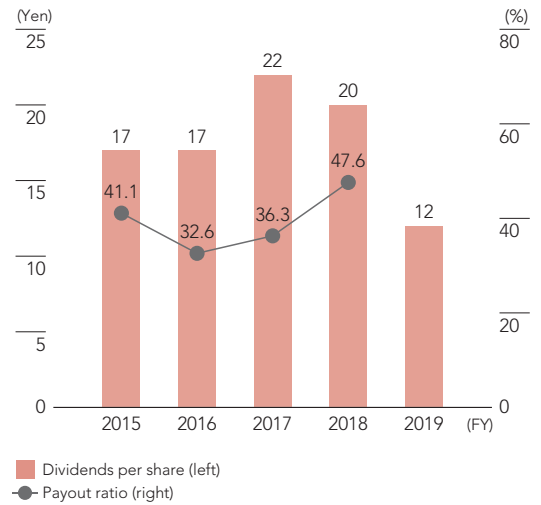
Net sales	Operating Profit	Profit Attributable to Owners of Parent
278.5 billion yen (down 13.4% year-on-year)	6.1 billion yen (down 72.6% year-on-year)	-16.6 billion yen (---% year on year)

Data by Region



factors resulted in loss attributable to owners of parent of 16.6 billion yen. Of the extraordinary losses posted at the end of FY2019, impairment losses related to the Watch business totaled 16.7 billion yen. These included impairment losses primarily on production equipment with worsening results in the movement business; on intangible assets related to license fees arrangements with Fossil Group, Inc. resulting from delayed efforts to stimulate demand for hybrid smartwatches; and on the balance of intangible assets related to Frederique Constant. Other

Dividends per Share and Payout Ratio



impairment losses included 5.7 billion yen related to the Devices and Components business and 1.9 billion yen for the Other Products segment. Furthermore, in addition to costs associated with the early retirement program implemented at Citizen Electronics Co., Ltd. and subsidiaries, and the closing of the Citizen Electronics Funehiki Factory, impairment losses, etc. were also posted on equipment related to the Devices and Components business. In Other Products, impairment losses included costs associated with our withdrawal from the jewelry and leisure services businesses.

Capital Policy

Medium-Term Management Plan 2021, which began in FY2019, calls for us to push forward with growth investment and proactive capital investments in production innovation. However, with the future outlook uncertain due to the COVID-19 pandemic, we will demonstrate caution when making decisions about future capital investments. Moreover, given the need for companies to further expand their adoption of digital technology and strengthen competitiveness to improve profitability, we recognize the necessity of accelerating our own digital transformation.

As of FY2018, we had completed our most recent round of large-scale investments aimed at advancing our multi-brand strategy and further establishing our brand portfolio in the Watch business. We were therefore in the position of being able to reexamine the balance between investment and shareholder returns, and set a policy of delivering an average total return ratio of 60% or greater for the three years of Medium-Term Management Plan 2021. However, the posting of an extraordinary loss in FY2019 resulted in loss attributable to owners of parent, and with the outlook for

FY2020 remaining uncertain, the emphasis of our policy will be not only to reflect performance, but also to ensure the stable payment of dividends.

Another of the target indicators set in Medium-Term Management Plan 2021 is ROE. Internally, we apply return on invested capital (ROIC) as another key performance indicator. With the goal of enhancing capital efficiency and earning power, we will use these indicators to help us enhance investment efficiency in each of our businesses and build a stronger awareness of the balance sheet. Given that the current environment does not allow for significant near-term sales growth, management needs to emphasize capital efficiency. By incorporating these target indicators, we will achieve cost savings commensurate with investment levels and increase asset efficiency as we work toward spreading company-wide awareness of cost of capital in management. Moving forward, we will put the assets we have accumulated to date to best use and focus on increasing profitability as we work to balance growth investment with shareholder returns.

Watches

Main Operating Companies

Citizen Watch Co., Ltd.; Citizen Watch Manufacturing Co., Ltd.; Citizen Retail Planning Co., Ltd.; Citizen T.I.C. Co., Ltd.

Message from the Director in Charge

Increasing profitability centered on the CITIZEN brand while shifting away from reliance on movements



Norio Takeuchi
Managing Director



Review of FY2019

While sales of finished products, with the CITIZEN brand as a mainstay, struggled in the North American market, they held steady in markets in Japan, Europe and China. In the fourth quarter, however, the impact of the COVID-19 pandemic brought an unavoidable deterioration in sales, and revenue fell in each of our markets as a result.

In North America, our largest overseas market, we worked to strengthen online sales, including direct sales e-commerce, but were strongly impacted by a reduction in the number of physical stores and sluggish distribution in travel. Sales of strategic products, including Super Titanium™ watches and PROMASTER, were growing steadily in Europe until sales fell significantly in March, and revenue ultimately ended slightly down. In Asia, sales were steady in Vietnam, Thailand, Singapore and other markets until the third quarter, but fell rapidly after the start of the new year in China and other countries. In Japan, products in the high-price range fought well in the midst of dampened appetite for spending following the consumption tax hike enacted in October 2019, with sales at about the same levels year-on-year. Revenue ended down, however, impacted by a rapid downturn in consumption brought on by the COVID-19 pandemic early in 2020.

In movement sales, while demand increased for mechanical watch movements, the market for quartz movements continued to show weakness. In addition, the fact that movement production operations remained low throughout the year was a factor in significantly driving down operating profit in the Watch business.

Given these circumstances, we recognize that revising our strategy for the Watch business had become an urgent issue, and we are now implementing three key strategies: 1. Rebuild the movement business; 2. Strengthen the CITIZEN brand centered on Eco-Drive; and 3. Strengthen e-commerce sales and digital marketing.

▶ FY2019 Results

Net Sales **141.6** billion yen

Operating Profit **3.9** billion yen

FY2020 Key Strategies

1. Rebuild the movement business

With the growth of smartwatches with digital displays, the market for analog quartz watches has continued to shrink. As it has become more difficult to ensure profitability in the movement business, once a pillar of the Watch business, rebuilding its profit structure is a pressing issue. To that end, we will start by working to reduce the scale of analog quartz movement production, rebuilding a production structure better suited to demand. At the same time, in addition to movement manufacturing innovation, we will move forward with streamlining, which includes discontinuing and consolidating calibers, in a rigorous pursuit of cost savings.

In the mechanical movement segment, where performance has been robust, we will ensure a stable profit base by developing pricing strategies in line with demand.

2. Strengthen the CITIZEN brand centered on Eco-Drive

In the finished products business, we will focus on the CITIZEN brand, centered on Eco-Drive. Eco-Drive is a core CITIZEN technology that harnesses energy from light to power watches. It has been highly lauded, earning us the distinction of receiving the first Eco Mark certification for a watch in 1996. Going forward, in order to gain new customers, we will further expand our global brands: PROMASTER, the professional sports watch, and CITIZEN L, the sustainable watch. For ATTESA, a brand for business use, and xC, the ladies watch brand with high functionality—two main brands that are established in Japan—we will strengthen our position in the domestic market while actively expanding sales to markets in Asia.

3. Strengthen e-commerce sales and digital marketing

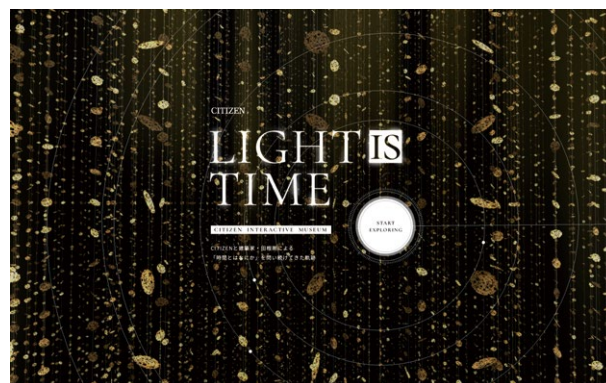
With the added factor of the COVID-19 pandemic, strengthening e-commerce sales is an important issue. E-commerce currently represents a significant percentage of sales, with more than 50% of sales in China and slightly less than 20% in North America coming from e-commerce,

and it continues to trend upward, with the percentage of e-commerce sales in Japan also increasing to more than 10%. We will continue to encourage this existing e-commerce, while quickly moving to build direct sales e-commerce in Japan as is already underway in the U.S. market.

We will strengthen bold digital marketing strategies and link them to profit growth. At the forefront is Riiiver, which consists of an IoT platform service and a unique CITIZEN smartwatch, and connects watches, services and people; together with our Fine Tuning Service (FTS), which answers the needs of the age of customization by allowing users to create their own personalized watches; and our AI Watch Recommendation Service, which suggests watches to consumers based on their preferences and sensitivities.

Based on these three business strategies, our key regional strategy going forward aims for revitalization in Asia, particularly China, as well as in Japan and North America. To put operations in the China market back on a growth trajectory, we will expand product offerings aimed at the youth segment, and move to further expand e-commerce sales. Meanwhile, in the North America market, we will streamline sales and general administrative expenses through structural reforms aimed at restoring profitability, while also focusing on further expanding e-commerce sales.

Pushing forward aggressively with these strategies, we will quickly and fundamentally rebuild the Watch business.



Multi-Brand Strategy

Under the slogan "From 'Product' to 'Brand,'" the Watch business is promoting a multi-brand strategy aimed at being widely loved and trusted by citizens.



Focus Areas



Smartwatches



Mechanical Watches



Luxury Watches



Focusing on Strengths to Create Greater Value

With our focus areas in smartwatches, a market that is predicted to expand, and in mechanical and luxury watches, which have maintained strong demand, we will continue creating products that take advantage of our miniaturization, precision processing and low power consumption technologies, with manufacturing that contributes to citizens' lives across generations.

LUXURY

■ ARNOLD & SON

The Arnold & Son brand reflects the name of John Arnold, an English watchmaker who made his name by inventing the marine chronometer in the 18th century and contributing to its further development. Inspired by the magnificent achievements of John Arnold, the firm continues to create watches using traditional watchmaking techniques to modern effect. With a workshop in La Chaux-de-Fonds, the center of Swiss watchmaking, the company creates complex movements and entire watches in-house.

■ ANGELUS

Angelus, a Swiss watchmaker founded in 1891, has developed a succession of innovative watches, including high precision chronographs and complicated mechanical watches. The advanced watches it develops in-house have established a solid following among watch connoisseurs. At its workshop in La Chaux-de-Fonds, Angelus performs everything in-house, from design and movement development to assembly.

HIGH

■ The CITIZEN

The CITIZEN was launched 25 years ago. With The CITIZEN, we have pursued the essence of the watch as we believe: a watch designed for everyone with accuracy, longer runtime, visibility and usability. In autumn 2019, we launched the world's most precise light-powered watch, equipped with an Eco-Drive movement "Caliber 0100"—accurate to ±1 second per year. The CITIZEN expresses our ardent pursuit of the essence of the watch.

■ Eco-Drive One

The Eco-Drive One, a watch made with the world's thinnest light-powered movement, at just 1.00 mm thick, was created in 2016 in the pursuit of the essence of the watch. Low power consumption technology refined through over four decades of efforts in the development of a light-powered watch has made it possible to maintain a thin profile, while allowing the watch to run for 12 months on a full charge.

■ CAMPANOLA

CAMPANOLA offers a selection of creative models that combine cutting-edge technologies and the skills of master watchmakers under the concept of "Enjoy time. Enjoy daily life. Enjoy individuality." The multi-layered structure combines numerous parts, including a second-keeping trivet ring, creating an infinite universe between the dial and the crystal based on the concept of capturing the beauty of space itself, and giving an architectural dimension to its face.

■ Frederique Constant

The watches of Frederique Constant, which began innovating over three decades ago in 1988, are inspired by the concept of "accessible luxury," and all aspects of watch production are conducted in-house, from design and development to final assembly. To date, Frederique Constant has developed, manufactured and assembled 29 original calibers. The brand's mission is to use outstanding manufacturing to offer high-quality watches at sensible prices.

■ Alpina

Alpina is a Swiss watchmaker founded in 1883. This Swiss watch brand is easily recognized by its red triangle mark, which symbolizes the Matterhorn. In 1938, with the development of the legendary ALPINA 4, the firm came up with the concept of the sports watch. Alpina's mission is to develop reliable, high-precision watches capable of withstanding even the harsh environment of the Alps.



MID

CITIZEN

The product lines that form the core of the CITIZEN brand, which is growing along the axis defined by the globally pioneering development of the light-powered Eco-Drive technology, include brands such as ATTESA, which offers titanium watches for business use that continue to stay a generation ahead; xC, a brand that empowers and supports modern women; and the sophisticated EXCEED dress watches. Through such brands, CITIZEN offers a variety of products to an increasingly wide range of customers.



ATTESA



xC



EXCEED



PROMASTER



CITIZEN L



Eco-Drive Bluetooth

BULOVA

Founded in 1875 by Joseph Bulova in New York. Based on its advanced technological capabilities, the firm has been a driving force in the watch market. BULOVA has achieved many firsts in the world, including the world's first tuning fork watch and the first curved chronograph. The corporate philosophy of craftsmanship, innovation, and technology that inspired the founder 145 years ago is carefully maintained to this day.



FASHION/LOW

Q&Q

With the concept of "Enrich the everyday lives," this brand is now sold in more than 120 countries and loved widely by customers all over the world. Q&Q's sales volumes are some of the highest in the world for a monobrand.

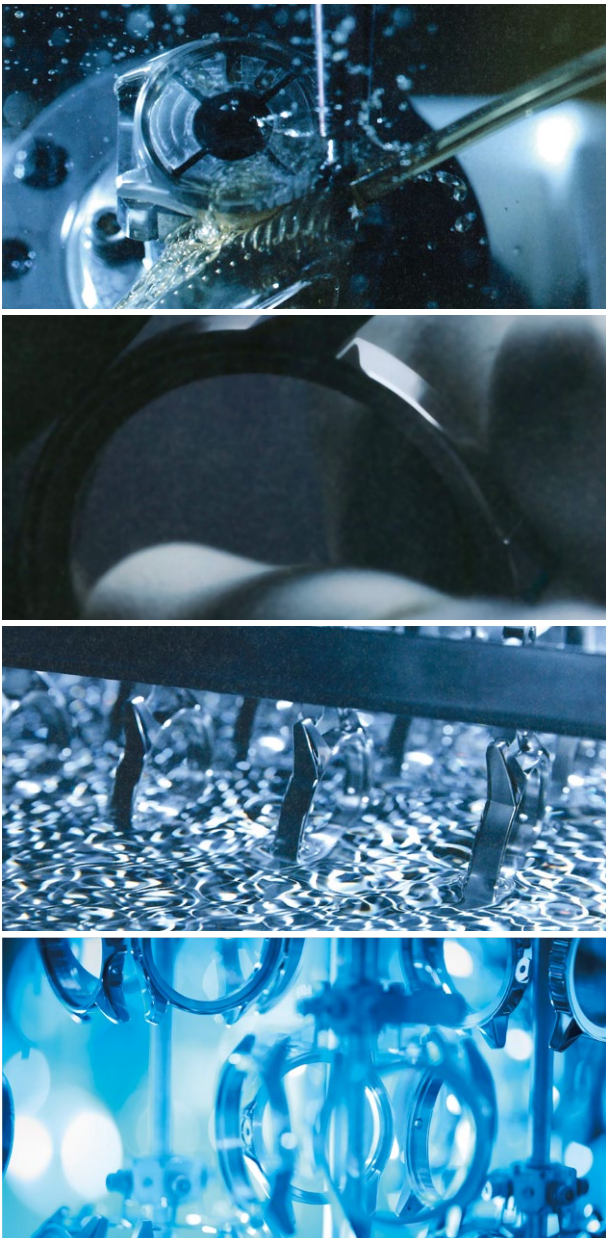
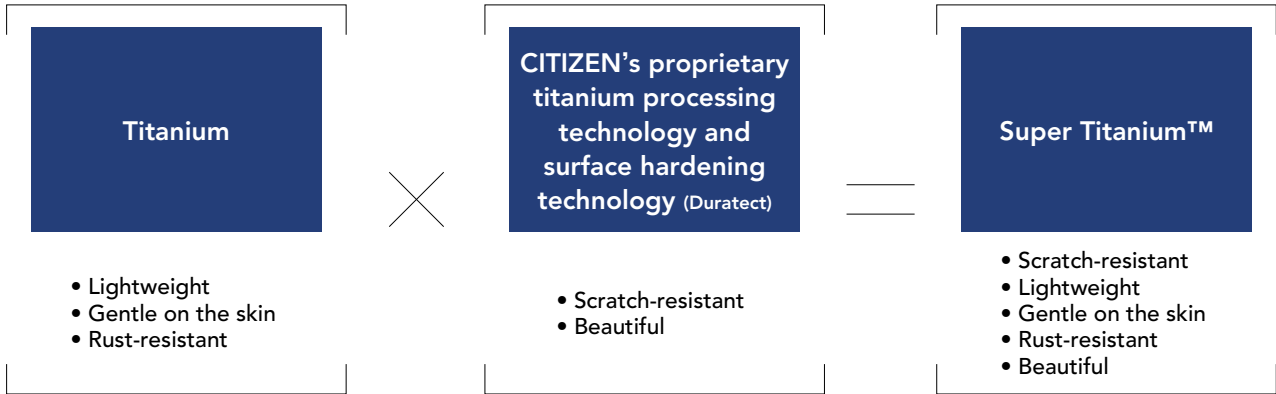


wicca

This brand combines designs that appeal to young women with "solartech" technology that does not require regular battery replacement, thus supporting young women who strive every day to enjoy life in their own way.



Advanced Manufacturing



In 1970, as the world's attention focused on titanium as a material for spacecraft, CITIZEN unveiled the X-8 Chronometer, the world's first titanium watch. The watch was greeted by the public with surprise, and in the 50 years since, CITIZEN has continued to take on the challenge of working with titanium.

Titanium is known as a material that is very difficult to process. It is difficult to mold, cut, and polish titanium. Its dull shine presents aesthetic issues, and there is also a problem of hardness, since titanium scratches more easily than stainless steel and other materials. Solving each one of these problems eventually led to Super Titanium™, a proprietary material developed by CITIZEN that is scratch-resistant, lightweight, gentle on the skin, rust-resistant and beautiful.

Super Titanium™ overcame the weaknesses of conventional titanium, further expanding its potential as a new material. All for the sake of everyone who wears a watch. CITIZEN's titanium watches continue to evolve.



Titanium pressing



Surface Processing Development Section, Exterior Development Department, Manufacturing Technology Division

Satoshi Ito

Surface processing technology and manufacturing technology development

Yukiko Tsukahara

Technical appeal and quality control

Seiichi Hiroe

Titanium material quality technology and processing technology development

The World's Most Precise Light-Powered Watch, Accurate to ± 1 Second per Year



The CITIZEN Caliber 0100

The watch utilizes AT cut crystal oscillators to ensure greater precision, one second at a time. The pursuit of precision also went into the individual components, including the hands, gears and circuits. By combining this design with the light-powered Eco-Drive, CITIZEN has created a watch that will continue to tell time accurately within ± 1 second per year as long as there is light. Beauty measured with each passing second. The beauty of each second is expressed in the way the second hand aligns precisely on the indices.

The Ultimate Pursuit of Thinness and Beauty in a Watch

Eco-Drive One

Pursuing the essence of the watch, with a completely stripped-down beauty and a thinness that exceeds the imagination. The structure and machining method used for the Eco-Drive One have been rethought from the ground up to enable a watch that encompasses 85 components in a movement just 1.00 mm thick. This light-powered watch employs a new hard material that balances the conflicting elements of thinness and strength, as well as Super Titanium created using CITIZEN's proprietary Duratect surface hardening technology. Comfortable to wear, with no feeling of heaviness or stress, when put on the Eco-Drive One offers a moment of bliss as wearer and watch become one.



GO BEYOND: Go Deeper, Go Higher, Go Further



PROMASTER

Since its creation in 1989, the PROMASTER professional sports watch has traveled through the years with adventurers around the world. Across three categories—MARINE, LAND and SKY—PROMASTER continues to offer watches that feature durability and outstanding functionality in even the harshest environments, including the world's first diver's watch equipped for 1,000-meter saturation diving and powered by light; a true field watch with an altimeter functional at up to 10,000 meters above sea level; and a peak specification professional pilot's watch.

Assembled to the Limits of Accuracy and Precision

Skilled "Meister" Technicians

Watches, which are made up of many components and require advanced precision, are assembled entirely by hand. Those responsible for that work are our watch assembly "Meisters," those with the most advanced skills. Only those experienced craftspeople who have passed internal and external certification exams, been given awards, or have otherwise been publicly recognized for their contributions to Japanese manufacturing, are eligible to receive this title. The current Super Meister has been selected for the Contemporary Master Craftsman Award by Japan's Ministry of Health, Labour and Welfare, and has also been a winner of the Prime Minister's Prize of the Monodzukuri Nippon Grand Award.



Machine Tools

Main Operating Companies

Citizen Machinery Co., Ltd.

Citizen Machinery Service Co., Ltd.

Message from the Director in Charge

Establish a position
as a “new manufacturing
(*monozukuri*) company”
creating the world’s most
advanced solution for
innovative manufacturing



Keiichi Nakajima

Director



Review of FY2019

The machine tools industry reached a peak around autumn 2018, after which a downward trend has continued. In line with the trend for total machine tool orders across members of the Japan Machine Tool Builders' Association, new orders for our Machine Tools business fell about 30% year on year, with full-year results ending at about the level forecast as of the third quarter. In the domestic market, while semiconductor-related products remained solid, mainstay automotive-related products became more sluggish, and revenue fell. Overseas, in China some movement was seen in medical- and IT-related products, but in Europe, the U.S. and elsewhere in Asia the trend was weak, due in part to the suspension of economic activity resulting from trade friction between the U.S. and China and to the COVID-19 pandemic.

In this environment, the Machine Tools business rallied to its business vision to establish a position as a “new manufacturing (*monozukuri*) company” creating the world’s most advanced solution for innovative manufacturing. Through this vision, we can contribute to the growth and peace of mind of customers, as well as the development of manufacturing worldwide, as we aim for sustainable growth. In FY2020, an uncertain outlook is expected to continue with the impact of the COVID-19 pandemic, persistent geopolitical risks and other factors, and there are concerns that any turnaround in market conditions for the machine tools industry will also be delayed. Nevertheless, the Machine Tools business will continue to push steadily forward with its three key strategies: 1. Establish a firm business base through innovative manufacturing; 2. Further strengthen the competitiveness of existing businesses, centered on emerging markets; and 3. Expand business tailored to the age of IoT (solutions business).

▶ FY2019 Results

Net Sales.....**58.5** billion yen

Operating Profit.....**7.2** billion yen

FY2020 Key Strategies

1. Establish a firm business base through innovative manufacturing

We will realize innovative manufacturing that maximizes the efficiency of current assets, and are moving forward to develop our organization with the aim of achieving further growth. By innovative manufacturing, we mean innovation in “*monozukuri*” manufacturing and business processes. Specifically, at factories both in Japan and overseas we will seek to make sales, services and back office business processes more efficient by utilizing automation and smart, labor-saving technology, such as robots and AI, as well as making use of outsourcing and implementing digital transformation.

2. Further strengthen the competitiveness of existing businesses, centered on emerging markets

In an effort to strengthen our production, sales, and service systems in China, where mid- to long-term market growth is expected, we are moving forward with the relocation and expansion of a new factory in the region, with the goal of starting operation in spring 2021. Completion of this new factory will boost monthly production capacity, as well as improve productivity through the use of smart manufacturing technologies. We are also promoting the ongoing hiring and development of overseas service engineers, enhancing service support and technical functions and preparing for a new phase of growth in terms of both infrastructure and services. Our MC20 Multi-Station Machining Cell allows for optimal allocation of machining processes, combining multiple processing modules to achieve a level of productivity exceeding that of existing automatic lathes. We will transfer production of the MC20 to our Saku Factory in Nagano Prefecture, and will increase annual sales volume by putting in place infrastructure aimed at enhancing production capacity and through ongoing efforts to build a sales and service system.

3. Expand business tailored to the age of IoT (solutions business)

Created through the combination of our technologies and expertise with ICT, *alkapplysolution* is a comprehensive solutions service for developing and providing content designed to support improved customer productivity and problem-solving for issues relating to the use of technologies such as machine operation monitoring systems and cloud storage services.

Due to the impact of the COVID-19 pandemic, demand for web-based support has grown. Going forward, we will utilize the newly built Global Solutions Center, and expand solution centers that are able to provide such support online, thereby further diversifying our offerings to customers. The spreading impact of the pandemic is expected to bring social and economic changes, as well as a corresponding shift in the role of manufacturing. We believe that this new state of the manufacturing industry will generate new production systems, which in turn will result in new needs relating to machine tools. In addressing those needs, we will continue to contribute to the development of manufacturing worldwide as we work to achieve further growth.



New factory in China

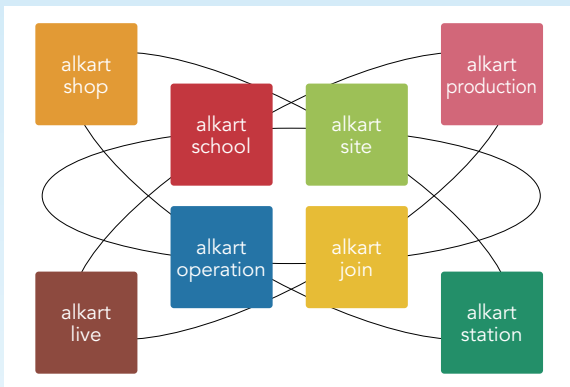
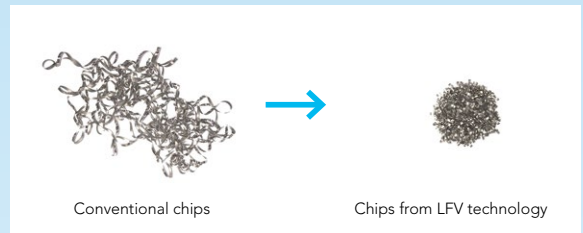
Advanced Manufacturing

LFV Technology

Low frequency vibration cutting (LFV*) technology is a next-generation processing technology that leads to productivity improvements. LFV technology applies proprietary CITIZEN control technology that vibrates the servo axis in the cutting direction, allowing for "air cutting" time in which the tool is not in contact with the workpiece and thereby breaking up chips during the cutting process. This solves a number of long-standing chip-related issues, such as how to improve the efficiency of small-diameter, deep-bore machining, or break up chips produced when working with difficult-to-cut materials, which tend to generate long strips. In addition, this technology dramatically reduces chip volume and helps prevent defects on the workpiece surface, thereby achieving high-precision machining over extended periods of time.

CITIZEN has also developed a new "threading mode." A step beyond conventional LFV technology, LFV utilized in threading mode (patent pending) is an innovative technology that breaks up chips when threading by vibrating the servo axis in the thread cutting direction (X-axis) while cutting in the longitudinal direction (Z-axis).

* LFV is a registered trademark of Citizen Watch Co., Ltd.



Overview of alkapplysolution services



Remote support by engineers



Machine operation monitoring

alkapplysolution

alkapplysolution is an innovative online-enabled service that offers diverse solutions. It combines an array of technical and functional expertise accumulated at Citizen Machinery over many years with information and communication technology. It brings together many of the key elements required for "Ko No Ryosan" (mass customization in CITIZEN's style), including employee development, program creation and independent maintenance; production instructions; machine control and monitoring; and remote maintenance support. At the same time, it serves to combine and integrate a wide range of mechanical equipment functions and technical expertise from engineers, plant managers and others. With our sights set on global-scale manufacturing, we will soon make it possible to connect multiple remote plants to operate as one.

CNC Automatic Lathes

Lathes, which cut materials as they turn, are an essential tool in manufacturing. In the 1950s, computer numerical control technology brought about the creation of NC lathes, which automated manual operation processes. Automation continued to advance, and in 1968 we developed the world's first computerized CNC automatic lathe. Today, we are a leader in global share.

Sliding Headstock Type CNC Automatic Lathes Cincom

In addition to small-diameter, high-precision processing and miniaturization technologies accumulated through the manufacturing of watch components, with Cincom we have developed and commercialized a number of other advanced technologies, including numerical control technologies for achieving high productivity as well as networking technologies. Cincom offers high-precision, high-speed machining performance and a reputation for ease of use. We also offer software applications optimized to meet the machining needs of individual parts, and contribute to manufacturing innovation in a wide range of industries, including the automotive, medical and IT sectors.



Fixed Headstock Type CNC Automatic Lathes Miyano

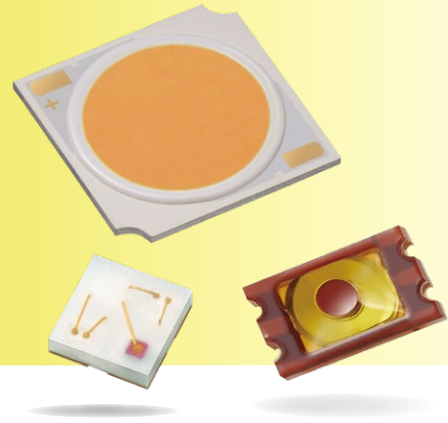
Miyano began as a manufacturer of superfine industrial files. In 1948, using its own technology, Miyano succeeded in developing the first fixed headstock automatic lathe in Japan. The high rigidity of the lathe's headstock made heavy cutting cycles possible, and it has been well received by customers around the world. We meet a diverse range of manufacturing needs through total solutions that include an extensive lineup of products and peripheral equipment. We continue to provide highly reliable, durable machines, primarily for customers in the automotive, construction equipment and hydraulic/pneumatic equipment fields.

Multi-Station Machining Cell MC20

Manufacturing in the twenty-first century must be able to accommodate two extremes: mass production and high-mix, variable-volume production. The MC20 Multi-Station Machining Cell makes "Ko No Ryosan" (mass customization in CITIZEN's style) a reality. It offers a combination of processing modules that allow for optimized allocation of processing steps and flexible handling of a variety of process layouts.



Devices and Components



Main Operating Companies

Citizen Electronics Co., Ltd.; Citizen Finedevice Co., Ltd.;
 Citizen Micro Co., Ltd.; Citizen Electronics Timel Co., Ltd.; Fujimi Corporation;
 Citizen Chiba Precision Co., Ltd.; Citizen Electronics Funehiki Co., Ltd.

Establishing a Top Position in Specific Fields
 by Offering Differentiated Products

Creating the Next Generation of Growth Business

Key Strategies

- 1 **Develop a diverse lineup of automotive-related products centered on the precise metal part machining business**
 - Establish competitive advantages centered on the automotive components business
 - Advance the shift to high-value-added products, mass production and rationalization, expanding into areas beyond automotive-related products
- 2 **Expand the range of high-quality, high-value-added products in response to market changes**
 - Expand market share using proprietary and differentiated technologies, including LEDs and tactile switches
- 3 **Enhance management stability by improving profitability**

Leveraging our miniaturization, precision processing, and low power consumption technologies developed in the manufacture of watches, we make a wide range of components and products that support the lives of people and society.

Our goal is to establish competitive advantages centered on automotive components, for which we have established a reputation for our core precise metal part machining technology. In automotive components, we offer products in the areas of safety, comfort, the environment, and controls. We primarily supply functional components to automotive manufacturers around the world. We are also working to create added value through the rationalization and integration of processing systems made possible with manufacturing facilities we have designed ourselves, as we aim to expand into areas beyond automotive-related products.

Our LEDs for lighting are next-generation light sources designed in pursuit of high performance, point light source and quality of light. Our tactile switches and crystal device components are vital in smartphones, wearables, and digital cameras. Along with our ferroelectric liquid crystal on silicon (FLCOS) display technology, we will use these and other proprietary, differentiated technologies to expand our offering of high-quality, high-value-added products in response to market changes.

Our focus going forward will continue to be on achieving greater levels of miniaturization, precision, and low power consumption. We will work to create the next generation of growth businesses by establishing a top position in specific fields and transitioning to a leaner earnings structure as we move to enhance management stability.



LEDs for lighting



Automotive components



Crystal units, crystal oscillators



Ferroelectric LCDs

Electronic Products

Main Operating Company
Citizen Systems Japan Co., Ltd.



Providing Value to People Around the World

Our Electronic Products business, based on compact precision technology originating from watchmaking, encompasses the printer business, including photo printers and compact printers; the health maintenance device business, including blood pressure monitors and digital thermometers; and the calculator business. Building on our core business of high-quality, high-reliability commercial printers and photo printers, we will work to expand into global niche markets with the goal of driving stable profits.

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



Digital thermometers



Digital blood pressure monitors



GOOD DESIGN AWARD
2019年度受賞



Digital photo printers

Other Products

Main Operating Companies
Tokyo Bijutsu Co., Ltd.; Citizen Plaza Co., Ltd.



Corporate Governance

Basic Approach to Corporate Governance

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

Corporate Governance System

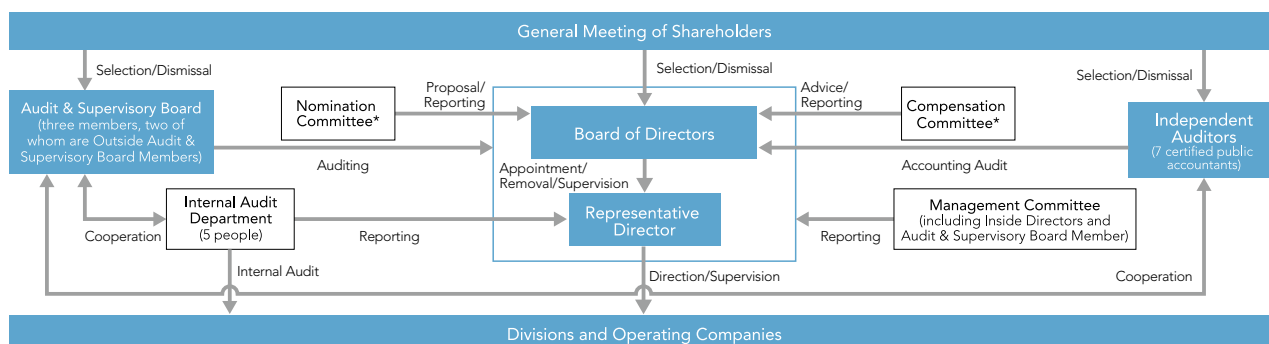
The Board of Directors of the Company consists of seven Inside Directors who oversee the Group and are responsible for business execution in principal operations, and three Outside Directors who review and monitor business management from an independent position, making the most of their extensive experience and knowledge of management. The Company is a company with an Audit & Supervisory Board, and audits are conducted by three Audit & Supervisory Board Members (two of whom are Outside Audit & Supervisory Board Members), who possess a high degree of knowledge and expertise regarding corporate finance and corporate law.

The Company has voluntarily established the Nomination Committee and the Compensation Committee to increase the transparency of management.

The main duties of the Nomination Committee include discussing matters concerning the appointment of Representative Directors, the President and CEO, and the Chairperson of the Board of Directors, and making proposals on such matters to the Board of Directors. The main duties of the Compensation Committee include discussing matters concerning the policies and standards of compensation for Directors, and providing advice on such matters to the Board of Directors.

Committee members are appointed by resolution of the Board of Directors. Each committee consists of at least three Directors, the majority of whom are Outside Directors and at least one of whom is a Representative Director. The Chairperson of each committee is an Outside Director, elected through the mutual consensus of committee members.

The Company has determined that the corporate governance system described above is adequate for ensuring the proper and efficient execution of duties, management transparency and multi-faceted management oversight.



* Chairperson: Outside Director
Members: Three or more Directors (majority Outside Directors, at least one Representative Director)

Outside Officers

The Company has appointed three Outside Directors and two Outside Audit & Supervisory Board Members. The three Outside Directors have extensive experience and broad insights as managers and as an attorney-at-law, which they use to review and monitor the Company’s management. The two Outside Audit & Supervisory Board Members have extensive experience, broad

insights, and expertise relating to finance and accounting as a banker and an attorney-at-law, which they use to audit the Company. The Company has determined that the system described above is adequate for maintaining and promoting corporate governance.

	Name	Reasons for Appointment
Outside Director	Fumiaki Terasaka	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 has reappointed him as Outside Director.
Outside Director	Toshiko Kuboki	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 Ms. Kuboki has not been involved in the management of a company aside from her position as an outside director or as an Outside Audit & Supervisory Board Member of the Company, given her thorough knowledge of corporate legal affairs as an attorney-at-law, the Company has reappointed her as Outside Director.
Outside Director	Yoshio Osawa	In the belief that Mr. Yoshio Osawa will utilize his considerable experience in and extensive knowledge of management to check and supervise the Company’s management, and in light of his achievements as an Outside Director of the Company, the Company has reappointed him as Outside Director.
Outside Audit & Supervisory Board Member	Noboru Akatsuka	Mr. Noboru Akatsuka has been managing banks and companies for many years and has extensive knowledge and experience thereof. The Company believes he will utilize such knowledge and experience to audit the Company, and has reappointed him as Outside Audit & Supervisory Board Member.
Outside Audit & Supervisory Board Member	Yaeko Ishida	Ms. Yaeko Ishida has extensive experience and knowledge as an attorney-at-law, and since she will be able to utilize her professional point of view as an attorney-at-law to audit the Company, the Company believes that she is suitable for the position of Outside Audit & Supervisory Board Member. While Ms. Ishida has not been involved in the management of a company, the Company deems that she has thorough knowledge of corporate legal affairs as an attorney-at-law and will be able to properly perform her duties as an Outside Audit & Supervisory Board Member, and has reappointed her as Outside Audit & Supervisory Board Member.

Officer Compensation

Regarding the amount of officer compensation, the Company bases its decisions on the amount of earnings improvement it desires, the level considered appropriate to secure outstanding personnel, changes in the management environment, external data, levels prevalent at other companies, as well as details of

management duties. Also, regarding decisions about executive bonuses, in addition to these considerations, it considers financial benchmarks (sales, operating profit, etc.) and non-financial benchmarks (corporate structure improvement, systemic improvement, ideas for the future, etc.).

Total Officer Compensation

Category	No. of officers	Total amount of compensation, etc. (millions of yen)	Of which, fixed compensation (millions of yen)	Of which, bonuses (millions of yen)	Of which, performance-linked share-based compensation (millions of yen)
Directors [of whom, Outside Directors]	12 [4]	245 [26]	210 [26]	35 [—]	— [—]
Audit & Supervisory Board Members [of whom, Outside Audit & Supervisory Board Members]	4 [3]	42 [24]	42 [24]	— [—]	— [—]
Total [of whom, Outside Officers]	16 [7]	287 [50]	252 [50]	35 [—]	— [—]

- (Notes) 1. The above figures include Audit & Supervisory Board Members and Directors who retired at the conclusion of the 134th Ordinary General Meeting of Shareholders held on June 26, 2019.
2. The above amount of 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. Compensation for the performance of the duties of employees who also serve as Directors is included in the above compensation, etc.
4. Separate from Note 3 above, at the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, the maximum allowance for the total amount of performance-linked share-based compensation for Directors (excluding Outside Directors; excluding Directors who are non-residents of Japan) was set at 300 million yen for a period of three fiscal years (and 100 million yen for the initial period starting from 2018).
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.

Evaluation of the Board of Directors' Effectiveness

Regarding the status of directors and auditors holding concurrent posts, facts are made public in the Company's business reports and in reference materials for the General Meeting of Shareholders. Three Outside Directors concurrently hold posts as outside

officers of other listed companies as of March 2020. The other Directors and Audit & Supervisory Board Members do not concurrently hold posts as officers of other listed companies, and hold positions only at the Company.

1. Method of Evaluation	2. Summary of Evaluation Results
<p>The Company administered a questionnaire to all members of the Board of Directors and the Audit & Supervisory Board for the purpose of analyzing and evaluating the effectiveness of the Board of Directors. The Board of Directors then discussed the analysis and evaluation of the questionnaire.</p> <ul style="list-style-type: none"> • Respondents: All Directors and Audit & Supervisory Board Members (14 people) • Method: Questionnaire survey (non-anonymous; names will not be disclosed, in principle) • Period: March 2020 • Questions: 21 in total <ul style="list-style-type: none"> a. Questions regarding the structure of the Board of Directors (3 questions) b. Questions regarding the management/administration of the Board of Directors (6 questions) c. Questions regarding the agenda items at meetings of the Board of Directors (8 questions) d. Questions regarding the systems that support the Board of Directors (4 questions) 	<p>Based on the analysis and evaluation of the questionnaire regarding the effectiveness of the Board of Directors, the Directors and the Audit & Supervisory Board Members generally gave high grades, and it was confirmed that the Board of Directors functioned effectively. The results of the evaluation for each question are as shown below.</p> <ol style="list-style-type: none"> Structure of the Board of Directors The structure of the Board of Directors was evaluated as appropriate, including an appropriate number of female members and independent Outside Directors of diverse career backgrounds. The opinion was expressed that, going forward, it would be desirable to increase the number of Outside Directors to at least one-third of the total to further energize the Board of Directors. Management/Administration of the Board of Directors The management/administration of the Board of Directors was evaluated as having improved, due to the use of electronic media to provide materials to the Board in advance, allowing more time for them to be given consideration. In addition, the opinion was expressed that the increase in the number of Outside Directors had led to more questions as well as more comments from Inside Directors, resulting in more vigorous Board of Directors meetings. Agenda items at meetings of the Board of Directors It was evaluated that agenda items are appropriately selected. It was suggested that, given meeting time constraints, opinions regarding agenda items related to the direction of corporate strategy or the enhancement of corporate value could be exchanged outside of Board meetings. Systems that support the Board of Directors It was evaluated that training opportunities are appropriately provided to each Director and Audit & Supervisory Board Member. Following the reelection of Outside Directors, there were requests for more substantial explanations and provision of information regarding businesses and Group companies for recently appointed outside officers.
3. Future Initiatives	
<p>The Company will strive to improve issues recognized in the evaluation of the Board of Directors and further enhance the effectiveness of the Board of Directors.</p> <ul style="list-style-type: none"> • Taking into account the provisions of the Corporate Governance Code, the Company will continue to review the composition of the Board of Directors, based on recognition and clear understanding of issues faced by the Company and while verifying the management/administration and effectiveness of the Board. • In order to further enhance the effectiveness of the Board, the Company will work to ensure that matters such as those relating to its long-term vision and management strategy are considered on an ongoing basis, with deeper deliberation and verification of the appropriateness of content. 	

Strengthening Group Risk Management

The CITIZEN Group has established the Group Risk Management Committee to help achieve the Group’s operating objectives and continue its sustainable development through the integrated management of and timely response to risks.

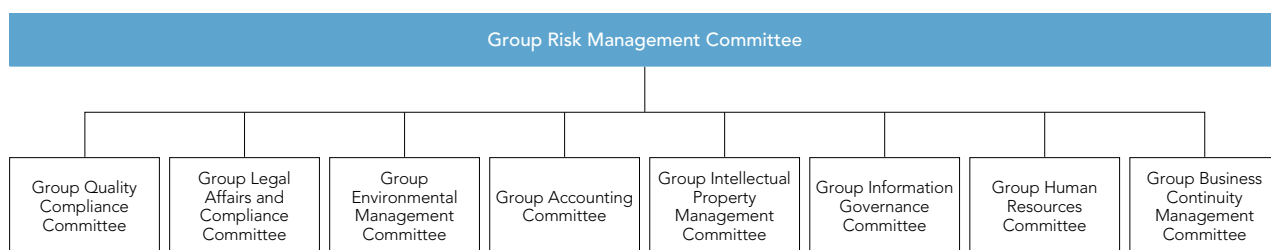
The Group Risk Management Committee’s primary responsibilities are to identify and deal with key risks faced by the Group, and respond to new risks.

The President and CEO of the Company chairs the committee, which has established subcommittees for main risk themes. The officers in charge and risk management departments participate in these subcommittees. As a result, senior management is able to identify and address key risks including financial risks, compliance, business continuity planning, intellectual property, information security, labor practices, and ESG risks including those related to environmental issues. This system allows the Group to share risk management expertise and information on managing key

risks common to all Group companies and risks specific to each Group company, enabling consistent risk management Group-wide.

In FY2018, the CITIZEN Group established the Group Quality Compliance Committee in order to consider and formulate measures to strengthen quality compliance for the entire Group. The committee is chaired by the Director in charge of Group risk management and is composed of quality officers for each Group company. Its primary responsibility is to handle quality compliance risks. The CITIZEN Group Quality Assurance Code of Conduct was formulated based on the deliberations of the committee, and we regularly conduct training, education and audits on the code to improve awareness of quality compliance throughout the Group.

The CITIZEN Group will continue to make improvements to strengthen risk management Group-wide.



Ensuring Appropriate Conduct of Business by Subsidiaries

Based on rules and regulations for subsidiaries and affiliates, the Company manages and guides the development of management systems and internal control systems at its subsidiaries.

With regard to the individual business activities of the CITIZEN Group, the Company thoroughly disseminates the management policies and plans it has formulated, and clarifies the authority and responsibility of Group companies. Group companies are responsible for autonomous management based on the industry characteristics and other aspects of each business.

In addition, the Group shares information about and collaborates on key issues for Group businesses through meetings including Management Committee meetings and liaison conferences attended by Group companies.

Furthermore, subsidiaries are required to submit regular reports at Business Control and Management Committee meetings and Watch Group Control Committee meetings on the status of business conduct. The Internal Audit Department also monitors subsidiaries through audits.

Other Corporate Governance Matters

Company Institutions and Internal Control System

The Company holds meetings of the Management Committee comprising full-time Directors and full-time Audit & Supervisory Board Members to ensure prompt management decision-making and management transparency. The committee fully discusses and conducts advance deliberations on matters relevant to management decisions and other important management matters of the Board of Directors.

The Board of Directors makes decisions relevant to business execution and supervises business execution. With regard to business execution, Representative Directors, Directors in charge, and operating officers manage businesses.

The Board of Directors met 17 times during FY2019, and all Directors and all Audit & Supervisory Board Members attended at least approximately 94% of meetings held during their respective terms of office.

Message from an Outside Director



Creating new value and customer experiences through contributions to society

Fumiaki Terasaka Outside Director

Q. How would you characterize Board of Directors' meetings?

The Board of Directors approaches discussions from both short- and long-term perspectives when considering how to increase corporate value, taking into account both what needs to be done now and what areas need to be addressed going forward. In addition, given that overseas sales make up a high proportion of overall sales, the Board takes a big-picture perspective and looks at conditions both in Japan and overseas. The world is currently in a period of VUCA (volatility, uncertainty, complexity and ambiguity). Companies need to make quick decisions about events happening at the same time all over the world. As a result, discussions have increasingly taken on a sense of urgency.

Of the Outside Directors, two have management experience and one is an attorney-at-law, and I feel that a variety of viewpoints are expressed at meetings. CITIZEN's Corporate Philosophy and universal values and approach are extremely important in providing a foundation for discussions.

CITIZEN is poised for transformation. The Outside Directors therefore have a serious responsibility. Through vigorous discussions guided by the Corporate Philosophy and Code of Conduct, we aim to help create a company that makes a solid contribution to realizing a sustainable society.

Q. What is your role on the Board of Directors? What kinds of opinions do you express in that role?

Previously, I think Outside Directors mainly focused on defensive measures, such as avoiding risk or preventing misconduct. Risk management is of course important if CITIZEN is to achieve sustainable growth and be a company needed by society. In terms of corporate culture, I think CITIZEN values integrity in manufacturing highly. As such, CITIZEN works continually to strengthen and ensure quality compliance, and create mechanisms for swiftly addressing issues and preempting their occurrence.

That being said, companies face constant risks in these unpredictable times. CITIZEN engages in ambitious global marketing activities, and is, as such, no exception. Responses to risks will

depend on whether or not they are viewed as threats or as opportunities. Furthermore, the ability to view risks as opportunities and take bold action is essential to corporate growth. I consider my role to be to steer top management in adopting a healthy risk appetite at such times. In other words, my basic approach is to provide encouragement where it is needed.

To invigorate the Board of Directors, it is important that Directors demonstrate ownership in discussions, even if the issue is outside their own area of expertise. I will continue to engage in offensive measures, such as applying an objective point of view to encourage robust discussions that serve as catalysts for sustainable growth, while also promoting defensive measures, such as the enhancement of management transparency.

Q. What are your expectations for the CITIZEN Group?

CITIZEN has a wonderful Corporate Philosophy, "Loved by citizens, working for citizens." I believe that society and stakeholders expect the CITIZEN Group to deliver on this philosophy in a form that can be understood clearly.

CITIZEN launched a program of sustainable management initiatives in 2019, and established the Sustainability Committee in April 2020. The goal of these initiatives is to contribute to solving social issues through products and business processes, thereby ensuring that our business prospers into the future. CITIZEN aims to contribute to achieving the Sustainable Development Goals (SDGs) by realizing its Corporate Philosophy through its products and contribution to society.

To that end, clarity is crucial. One of my favorite sayings is, "Make what's difficult easy, make what's easy deep, make what's deep fun." Focused on the Watch business, I hope CITIZEN will demonstrate its unique strengths as a manufacturer capable of creating a fun and rewarding world.

I look forward to seeing a succession of Sustainable Products, as well as services, created in Sustainable Factories that exist in harmony with local communities, made possible through the ongoing commitment of every employee.

Management Team



Directors

1 Toshihiko Sato

President and CEO

Toshihiko Sato has a record of achievements and experience in running the Devices and Components business, as well as being responsible for watch manufacturing. He leverages this record to promote Group business as he leads management through the execution of Medium-Term Management Plan 2021. He assumed his current post in 2019.

2 Norio Takeuchi

Managing Director, Senior General Manager of Watch Business Division

Norio Takeuchi has an impressive record in sales strategy and brand strategy in the Watch business as Director, and experience in managing overseas subsidiaries involved in watch and clock sales. He assumed his current post in 2017.

3 Toshiyuki Furukawa

Director, General Manager of Corporate Planning Division and in charge of Accounting Department, Public & Investor Relations Department and IT Management Department

As General Manager of the Corporate Planning Division, Toshiyuki Furukawa has a record of achievements in formulating Group management strategy, and as Director has experience leading the Corporate Planning Division, Accounting Department, and the Public & Investor Relations Department. He assumed his current post in 2016.

4 Keiichi Nakajima

Director

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

5 Shinji Shirai

Director, Senior General Manager of Manufacturing Technology Division and in charge of Quality Assurance Department

After being involved in watch and clock manufacturing at the Company's subsidiaries, Shinji Shirai gained experience managing watch manufacturing subsidiaries. He also has experience in operations involving watch manufacturing, technologies and product development. He assumed his current post in 2017.

6 Yoshitaka Oji

Director, Senior General Manager of Product Development Division and Senior General Manager of R&D Center, and Senior General Manager of Watch Development Division

After being involved in watch and clock sales at one of the Company's overseas subsidiaries, Yoshitaka Oji gained experience as General Manager of the Corporate Planning Division, promoting management strategy in the Watch business and product development of watches and clocks. He assumed his current post in 2017.

7 Yoshiaki Miyamoto

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

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

8 Fumiaki Terasaka

Outside Director **Independent**

(Career Summary)

2004 Operating Officer and Director of Kyushu Sales & Marketing Division of Sapporo Breweries Ltd.
2004 Director and Senior Officer, Director of Marketing Division of Sapporo Breweries Ltd.
2005 Director and Executive Managing Officer, Director of Marketing Division of Sapporo Breweries Ltd.
2009 Executive Managing Officer of Sapporo Breweries Ltd.
2010 President and Representative Director of Sapporo Breweries Ltd.
2010 Managing Director and Group Operating Officer of Sapporo Holdings Limited
2013 Advisor of Sapporo Breweries Ltd.
2014 Senior Advisor of Sapporo Breweries Ltd.
2015 Outside Audit & Supervisory Board Member of Daisyo Corporation (present)
2017 Outside Director of Fujitsu General Limited (present)
2017 Outside Director of the Company (present)

9 Toshiko Kuboki

Outside Director **Independent**

(Career Summary)

1987 Registered as an attorney-at-law
2002 Conciliation Commissioner of Tokyo Family Court (present)
2009 Retirement Benefit Examination Committee Member of Board of Audit of Japan (present)
2012 Visiting Professor of Graduate School of Law, Chuo University (present)
2013 Municipal Board of Education Member of Chuo-ku, Tokyo (present)
2015 Outside Director of Qol Co., Ltd. (Currently Qol Holdings Co., Ltd.) (present)
2015 Outside Auditor of Kyodo News (present)
2016 Outside Audit & Supervisory Board Member of the Company
2019 Outside Director of the Company (present)

10 Yoshio Osawa

Outside Director **Independent**

(Career Summary)

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

Auditors

11 Yoshio Takada

Audit & Supervisory Board Member (Full-time)

Yoshio Takada has mainly been involved in accounting operations, having held several managerial positions in accounting departments of the Company, following which he also had experience managing a subsidiary as Director and CEO. He assumed his current post in 2017.

12 Noboru Akatsuka

Audit & Supervisory Board Member (Full-time), Outside Audit & Supervisory Board Member **Independent**

(Career Summary)

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

13 Yaeko Ishida

Outside Audit & Supervisory Board Member **Independent**

(Career Summary)

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

Independent

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

Notes: For more information on the nomination of Outside Directors and Outside Audit & Supervisory Board Members, see page 28.

Yaeko Ishida uses the name Yaeko Kitadaï in her profession as an attorney-at-law.

FINANCIAL DATA 2020

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Analysis of Operating Results

Fiscal Year-End Operating Results

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020	Year-on-year change	Percentage change
Net sales	321,652	278,531	(43,120)	(13.4%)
Operating profit	22,411	6,136	(16,275)	(72.6%)
Ordinary profit	26,602	7,531	(19,070)	(71.7%)
Profit attributable to owners of parent	13,369	(16,667)	(30,037)	—

During the fiscal year ended March 31, 2020, 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 first year of Medium-Term Management Plan 2021 which was established in February 2019, such as facilitating the growth of the Watch business and Machine Tools business, promoting sustainable management and strengthening compliance in quality, with a view to raising the level of traditional manufacturing and addressing the challenge of new value creation.

The consolidated financial results for the fiscal year under review recorded a decrease in both sales and profit, with net sales standing at 278.5 billion yen (down 13.4% year on year), and operating profit at 6.1 billion yen (down 72.6% year on year). Ordinary profit decreased to 7.5 billion yen (down 71.7% year on year), and profit attributable to owners of parent turned negative, at a loss of 16.6 billion yen (profit attributable to owners of parent of 13.3 billion yen in the same period of the previous year), due to the posting of an extraordinary loss.

Analysis of Financial Position

• Assets Outstanding at Fiscal Year End

As of the end of the consolidated fiscal year under review, total assets decreased by 44.3 billion yen year on year, to 369.5 billion yen. Current assets declined by 23.3 billion yen, mainly reflecting decreases of 20.8 billion yen in notes and accounts receivable – trade and 6.7 billion yen in cash and deposits, offsetting an increase of 2.9 billion yen in inventories. Non-current assets decreased by 21.0 billion yen, primarily due to decreases of 6.5 billion yen in investment securities, 5.6 billion yen in machinery, equipment and vehicles – net, and 4.1 billion yen in intangible assets, offsetting an increase of 2.7 billion yen in deferred tax assets.

Liabilities decreased by 7.5 billion yen year on year, to 138.7 billion yen, mainly due to declines of 5.6 billion yen in electronically recorded obligations – operating, 5.2 billion yen in accrued expenses, and 4.0 billion yen in notes and accounts payable – trade, offsetting an increase of 4.0 billion yen in total in long-term and short-term loans and a rise of 1.3 billion yen in provision for loss on reorganization.

Net assets decreased by 36.7 billion yen year on year, to 230.7

billion yen, mainly as a result of declines of 27.1 billion yen, 4.5 billion yen and 4.3 billion yen in retained earnings, valuation difference on available-for-sale securities and foreign currency translation adjustment, respectively.

• Cash Flows

Net cash provided by operating activities decreased by 2.5 billion yen year on year, to 17.3 billion yen. Major factors contributing to this result included 15.4 billion yen in depreciation and 19.2 billion yen in impairment loss, partially offset by 15.0 billion yen in loss before income taxes, an 8.9 billion yen decrease in notes and accounts payable, and 7.1 billion yen in income taxes paid.

Net cash used in investing activities decreased by 4.3 billion yen year on year, to 15.4 billion yen. Major factors contributing to this result included 16.8 billion yen for the purchase of property, plant and equipment, offsetting 4.0 billion yen in proceeds from sales of investment securities and 0.7 billion yen in proceeds from sales of property, plant and equipment.

Net cash used in financing activities increased by 1.1 billion yen year on year, to 7.0 billion yen. Major factors contributing to this result included 10.7 billion yen in the repayment of long-term loans payable, 6.9 billion yen in cash dividends paid and 3.0 billion yen in the purchase of treasury stock, partially offset by cash inflows such as 15.2 billion yen in proceeds from long-term loans payable.

For the consolidated fiscal year under review, cash and cash equivalents decreased by 6.5 billion yen year on year, to 77.9 billion yen as of the end of the year.

• Fundamental Policy Regarding the Distribution of Profits and Dividends for the Fiscal Year Under Review and the Fiscal Year Ending March 2021

The Company considers the proportion of the total amount of dividends and share buybacks to profit attributable to owners of parent as the ratio of return to shareholders and established a basic policy of maintaining a ratio of 60% or higher on average for three years. The ratio is determined in consideration of the balance between dividend payments based on consolidated results and stable dividend payments.

The year-end dividend for the fiscal year under review will be 0.00 yen per share. As a result, the full-year dividend for the fiscal year under review will be 12.00 yen per share.

The Company has not currently decided on the expected full-year dividends per share for the next fiscal year.

Risks

Matters which may affect the Group's results, financial position and share price, etc. include the following:

1. Risks in each of the Group's businesses

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

Watches

Competition in the watch market is intensifying, not only from Japanese brands, but also from high-end Swiss brands, low-end Chinese manufacturers, and smartwatch manufacturers, along with alternative products such as smartphones with watch functions. In the movement sector, the analog quartz market centering on low-priced products has been contracting, and we are facing an environment in which prices are declining as a result of increasing competition due to the rise of Chinese manufacturers. Consequently, there is a risk of declines in our product sales and market share.

Moreover, if the adverse outcomes of the COVID-19 pandemic, such as restrictions on outings, suspension or reduced hours of store and restaurant operation, and stagnation of supply chains are aggravated or prolonged, our operating results may be affected even more severely due to a global decline in consumer confidence.

Machine Tools

The Machine Tools business is susceptible to the effects of economic cycles and fluctuations in corporate capital investment. The Group's operating results may be affected by factors such as the U.S.–China trade friction and a fall in appetite for capital investment due to the COVID-19 pandemic.

Devices and Components

The Devices and Components business is characterized by rapid technological innovation and fierce competition between companies, meaning that declining sales prices or delays in development, for example, can have a significant impact on business results. Precision machining components are susceptible to customer trends, including automotive and smartphone manufacturers. As for opto-devices, patent licensing agreements are concluded for manufacturing certain products. Our business results could be affected should a cooperative relationship underpinning a patent agreement break down and access to the patent be lost.

Moreover, the Group's operating results may be affected by factors such as a decrease in plant operating rates, reduced operating rates of automakers and other clients of the Group, and stagnation of supply chains as a result of the spread of COVID-19.

Electronic Products

The Electronic Products business is susceptible to declining capital expenditure and personal spending as a result of changing economic conditions. The Group's operating results may be affected by the stagnation of the global economy due to the U.S.–China trade friction, the COVID-19 pandemic, and other factors. With intense competition from electronics manufacturers in China and other countries in addition to domestic manufacturers, and rapid technological innovation, business results may also be impacted by factors such as declining sales prices and development delays.

2. Overseas sales

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

3. Foreign currency fluctuation risk

As overseas sales account for a high percentage of the Group's product sales, as mentioned in 2 above, we enter into foreign currency

contracts, currency options and other such transactions to hedge against risks. Although we are expanding and strengthening our overseas production, currency fluctuations may still affect the Group's operating results.

4. Manufacturing in China

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

5. Impairment loss

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

6. Patents and intangible property

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

7. Risk related to natural disaster such as earthquakes

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

8. Risks related to M&As and business alliances

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

9. Risk related to borrowings

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

10. Other risks

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

Consolidated Balance Sheets

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
March 31, 2019 and 2020

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Current assets:			
Cash and time deposits (Note 2 and 12)	¥ 86,875	¥ 80,168	\$ 742,302
Notes and accounts receivable – trade (Note 12)	64,139	43,254	400,508
Electronically recorded monetary claims (Note 12)	1,225	1,395	12,923
Inventories (Note 4)	98,202	101,192	936,970
Other current assets	9,653	10,676	98,859
Less: Allowance for doubtful accounts	(1,111)	(1,033)	(9,565)
Total current assets	258,985	235,655	2,181,999
Property, plant and equipment (Note 10 and 15):			
Buildings and structures	111,177	111,526	1,032,655
Machinery and equipment	127,353	122,855	1,137,546
Tools, furniture and fixtures	45,797	46,472	430,303
Leased assets	2,764	2,816	26,079
	287,092	283,671	2,626,585
Less: accumulated depreciation	(213,186)	(219,006)	(2,027,840)
	73,905	64,664	598,745
Land	10,326	10,164	94,112
Construction in progress	5,437	3,704	34,298
Property, plant and equipment, net	89,669	78,532	727,156
Investments and other assets:			
Investment securities (Note 3 and 12)	39,974	33,449	309,716
Long-term loans (Note 12)	942	408	3,780
Software	4,402	3,830	35,464
Other intangible assets (Note 10)	4,330	722	6,581
Deferred tax assets (Note 5)	11,847	14,604	135,222
Others (Note 12)	4,057	2,657	24,716
Less: Allowance for doubtful accounts	(268)	(239)	(2,216)
Less: Allowance for loss on investments	(23)	(46)	(425)
Total investments and other assets	65,256	55,386	512,838
Total assets (Note 15)	¥ 413,911	¥ 369,575	\$ 3,421,994

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Current liabilities:			
Short-term loans payable and current portion of long-term loans payable (Note 6 and 12)	¥ 13,987	¥ 17,227	\$ 159,513
Notes and accounts payable – trade (Note 12)	20,496	16,485	152,647
Electronically recorded obligations – operating (Note 12)	14,896	9,223	85,406
Income taxes payable	2,139	1,551	14,363
Accrued expenses	13,395	8,160	75,560
Accrued bonuses	5,712	4,855	44,958
Provision for reorganization costs (Note 13 and 14)	484	1,840	17,037
Other current liabilities	10,628	11,927	109,630
Total current liabilities	81,741	71,271	659,924
Long-term liabilities:			
Long-term loans payable (Note 6 and 12)	27,077	27,929	258,607
Unsecured bonds (Note 6 and 12)	10,000	10,000	92,592
Deferred tax liabilities (Note 5)	791	585	5,425
Liability for retirement benefits (Note 7)	23,328	24,038	222,575
Provision for reorganization costs (Note 13)	816	829	7,682
Other long-term liabilities	2,609	4,128	38,223
Total long-term liabilities	64,622	67,511	625,107
Total liabilities	146,363	138,783	1,285,031
Net assets:			
Common stock			
Authorized – 959,752,000 shares in 2020 and 2019			
Issued – 314,353,809 shares in 2020 and 320,353,809 shares in 2019	32,648	32,648	302,304
Capital surplus	34,019	33,730	312,319
Retained earnings	181,995	154,855	1,433,844
Less: treasury stock, at cost (1,714,407 shares in 2020 and 2,070,969 shares in 2019)	(1,773)	(1,069)	(9,903)
Total shareholders' equity	246,889	220,165	2,038,565
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	8,111	3,578	33,132
Foreign currency translation adjustments	3,303	(1,095)	(10,145)
Accumulated adjustments for retirement benefits	(855)	(921)	(8,535)
Total accumulated other comprehensive income	10,559	1,560	14,451
Non-controlling interests	10,098	9,066	83,945
Total net assets	267,547	230,791	2,136,962
Total liabilities and net assets	¥ 413,911	¥ 369,575	\$ 3,421,994

Consolidated Statements of Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1) (except per share amounts)
	2019	2020	2020
Net sales (Note 15)	¥ 321,652	¥ 278,531	\$ 2,578,999
Cost of sales	198,094	177,431	1,642,881
Gross profit	123,557	101,100	936,117
Selling, general and administrative expenses (Note 7 and 8)	101,146	94,964	879,302
Operating profit (Note 15)	22,411	6,136	56,815
Other income (expenses):			
Interest income	525	479	4,441
Dividend income	1,775	1,378	12,762
Interest expense	(387)	(406)	(3,761)
Foreign currency exchange gain (loss)	492	(919)	(8,517)
Subsidy income	754	230	2,136
Loss on disposal of property, plant and equipment	(884)	(252)	(2,333)
Gain on sales of property, plant and equipment	239	40	378
Gain on sales of investment securities	2,195	1,860	17,222
Impairment loss (Note 10 and 15)	(5,688)	(19,272)	(178,447)
Reorganization costs (Note 13)	(2,507)	(1,404)	(13,005)
Special compliance expenses, etc.	(216)	—	—
Extra retirement payments (Note 14)	—	(2,835)	(26,256)
Others, net	542	(121)	(296)
	(3,159)	(21,222)	(196,506)
Income before income taxes and non-controlling interests	19,251	(15,086)	(139,691)
Income taxes (Note 5):			
Current	7,010	4,126	38,204
Deferred	(1,550)	(1,754)	(16,243)
Total income taxes	5,459	2,371	21,960
Net income	13,792	(17,458)	(161,652)
Attributable to:			
Owners of parent	¥ 13,369	¥ (16,667)	\$ (154,330)
Non-controlling interests	422	(790)	(7,321)
	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income			
Basic	¥ 42.00	¥ (53.07)	\$ (0.49)
Cash dividends applicable to the year	20.00	12.00	0.11

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Net income	¥ 13,792	¥ (17,458)	\$ (161,652)
Other comprehensive income			
Unrealized gain on available-for-sale securities	(3,797)	(4,533)	(41,977)
Foreign currency translation adjustments	1,159	(4,403)	(40,769)
Adjustments for retirement benefits	209	(65)	(603)
Share of other comprehensive income of associates accounted for using equity method	126	(63)	(589)
Total other comprehensive income	(2,302)	(9,065)	(83,938)
Total comprehensive income	¥ 11,489	¥ (26,523)	\$ (245,591)
Total comprehensive income attributable to:			
Owners of parent	¥ 11,000	¥ (25,666)	\$ (237,656)
Non-controlling interests	488	(856)	(7,934)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Noe 1)
	2019	2020	2020
Shareholders' equity			
Capital stock			
Balance at beginning of year	¥ 32,648	¥ 32,648	\$ 302,304
Balance at end of year	¥ 32,648	¥ 32,648	\$ 302,304
Capital surplus			
Balance at beginning of year	¥ 34,000	¥ 34,019	\$ 314,994
Changes of items during period			
Capital increase from acquisition of consolidated subsidiaries	19	0	2
Change of scope of consolidation		(289)	(2,676)
Retirement of treasury stock		(3,703)	(34,296)
Disposal of treasury stock	(10)	(2)	(18)
Transfer of loss on disposal of treasury stock	10	2	18
Transfer to capital surplus from retained earnings		3,703	34,296
Total changes of items during period	19	(288)	(2,674)
Balance at end of year	¥ 34,019	¥ 33,730	\$ 312,319
Retained earnings			
Balance at beginning of year	¥ 176,117	¥ 181,995	\$ 1,685,141
Cumulative effects of changes in accounting policies (Note 2)		(199)	(1,844)
Restated balance		¥ 181,796	\$ 1,683,297
Changes of items during period			
Increase by merger		363	3,366
Change of scope of consolidation		5	54
Dividends of surplus	(7,480)	(6,936)	(64,227)
Profit (Loss) attributable to owners of parent	13,369	(16,667)	(154,330)
Transfer of loss on disposal of treasury stock	(10)	(2)	(18)
Transfer to capital surplus from retained earnings		(3,703)	(34,296)
Total changes of items during period	5,877	(26,940)	(249,452)
Balance at end of year	¥ 181,995	¥ 154,855	\$ 1,433,844
Treasury stock at cost			
Balance at beginning of year	¥ (1,783)	¥ (1,773)	\$ (16,424)
Changes of items during period			
Retirement of treasury stock		3,703	34,296
Purchase of treasury stock	(1)	(3,001)	(27,793)
Disposal of treasury stock	10	2	19
Total changes of items during period	9	704	6,521
Balance at end of year	¥ (1,773)	¥ (1,069)	\$ (9,903)
Total shareholders' equity			
Balance at beginning of year	¥ 240,983	¥ 246,889	\$ 2,286,015
Cumulative effects of changes in accounting policies		(199)	(1,844)
Restated balance		246,690	2,284,171
Changes of items during period			
Capital increase from acquisition of consolidated subsidiaries	19	0	2
Increase by merger		363	3,366
Change of scope of consolidation		(283)	(2,622)
Dividends of surplus	(7,480)	(6,936)	(64,227)
Profit (Loss) attributable to owners of parent	13,369	(16,667)	(154,330)
Purchase of treasury stock	(1)	(3,001)	(27,793)
Disposal of treasury stock	0	0	0
Total changes of items during period	5,906	(26,525)	(245,605)
Balance at end of year	¥ 246,889	¥ 220,165	\$ 2,038,565

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at beginning of year	¥ 11,909	¥ 8,111	\$ 75,109
Changes of items during period			
Net changes of items other than shareholders' equity	(3,797)	(4,533)	(41,976)
Total changes of items during period	(3,797)	(4,533)	(41,976)
Balance at end of year	¥ 8,111	¥ 3,578	\$ 33,132
Foreign currency translation adjustments			
Balance at beginning of year	¥ 2,067	¥ 3,303	\$ 30,587
Changes of items during period			
Net changes of items other than shareholders' equity	1,236	(4,399)	(40,732)
Total changes of items during period	1,236	(4,399)	(40,732)
Balance at end of year	¥ 3,303	¥ (1,095)	\$ (10,145)
Remeasurements of defined benefit plans			
Balance at beginning of year	¥ (1,047)	¥ (855)	\$ (7,919)
Changes of items during period			
Net changes of items other than shareholders' equity	192	(66)	(616)
Total changes of items during period	192	(66)	(616)
Balance at end of year	¥ (855)	¥ (921)	\$ (8,535)
Total accumulated other comprehensive income			
Balance at beginning of year	¥ 12,928	¥ 10,559	\$ 97,777
Changes of items during period			
Net changes of items other than shareholders' equity	(2,368)	(8,999)	(83,325)
Total changes of items during period	(2,368)	(8,999)	(83,325)
Balance at end of year	¥ 10,559	¥ 1,560	\$ 14,451
Non-controlling interests			
Balance at beginning of year	¥ 9,801	¥ 10,098	\$ 93,502
Changes of items during period			
Net changes of items other than shareholders' equity	297	(1,032)	(9,557)
Total changes of items during period	297	(1,032)	(9,557)
Balance at end of year	¥ 10,098	¥ 9,066	\$ 83,945
Total net assets			
Balance at beginning of year	¥ 263,713	¥ 267,547	\$ 2,477,295
Cumulative effects of changes in accounting policies		(199)	(1,844)
Restated balance	¥ 263,713	¥ 267,348	\$ 2,475,451
Changes of items during period			
Capital increase from acquisition of consolidated subsidiaries	19	0	2
Increase by merger	-	363	3,366
Change of scope of consolidation	-	(283)	(2,622)
Dividends of surplus	(7,480)	(6,936)	(64,227)
Profit (Loss) attributable to owners of parent	13,369	(16,667)	(154,330)
Purchase of treasury stock	(1)	(3,001)	(27,793)
Disposal of treasury stock	0	0	0
Net changes of items other than shareholders' equity	(2,071)	(10,031)	(92,882)
Total changes of items during period	3,834	(36,556)	(338,488)
Balance at end of year	¥ 267,547	¥ 230,791	\$ 2,136,962

Consolidated Statements of Cash Flows

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 19,251	¥ (15,086)	\$ (139,961)
Depreciation	13,947	15,438	142,950
Increase (decrease) in provision for loss on business restructuring	(429)	1,375	12,739
Increase (decrease) in allowance for doubtful accounts	216	(91)	(845)
Increase (decrease) in other provisions	(4)	(1,211)	(11,220)
Increase (decrease) in net defined benefit liability	817	639	5,916
Amortization of goodwill	400	—	—
Interest and dividend income	(2,300)	(1,858)	(17,204)
Interest expenses	387	406	3,761
Loss (gain) on sales of investment securities	(2,195)	(1,858)	(17,210)
Loss (gain) on sales of property, plant and equipment	(239)	(40)	(378)
Loss on retirement of property, plant and equipment	863	252	2,333
Decrease (increase) in notes and accounts receivable – trade	(1,646)	20,214	187,175
Decrease (increase) in inventories	(7,051)	(4,096)	(37,928)
Increase (decrease) in notes and accounts payable – trade	(415)	(8,999)	(83,327)
Impairment loss	5,688	19,272	178,447
Other, net	329	(1,350)	(12,507)
Subtotal	27,622	23,005	213,011
Interest and dividend income received	2,300	1,858	17,205
Interest expenses paid	(388)	(408)	(3,777)
Income taxes paid	(9,636)	(7,107)	(65,812)
Net cash provided by (used in) operating activities	19,897	17,347	160,625
Cash flows from investing activities:			
Purchase of investment securities	(305)	(1,971)	(18,252)
Proceeds from sales of investment securities	4,194	4,061	37,608
Purchase of property, plant and equipment	(19,350)	(16,851)	(156,027)
Proceeds from sales of property, plant and equipment	764	773	7,165
Purchase of intangible assets	(3,884)	(2,254)	(20,873)
Payments of loans receivable	(160)	(2)	(26)
Collection of loans receivable	146	173	1,604
Other, net	(1,266)	572	5,298
Net cash provided by (used in) investing activities	(19,861)	(15,498)	(143,504)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	794	(518)	(4,804)
Proceeds from long-term loans payable	5,063	15,270	141,389
Repayments of long-term loans payable	(3,719)	(10,717)	(99,238)
Proceeds from issuance of bonds	10,000	—	—
Repayments for redemption of bonds	(10,000)	—	—
Cash dividends paid	(7,480)	(6,936)	(64,228)
Dividends paid to non-controlling interests	(136)	(170)	(1,579)
Purchase of treasury stock	(76)	(3,001)	(27,793)
Proceeds from sales of treasury stock	74	—	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(172)	(557)	(5,163)
Other, net	(235)	(416)	(3,857)
Net cash provided by (used in) financing activities	(5,888)	(7,049)	(65,276)
Effect of exchange rate change on cash and cash equivalents	(270)	(1,880)	(17,407)
Net increase (decrease) in cash and cash equivalents	(6,122)	(7,080)	(65,563)
Cash and cash equivalents at beginning of term	90,655	84,533	782,713
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	544	5,041
Cash and cash equivalents at end of term (Note 2)	¥ 84,533	¥ 77,996	\$ 722,192

Notes to Consolidated Financial Statements

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

Note 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Citizen Watch Co., Ltd. (the "Company") and consolidated subsidiaries (collectively, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency in which the Company is incorporated and mainly operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108 to U.S.\$1, the approximate rate of exchange as of March 31, 2020. Such translation should not be construed as a representation that Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

As permitted by the Financial Instruments and Exchange Act, for the years ended March 31, 2020 and 2019, amounts of less than one million yen have been omitted. Consequently, totals shown in the accompanying consolidated financial statements for the years ended March 31, 2020 and 2019 do not necessarily agree with the sums of the individual amounts.

Note 2. Summary of significant accounting policies

a. Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, the "Companies"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has 99 subsidiaries at March 31, 2020 (110 for 2019). The consolidated financial statements include the accounts of the Company and 84 (92 for 2019) of its significant consolidated subsidiaries (collectively, the "Group").

The remaining 15 (18 for 2019) non-consolidated subsidiaries whose combined assets, net sales, net income and retained earnings are not significant in the related consolidated totals, are not consolidated with the Company.

Investments in non-consolidated subsidiaries and affiliates (generally 20% - 50% ownership) over which the Company has the ability to exercise significant influence in operating and financial policies are accounted for by the equity method. Equity method is applied to 2 affiliates for 2020 (2 for 2019).

Investments in non-consolidated subsidiaries and affiliated companies other than the above (companies owned 20% - 50%) which have immaterial effect on the consolidated financial statements are accounted for at cost.

b. Cash and cash equivalents

Cash equivalents comprise demand deposits in financial institutions and highly liquid, short-term investments with low risk of fluctuations in value for which the maturity expires within three months.

The balance of cash and cash equivalents as of March 31, 2020 and 2019 is reconciled with the balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance sheet:			
Cash and time deposits	¥ 86,875	¥ 80,168	\$ 742,302
Less:			
Time deposits over three months	2,340	2,170	20,096
Separate deposits for BIP	1	1	13
Cash and cash equivalents	¥ 84,533	¥ 77,996	\$ 722,192

c. Marketable and investment securities

The Companies clarify all of their marketable and investment securities as available-for-sale. Available-for-sale securities are carried at market value with the corresponding recognition of net unrealized gains and losses as a separate component of equity, net of related taxes. Realized gains and losses are determined on the moving average method and included in the consolidated statements of income.

d. Allowance for doubtful accounts

An allowance for doubtful accounts is established based on past credit

loss experience and management's evaluation of potential losses in outstanding receivables and loans.

e. Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses, determined by the weighted average method.

f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the straight-line basis at the rates based on the estimated useful lives of the respective assets ranging from 2 to 60 years for buildings and from 2 to 10 years for machinery and equipment.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might be unrecoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to undiscounted future cash flows expected to be generated by the assets. When the recoverable amount of assets is estimated to be less than their carrying amount, the carrying amount of the assets is reduced to its recoverable amount, and an impairment loss is recognized.

Maintenance and repairs, including minor renewals and improvements, are expensed in the consolidated statements of income as incurred.

g. Goodwill and other intangible assets

Goodwill is amortized on the straight-line basis over reasonable economic life up to 20 years, though immaterial goodwill is charged to expense in the period of acquisition.

Software and other intangible assets are amortized on the straight-line basis over the estimated useful lives of the respective assets.

h. Leases

Finance leases that do not transfer ownership of the leased property to the lessees are depreciated on the straight-line basis over the lease terms with no residual value.

i. Retirement benefits

(1) Calculation of retirement benefit obligation

The retirement benefit obligation is calculated based on benefit-formula basis.

(2) Amortization of actuarial differences and prior service costs
Actuarial differences are amortized on the declining-balance basis from the next fiscal year over the period (5-years) which is less than the average remaining years of employment.

Prior service costs are amortized on the declining-balance basis over the period (5-years) which is less than the average remaining years of employment.

j. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at the reporting date.

The foreign currency exchange gains and losses resulting from the settlement of these items are included in the consolidated statements of income.

Balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the reporting date rates except for equity accounts, which are translated at the historical rates. Income statements of foreign subsidiaries are translated at average rates during the year.

Exchange differences arising from the translation are recognized in "Foreign currency translation adjustments" and "non-controlling interests" in net assets.

k. Per share information

The computation of net income per common share is based on the weighted average number of shares outstanding during each year.

The average number of common shares used in the computation was 314,081 thousand shares and 318,284 thousand in 2020 and 2019, respectively.

Diluted net income per common share assumes full conversion of the outstanding convertible bonds at the beginning of the year or at the date of issuance with applicable adjustment for related interest expense, net of tax.

Cash dividends per common share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

I. Derivative financial instruments

The Companies have derivative financial instruments, such as foreign currency forward contracts and interest rate swaps to manage its exposure to foreign exchange rate and interest rate risks. The Companies do not enter into derivative financial instruments for trading purposes.

Foreign currency forward contracts are not designated for hedge accounting and stated at fair value; gains and losses are recognized in the consolidated statements of income.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value.

m. Changes in accounting policies

(Adoption of IFRS 16)

Some overseas consolidated subsidiaries have adopted IFRS 16 (Leases) from the beginning of the current fiscal year.

These subsidiaries, as lessees, generally recognize all leases as assets and liabilities as a result of this adoption. The adoption of this standard did not have a material impact on the consolidated financial statements.

(Adoption of the "Revenue from Contracts with Customers"

(ASC606))

The overseas consolidated subsidiaries which apply US GAAP adopted ASC606, "Revenue from Contracts with Customers" from the beginning of the fiscal year ended March 31, 2020.

As a result, the beginning balance of retained earnings of this fiscal year has decreased by ¥199 million (\$1,844 thousand). The adoption of this standard did not have a material impact on the net assets per share and net loss per share as of and for the year ended March 31, 2020.

n. New accounting pronouncements

(Accounting standard for revenue recognition, etc.)

• "Accounting Standard for Revenue Recognition"

(ASBJ Statement No. 29, March 31, 2020)

• "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 31, 2020)

• "Guidance on Disclosures about Fair Value of Financial Instruments"

(ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed comprehensive accounting standards for revenue recognition and published the "Revenue from Contracts with Customers" (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. Given that IFRS 15 will be applied from a fiscal year starting on or after January 1, 2018 and that Topic 606 will be applied from a fiscal year starting after December 15, 2017, ASBJ has developed comprehensive accounting standards for revenue recognition and published them in step with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to be adding alternative accounting treatments without losing comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned date of application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the application of the accounting standards, etc.

The amount of the impact on consolidated financial statements is currently under review.

(Accounting Standards for Fair Value Measurement, etc.)

• "Accounting Standard for Fair Value Measurement" (ASBJ

Statement No. 30, July 4, 2019)

• "Revised Accounting Standard for Measurement of Inventories"

(ASBJ Statement No. 9, July 4, 2019)

• "Revised Accounting Standard for Financial Instruments" (ASBJ

Statement No. 10, July 4, 2019)

• "Guidance on Accounting Standard for Fair Value Measurement"

(ASBJ Guidance No. 31, July 4, 2019)

• "Guidance on Disclosures about Fair Value of Financial Instruments"

(ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

IASB and FASB have established detailed guidance for fair value measurement (IFRS 13 "Fair Value Measurement" by IFRS and Topic 820 "Fair Value Measurement" by FASB).

In order to improve the comparability between the international accounting standard and Japanese accounting standard, ASBJ has mainly considered guidance and disclosure on fair value of financial instruments and published the accounting standard and implementation guidance for fair value measurement accordingly.

As the basic policy of ASBJ for the development of accounting standard for fair value measurement, ASBJ basically adopted all provisions of IFRS 13 by using a unified calculation method, from the point of view of improving the comparability between the financial statements based on IFRS or U.S. GAAP and Japanese GAAP. Moreover, in consideration of the actual practice conducted in Japan, other treatments for individual items are established within the scope not to fail the comparability.

(2) Planned date of application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the application of the accounting standards, etc.

The amount of the impact on consolidated financial statements is currently under review.

(Accounting Standard for Disclosure of Accounting Estimates)

• "Accounting Standard for Disclosure of Accounting Estimates"

(ASBJ Statement No. 31, March 31, 2020)

(1) Overview

With regard to "sources of estimation uncertainty" which are required to be disclosed under Paragraph 125 of International Accounting Standard ("IAS") 1 "Presentation of Financial Statements" ("IAS 1") issued in 2003 by IASB, ASBJ was requested to examine disclosures of such information under Japanese GAAP as useful information for users of financial statements. Accordingly, ASBJ has developed and published the accounting standard for disclosures of accounting estimates (the "Accounting Standard").

The basic policy of ASBJ for the development of the Accounting Standard was to provide general principles (disclosure objectives) instead of expanding required information in the notes, and an entity shall determine specific disclosures in accordance with its disclosure objectives.

The development of this standard is based on Paragraph 125 of IAS 1.

(2) Planned date of application

To be applied from the end of the fiscal year ending March 31, 2021.

(Accounting Standard for Accounting Policy Disclosures,

Accounting Changes and Error Corrections)

• "Accounting Standard for Accounting Policy Disclosures,

Accounting Changes and Error Corrections" (ASBJ Statement No. 24,

March 31, 2020)

(1) Overview

Following the recommendation to examine enhancements to note information concerning "application of principles of accounting policies and procedures where provisions of related accounting standards are not available," necessary amendments were made and the accounting standard for accounting policy disclosures, accounting changes, and error corrections was published by ASBJ. When enhancing note information concerning "application of principles of accounting policies and procedures where provisions of related accounting standards are not available," in order to ensure consistency with past actual practice in case the provisions of related accounting standards are clear, the provisions in the Notes on Corporate Accounting Principles (Note 1-2) have been followed.

(2) Planned date of application

To be applied from the end of the fiscal year ending March 31, 2021.

o. Additional information

(Board Incentive Plan)

The Company has introduced a performance-based stock remuneration plan (hereafter, "the plan") for directors and titled corporate officers of the Company (excluding outside directors and corporate officers who are non-residents of Japan), with the aim of defining the relationship between remuneration of Directors, etc. and the Company's stock value, and providing an incentive for increasing mid- and long-term business performance and corporate value.

The Plan adopted a scheme called the Board Incentive Plan (hereafter, referred to as "BIP Trust"). The BIP Trust refers to an incentive plan for officers with reference to the performance share planned restricted stock plan in the U.S., under which the BIP Trust purchases Company's stocks and then grants and provides such stocks, as well as cash corresponding to realization value of Company's stocks to Directors, etc. according to the performance achieved upon their retirement.

The shares of the Company remaining in the trust are recorded as treasury stock under equity based on the book value (excluding incidental costs) in the trust. The book value of the treasury stock and the number of shares for the year ended March 31, 2020 and 2019 were ¥243 million (\$2,257 thousand) and 376,600 shares, ¥74 million (\$671 thousand) and 99,100 shares, respectively.

(Accounting estimates due to the impact of COVID-19)

The Companies have made accounting estimates based on the assumption that the impact of COVID-19 will continue until June 2020. As this assumption is highly uncertain, operating results in the future may be adversely affected if the impact of COVID-19 is prolonged or worsened.

Note 3. Investment securities

Investment securities consist of equity securities. Unrealized gain and fair value pertaining to available-for-sale securities as of March 31, 2020 and 2019 are as follows:

	Millions of yen					
	2019			2020		
	Cost	Fair value	Unrealized gain	Cost	Fair value	Unrealized gain
Available-for-sale equity securities	¥ 12,588	22,727	10,139	¥ 12,669	16,735	4,065

	Thousands of U.S. dollars		
	2020		
	Cost	Fair value	Unrealized Gain
Available-for-sale equity securities	\$ 117,314	\$ 154,957	\$ 37,643

Major securities with no market value and their amounts on the consolidated balance sheets as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Subsidiaries and affiliates	¥ 4,886	¥ 5,939	\$ 54,998
Unlisted equity securities	¥ 12,360	¥ 10,774	\$ 99,759

Allowance for loss on investments of ¥46 million (\$425 thousand) and ¥23 million were recorded in the consolidated balance sheets as of March 31, 2020 and 2019, respectively.

Note 4. Inventories

Inventories as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Finished goods	¥ 55,614	¥ 58,708	\$ 543,596
Work-in-process	22,982	20,563	190,404
Raw materials	19,605	21,920	202,969
Total	¥ 98,202	¥101,192	\$ 936,970

Note 5. Income taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local taxes based on income. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

Major components of deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Deferred tax assets:			
Depreciation in excess	¥ 1,186	¥ 6,502	\$ 60,207
Inter-company profits and write down on inventory	4,311	5,587	51,737
Liability for retirement benefits	6,707	6,703	62,071
Net operating loss carry-forward	2,779	2,791	25,844
Provision for reorganization costs	290	973	9,018
Others	9,323	9,627	89,146
Total deferred tax assets	¥ 24,599	¥ 32,186	\$ 298,024
Valuation allowance of tax loss carried forward	(2,469)	(2,680)	(24,820)
Valuation allowance, others	(5,702)	(11,893)	(110,122)
Less: Total valuation allowance	(8,171)	(14,573)	(134,943)
Total deferred tax assets	¥ 16,427	¥ 17,612	\$ 163,081
Deferred tax liabilities:			
Unrealized gain on subsidiaries	¥ (2,085)	¥ (535)	\$ (4,961)
Undistributed earnings of foreign subsidiaries	(2,840)	(2,668)	(24,708)
Others	(445)	(390)	(3,613)
Total deferred tax liabilities	¥ (5,371)	¥ (3,594)	\$ (33,284)
Net deferred tax assets	¥ 11,056	¥ 14,018	\$ 129,797

The net deferred tax assets as of March 31, 2020 and 2019 are presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Investments and other assets			
Deferred tax assets	¥ 11,847	¥ 14,604	\$ 135,222
Long-term liabilities			
Deferred tax liabilities	¥ 791	¥ 585	\$ 5,425

Reconciliation between the statutory and the effective tax rate as of March 31, 2020 and 2019 is as follows:

	(%)	
	2019	2020
Statutory tax rate	30.6%	—%
Expenses not deductible for tax purposes	0.7%	—%
Non-taxable dividend income	-1.0%	—%
Changes in valuation allowance	1.9%	—%
Amortization of goodwill	7.0%	—%
Difference of statutory tax rate in subsidiaries	-4.7%	—%
Changes in tax effect of foreign subsidiaries	-3.1%	—%
Change in tax law	-0.0%	—%
Others, net	-3.0%	—%
Effective tax rate	28.4%	—%

As loss before income taxes was recorded, the reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 was omitted.

Note 6. Loans payable, bonds and Lease obligations

Short-term loans payable represent loans from banks as of March 31, 2020 and 2019, respectively. The weighted average interest rate for each balance is 2.0% for 2020 and 1.8% for 2019.

Short-term bank loans as of March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unsecured	¥ 3,987	¥ 3,527	\$ 32,661

Long-term loans payable represent loans principally from banks and insurance companies due through 2039 with interest rate of 0.8% in 2020 (0.9% in 2019).

Long-term loans payable as of March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unsecured	¥ 37,077	¥ 41,629	\$ 385,459
Less amount due within one year	10,000	13,700	126,851
	¥ 27,077	¥ 27,929	\$ 258,607

The annual maturities of long-term loans payable as of March 31, 2020 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2021	¥ 13,700	\$ 126,851
2022	8,037	74,421
2023	4,619	42,770
2024	19	178
2025	10,019	92,770
2026 and thereafter	5,234	48,466
	¥ 41,629	\$ 385,459

Unsecured bonds as of March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unsecured	¥ 10,000	¥ 10,000	\$ 92,592
Less amount due within one year	—	—	—
	¥ 10,000	¥ 10,000	\$ 92,592

The annual maturities of unsecured bonds as of March 31, 2020 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2021	—	—
2022	—	—
2023	—	—
2024	¥ 10,000	\$ 92,592
2025	—	—

Unsecured lease obligations as of March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unsecured	¥ 1,421	¥ 1,459	\$ 13,516
Less amount due within one year	428	440	4,080
	¥ 992	¥ 1,019	\$ 9,436

The annual maturities of unsecured lease obligations as of March 31, 2020 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2021	¥ 440	\$ 4,080
2022	241	2,232
2023	81	752
2024	96	894
2025	113	1,052
2026 and thereafter	486	4,504
	¥ 1,459	\$ 13,516

Note 7. Liability for retirement benefits

1. Summary of retirement benefit plan

The Company and its domestic consolidated subsidiaries adopt retirement lump-sum plan and defined contribution pension plan.

2. Defined benefit plan

(1) Reconciliation of retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at beginning of year	¥ 24,206	¥ 24,739	\$ 229,068
Service costs	1,366	1,349	12,499
Interest costs	122	121	1,128
Actuarial differences	(109)	720	6,667
Benefits paid	(929)	(1,006)	(9,323)
Translation adjustments	47	(18)	(175)
Others	36	85	787
Balance at end of year	¥ 24,739	¥ 25,990	\$ 240,651

(2) Reconciliation of plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at beginning of year	¥ 1,485	¥ 1,411	\$ 13,067
Expected return on plan assets	45	34	316
Actuarial differences	(92)	546	5,058
Employer contributions	24	14	135
Benefits paid	(168)	(125)	(1,165)
Translation adjustments	40	(4)	(43)
Others	76	76	709
Balance at end of year	¥ 1,411	¥ 1,952	\$ 18,076

(3) Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Funded retirement benefit obligations	¥ 2,763	¥ 2,964	\$ 27,453
Plan assets	(1,411)	(1,952)	(18,076)
	1,352	1,012	9,376
Unfunded retirement benefit obligations	21,975	23,025	213,198
Net liability for retirement benefits	23,328	24,038	222,575
Liability for retirement benefits	23,328	24,038	222,575
Net liability for retirement benefits	¥ 23,328	¥ 24,038	\$ 222,575

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Service costs	¥ 1,366	¥ 1,349	\$ 12,499
Interest costs	122	121	1,128
Expected return on plan assets	(45)	(34)	(316)
Amortization of actuarial differences	324	247	2,291
Amortization of prior service costs	(35)	(32)	(304)
Retirement benefit costs	¥ 1,731	¥ 1,652	\$ 15,299

(5) Adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Service costs	¥ 35	¥ 32	\$ 304
Actuarial differences	(323)	182	1,690
Total	¥ (287)	¥ 215	\$ 1,995

(6) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unrecognized prior service costs	¥ 172	¥ 205	\$ 1,898
Unrecognized actuarial differences	740	922	8,545
Total	¥ 912	¥ 1,127	\$ 10,444

(7) Plan assets

① Breakdown for plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	
Equity securities	80.2%	88.1%	
Bonds	5.2	1.4	
Cash and deposits	2.0	6.2	
Others	12.6	4.3	
Total	100.0%	100.0%	

② Long-term expected rate of return

In order to determine the long-term expected rate of return, present and expected portfolio of plan assets and estimated long-term rate of various assets have been considered.

(8) Assumptions of actuarial differences

	2019		2020
			(%)
Discount rate	0.32~4.00		0.32~3.10
Expected rates of long-term return on plan assets	1.00~5.00		1.00~4.00

3. Defined contribution plan

Contributions to defined contribution plan for the years ended March 31, 2020 and 2019 are ¥1,234 million (\$11,428 thousand) and ¥1,149 million, respectively.

Note 8. Research and development costs

Research and development costs incurred and charged to income for the year ended March 31, 2020 and 2019 were ¥6,164 million (\$57,075 thousand) and ¥6,339 million, respectively.

Note 9. Leases

The amounts of outstanding future lease payments due in respect of operating lease contracts as of March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Within one year	¥ 3	¥ 9	\$ 87
Over one year	11	24	226
Total	¥ 15	¥ 33	\$ 314

Note 10. Impairment loss

The Company and its subsidiaries classify their fixed assets into groups by the type of respective operations based on the business segment divided by managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

The Group recognized impairment loss of ¥19,272 million (\$178,447 thousand) and ¥5,688 million for the years ended March 31, 2020 and 2019, respectively. The Group mainly recognized impairment loss of ¥9,081 million (\$84,091 thousand) for machinery and equipment, ¥4,402 million (\$40,760 thousand) for other intangible assets, ¥2,750 million (\$25,468 thousand) for buildings and structures and ¥1,894 million (\$17,543 thousand) for tools, furniture and fixtures for the year ended March 31, 2020. The main components of impairment losses for the year ended March 31, 2019 are ¥4,004 million for goodwill, ¥979 million for other intangible assets, ¥349 million for tools, furniture and fixtures and ¥316 million for buildings and structures.

The main breakdown of impaired assets for the years ended March 31, 2020 and 2019 is as follows:

For the year 2020

Location	Use	Type
Japan	Movement manufacturing facilities	Machinery, equipment and vehicles, buildings and structures, tools, furniture and fixtures
Japan	Assets for hybrid smartwatch business	Other intangible assets
Japan and others	Electronic device manufacturing facilities	Buildings and structures
Others	Others	Other intangible assets

For the year 2019

Location	Use	Type
Switzerland	Others	Goodwill and other intangible assets
China	Assets for business	Buildings and structures
Others	Assets for business	Tools, furniture and fixtures

Note 11. Derivative transactions

Fair values of derivative transactions as of March 31, 2020 and 2019 are as follows:

(a) Derivative transactions not designated for hedge accounting

	Millions of yen			
	2019		2020	
	Amount on contract	Fair value	Amount on contract	Fair value
Foreign currency forward contract:				
To Sell	¥ 5,347	¥ (17)	¥ 3,275	¥ (2)
To Buy	¥ 1,845	¥ (2)	¥ 992	¥ 14

	Thousands of U.S. dollars	
	Amount on contract	Fair Value
Foreign currency forward contract:		
To Sell	\$ 30,325	\$ (19)
To Buy	\$ 9,187	\$ 130

Note:
The fair values of foreign currency forward contracts are based on market quotations.

(b) Derivative transactions designated for hedge accounting

	Millions of yen					
	2019			2020		
	Amount on contract	Amount on contract over 1 year	Fair value	Amount on contract	Amount on contract over 1 year	Fair value
Interest rate swap	¥ 21,100	¥ 11,100	Note	¥ 11,100	—	Note

	Thousands of U.S. dollars		
	Amount on contract	Amount on contract over 1 year	Fair value
Interest rate swap	\$ 102,777	—	Note

Note:
Interest rate swap is qualified for hedge accounting and meets specific criteria.
The fair value of the interest rate swap is included in fair value of long-term debt.

Note 12. Financial instruments

(a) Status of financial instruments

(1) Policies

Under the Company's policy, the Group is limited to utilize short-term deposits for fund management and obtains fund through financial institutions. Derivatives are made only for hedging purposes, and the Group does not use derivative transactions for trading purposes.

(2) Risk management

The Group performs ongoing credit evaluations of significant customers to avoid credit risks of notes and accounts receivables.

The Group monitors the market price or fair value of the investment securities and continuously reconsiders investment in each company.

Debt and bonds are mainly for refunding of long-term debt and capital expenditure in accordance with investment strategy.

The Group has derivative financial instruments, such as foreign currency exchange forward, foreign currency option and interest rate swap, and all derivative financial instruments are designated for hedging purposes.

(3) Fair value estimation

The fair value of financial instruments is based on market price, if available. The fair value of financial instruments might be reasonably estimated with adequate assumption and factors when market price is not available. Estimated fair value depends on applied assumptions and factors.

(b) Fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets, their fair values and unrealized gains or losses as of March 31, 2020 and 2019.

	Millions of yen		
	2019		Unrealized
	Carrying amount	Fair value	
Cash and time deposits	¥ 86,875	¥ 86,875	¥ —
Notes and accounts receivable — trade	64,139	64,139	(0)
Electronically recorded monetary claims	1,225	1,225	—
Investment securities Available-for-sale securities	22,727	22,727	—
Long-term loans	942	943	0
Long-term receivables	76		
Allowance for long-term receivables	(76)		
Total	¥ 175,911	¥ 175,911	¥ (0)
Notes and accounts payable — trade	¥ 20,496	¥ 20,496	¥ —
Electronically recorded obligations-operating	14,896	14,896	—
Short-term loans payable	3,987	3,987	—
Unsecured bonds	10,000	10,045	45
Long-term loans payable	37,077	37,309	231
Total	¥ 86,457	¥ 86,734	¥ 276
Derivatives	¥ (19)	¥ (19)	¥ —

Note:
Long-term receivables are included in "Others" in the consolidated balance sheets. Current portion of long-term loans is included in "Long-term loans" in the table above.

	Millions of yen		
	2020		Unrealized
	Carrying amount	Fair value	
Cash and time deposits	¥ 80,168	¥ 80,168	¥ —
Notes and accounts receivable — trade	43,254	43,254	(0)
Electronically recorded monetary claims	1,395	1,395	—
Investment securities Available-for-sale securities	16,735	16,735	—
Long-term loans	408	407	(0)
Long-term receivables	69		
Allowance for long-term receivables	(69)		
Total	¥ 141,963	¥ 141,962	¥ (0)
Notes and accounts payable — trade	¥ 16,485	¥ 16,485	¥ —
Electronically recorded obligations-operating	9,223	9,223	—
Short-term loans payable	3,527	3,527	—
Unsecured bonds	10,000	9,968	(32)
Long-term loans payable	41,629	41,699	69
Total	¥ 80,866	¥ 80,904	¥ 37
Derivatives	¥ 11	¥ 11	¥ —

Note:
Long-term receivables are included in "Others" in the consolidated balance sheets. Current portion of long-term loans is included in "Long-term loans" in the table above.

Thousands of U.S. dollars			
2020			
	Carrying amount	Fair value	Unrealized
Cash and time deposits	\$ 742,302	\$ 742,302	\$ —
Notes and accounts receivable — trade	400,508	400,505	(2)
Electronically recorded monetary claims	12,923	12,923	—
Investment securities Available-for-sale securities	154,957	154,957	—
Long-term loans	3,780	3,776	(3)
Long-term receivables	646		
Allowance for long-term receivables	(646)		
Total	\$ 1,314,472	\$ 1,314,466	\$ (6)
Notes and accounts payable — trade	\$ 152,647	\$ 152,647	\$ —
Electronically recorded obligations — operating	85,406	85,406	—
Short-term loans payable	32,661	32,661	—
Unsecured bonds	92,592	92,296	(296)
Long-term loans payable	385,459	386,103	643
Total	\$ 748,767	\$ 749,114	\$ 347
Derivatives	\$ 110	\$ 110	\$ —

Note:

Long-term receivables are included in "Others" in the consolidated balance sheets. Current portion of long-term loans is included in "Long-term loans" in the table above.

(i) Method of fair value measurement of financial instruments:

Assets:

Cash and time deposits

The carrying amount of these accounts approximates their fair value because these accounts are settled in a short period of time.

Notes and accounts receivable

Certain notes and accounts receivable that take time to collect is measured at present value; it shows amounts discounted at reasonable rate under corresponding terms to maturity.

The carrying amounts of other notes and accounts receivables that are settled in a short period of time, approximate their fair value.

Electronically recorded monetary claims

The carrying amounts of the accounts approximate its fair value because the account is settled in a short period of time.

Investment securities

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

Long-term loans

The fair value of long-term loans receivable is measured at 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 carrying amounts approximate their fair value.

Liabilities:

Notes and accounts payable, short-term loans payable and electronically recorded obligations—operating

The carrying amount of these accounts approximates their fair value because these accounts are settled or repaid in a short period of time.

Unsecured bonds

Since the market price is not available, the fair value of bonds is measured at present value by discounting principles, interests and guarantee fees at a rate with term to maturity and credit risk taken into account.

Long-term loans payable

The fair value of long-term debt is measured at present value by discounting total amount of principles and interests at an assumed rate for new borrowings under similar conditions.

However, as the interest rates of long-term loans payable with floating rate are to be revised by certain prescribed period, their carrying amount approximate their fair value.

(ii) Unmarketable securities of ¥10,774 million (\$99,759 thousand) and ¥12,360 million as of March 31, 2020 and 2019 are not included in "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.

(iii) Expected maturities of cash and time deposits, notes and accounts receivable, electronically recorded monetary claims and long-term loans as of March 31, 2020

	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥ 80,168	¥ —	¥ —	¥ —
Notes and accounts receivable — trade	43,110	144	—	—
Electronically recorded monetary claims	1,395	—	—	—
Long-term loans	—	408	—	—

	Thousands of U.S. dollars			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	\$742,302	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	399,173	1,334	—	—
Electronically recorded monetary claims	12,923	—	—	—
Long-term loans	—	3,780	—	—

Note 13. Reorganization costs

The total amount of reorganization costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Reorganization costs	¥ 2,507	¥ 1,404	\$ 13,005

Reorganization costs in the consolidated statements of income for the years ended March 31, 2020 and 2019 are related to expenses for restructuring of the Company and its consolidated subsidiaries. The major item in the costs for the year ended March 31, 2020 is reorganization costs for the withdrawal from jewelry business. Provision for reorganization costs of ¥2,669 million (\$24,720 thousand) and ¥1,301 million were recorded in the consolidated balance sheets as of March 31, 2020 and 2019, respectively.

Note 14. Extra retirement payments

The total amount of extra retirement payments is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Extra retirement payments	¥ —	¥ 2,835	\$ 26,256

Extra retirement payments in the consolidated statements of income for the year ended March 31, 2020 is related to expenses for restructurings of devices and components business.

Provision for reorganization costs of ¥1,337 million (\$12,387 thousand) was recorded in the consolidated balance sheets as of March 31, 2020.

Note 15. Segment information

(a) General information about reportable segments:

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

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

Consequently, the CITIZEN Group, starting from a foundation of operating companies manages its businesses through five reportable segments – Watches, Machine tools, Devices and components, Electronic products, and Other products – based on factors like similarity of types and characteristics of products.

(b) Basis of measurement of reportable segment net sales, profit (loss), and other items:

The accounting methods applied to the business segments reported are generally the same as those described under "Basis of presenting the consolidated financial statements."

Inter-segment earnings and transfers are based on market prices.

March 31, 2019		Millions of yen						
	Watches	Machine tools	Devices and components	Electronic products	Other products	Segment total	Adjustments	Consolidated
I. Net sales, segment profit and segment assets								
Net sales								
(1) Sales to outside customers	¥ 163,525	¥ 72,164	¥ 60,807	¥ 19,330	¥ 5,824	¥ 321,652	¥ —	¥ 321,652
(2) Inter-segment sales and transfers	108	1,201	1,930	115	829	4,185	(4,185)	—
Total	163,633	73,365	62,737	19,446	6,654	325,837	(4,185)	321,652
Segment profit	12,440	13,082	2,543	438	146	28,651	(6,240)	22,411
Segment assets	189,683	66,558	82,501	15,761	6,770	361,276	52,635	413,911
II. Other								
Depreciation	7,379	1,574	3,876	295	23	13,149	798	13,947
Amortization of goodwill	400	—	—	—	—	400	—	400
Investment in affiliates	—	3,533	—	—	—	3,533	—	3,533
Capital expenditures	12,095	3,260	7,113	425	27	22,921	834	23,756

March 31, 2020		Millions of yen						
	Watches	Machine tools	Devices and components	Electronic products	Other products	Segment total	Adjustments	Consolidated
I. Net sales, segment profit (loss) and segment assets								
Net sales								
(1) Sales to outside customers	¥ 141,620	¥ 58,545	¥ 55,946	¥ 16,875	¥ 5,543	¥ 278,531	¥ —	¥ 278,531
(2) Inter-segment sales and transfers	99	549	1,867	96	778	3,391	(3,391)	—
Total	141,719	59,094	57,814	16,972	6,321	281,923	(3,391)	278,531
Segment profit (loss)	3,938	7,261	926	(257)	41	11,911	(5,775)	6,136
Segment assets	173,621	61,208	77,152	13,931	6,338	332,252	37,323	369,575
II. Other								
Depreciation	8,470	1,694	4,014	299	24	14,503	935	15,438
Amortization of goodwill	—	—	—	—	—	—	—	—
Investment in affiliates	—	3,817	—	—	—	3,817	—	3,817
Capital expenditures	10,319	4,185	4,226	361	11	19,104	2,035	21,140

March 31, 2020		Thousands of U.S. dollars						
	Watches	Machine tools	Devices and components	Electronic products	Other products	Segment total	Adjustments	Consolidated
I. Net sales, segment profit (loss) and segment assets								
Net sales								
(1) Sales to outside customers	\$ 1,311,301	\$ 542,088	\$ 518,025	\$ 156,256	\$ 51,325	\$ 2,578,999	\$ —	\$ 2,578,999
(2) Inter-segment sales and transfers	916	5,086	17,292	896	7,210	31,404	(31,404)	—
Total	1,312,218	547,175	535,318	157,153	58,536	2,610,403	(31,404)	2,578,999
Segment profit (loss)	36,465	67,240	8,582	(2,381)	388	110,295	(53,480)	56,815
Segment assets	1,607,604	566,743	714,377	128,997	58,686	3,076,408	345,585	3,421,994
II. Other								
Depreciation	78,433	37,172	2,770	15,687	224	134,286	8,661	142,950
Amortization of goodwill	—	—	—	—	—	—	—	—
Investment in affiliates	—	35,349	—	—	—	35,349	—	35,349
Capital expenditures	95,549	38,753	39,138	3,345	108	176,896	18,848	195,745

Notes:

For the year ended March 31, 2019

- "Adjustments" segment profit (loss) totaling ¥ (6,240) million (\$56,217) thousand includes inter-segment elimination of ¥ (191) million (\$1,729) thousand and general corporate expenses of ¥ (6,048) million (\$54,488) thousand not allocated to any reportable segments.
- "Adjustments" segment assets totaling ¥52,635 million (\$474,191 thousand) includes inter-segment elimination of ¥ (38,082) million (\$343,084) thousand and general corporate assets of ¥90,717 million (\$817,275 thousand) not allocated to any reportable segments.
- Reported segment profit (loss) is reconciled to operating profit in the consolidated statements of income.

For the year ended March 31, 2020

- "Adjustments" segment profit (loss) totaling ¥ (5,775) million (\$53,480) thousand includes inter-segment elimination of ¥ 23 million (\$218 thousand) and general corporate expenses of ¥ (5,799) million (\$53,699) thousand not allocated to any reportable segments.
- "Adjustments" segment assets totaling ¥37,323 million (\$345,585 thousand) includes inter-segment elimination of ¥ (34,923) million (\$323,368) thousand and general corporate assets of ¥72,247 million (\$668,954 thousand) not allocated to any reportable segments.
- Reported segment profit (loss) is reconciled to operating profit in the consolidated statements of income.

(c) Other information

1) Overseas sales for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Japan	¥ 108,463	¥ 98,839	\$ 915,183
Asia	92,815	77,884	721,148
America	62,983	55,312	512,152
Europe	54,862	44,952	416,225
Others	2,528	1,543	14,289
Total	¥ 321,652	¥ 278,531	\$ 2,578,999

Note: Overseas sales are reported based on locations of customers.

2) Property, plant and equipment as of March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Japan	¥ 63,056	¥ 51,851	\$ 480,108
Asia	19,174	18,965	175,601
Others	7,438	7,716	71,445
Total	¥ 89,669	¥ 78,532	\$ 727,156

3) Impairment loss for the years ended March 31, 2020 and 2019

Impairment loss	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Watches	¥5,652	¥ 15,436	\$ 142,926
Machine tools	3	—	—
Devices and components	31	3,153	29,201
Electronic products	0	566	5,242
Other products	0	12	116
Eliminations or general corporate	—	103	959
Consolidated	¥5,688	¥ 19,272	\$ 178,447

4) Goodwill information as of and for the years ended March 31, 2020 and 2019

Amortization	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Watches	¥400	¥ —	\$ —
Machine tools	—	—	—
Devices and components	—	—	—
Electronic products	—	—	—
Other products	—	—	—
Eliminations or general corporate	—	—	—
Consolidated	¥400	¥ —	\$ —

Goodwill	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Watches	¥ —	¥ —	\$ —
Machine tools	—	—	—
Devices and components	—	—	—
Electronic products	—	—	—
Other products	—	—	—
Eliminations or general corporate	—	—	—
Consolidated	¥ —	¥ —	\$ —

Report of Independent Auditors (Translation)

English Translation

INDEPENDENT AUDITOR'S REPORT

June 26, 2020

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

Nihombashi Corporation
Chuo-Ku, Tokyo

Shigehiro Chiba
Designated and Engagement Partner
Certified Public Accountant

Hidekazu Takahashi
Designated and Engagement Partner
Certified Public Accountant

Yoichi Endo
Designated and Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Law of Japan, we have audited the consolidated financial statements of Citizen Watch Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial

statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

We also:

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

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

We also provide Audit & Supervisory Board and its member with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

Company Information

Company Overview (As of March 31, 2020)

Corporate name	Citizen Watch Co., Ltd.	Employees	19,593 (consolidated)
Established	May 28, 1930	Business description	Manufacturing and sale of watches and their components, and as a holding company, planning and implementation of Group management strategies, Group business auditing, development of Group technologies, intellectual property management, and other administrative operations.
Headquarters	6-1-12, Tanashi-cho, Nishi-Tokyo-shi, Tokyo 188-8511, Japan		
Representative	Toshihiko Sato, President and CEO		
Capital	¥32,648 million		

Stock Information (As of March 31, 2020)

Securities identification code	7762
Stock exchange listing	Tokyo Stock Exchange (First Section)
Total number of authorized shares	959,752,000
Total number of shares issued	314,353,809
Number of shareholders	34,986

Principal Places of Business and Group Companies

- 1 Headquarters, Tokyo Works
- 2 Tokorozawa Works

[DOMESTIC GROUP]

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

[OVERSEAS GROUP]

EUROPE

- 1 CITIZEN WATCH EUROPE G.M.B.H.
- 2 CITIZEN WATCH IBÉRICA S.A.U.
- 3 CITIZEN WATCH ITALY S.P.A.
- 4 CITIZEN WATCH UNITED KINGDOM, LTD.
- 5 FREDERIQUE CONSTANT HOLDING S.A.
- 6 MANUFACTURE LA JOUX-PERRET S.A.
- 7 CITIZEN MACCHINE ITALIA S.R.L.
- 8 CITIZEN MACHINERY EUROPE G.M.B.H.
- 9 CITIZEN MACHINERY UK LTD.
- 10 HESTIKA FRANCE S.A.S.
- 11 C-E (DEUTSCHLAND) G.M.B.H.
- 12 CITIZEN SYSTEMS EUROPE G.M.B.H.

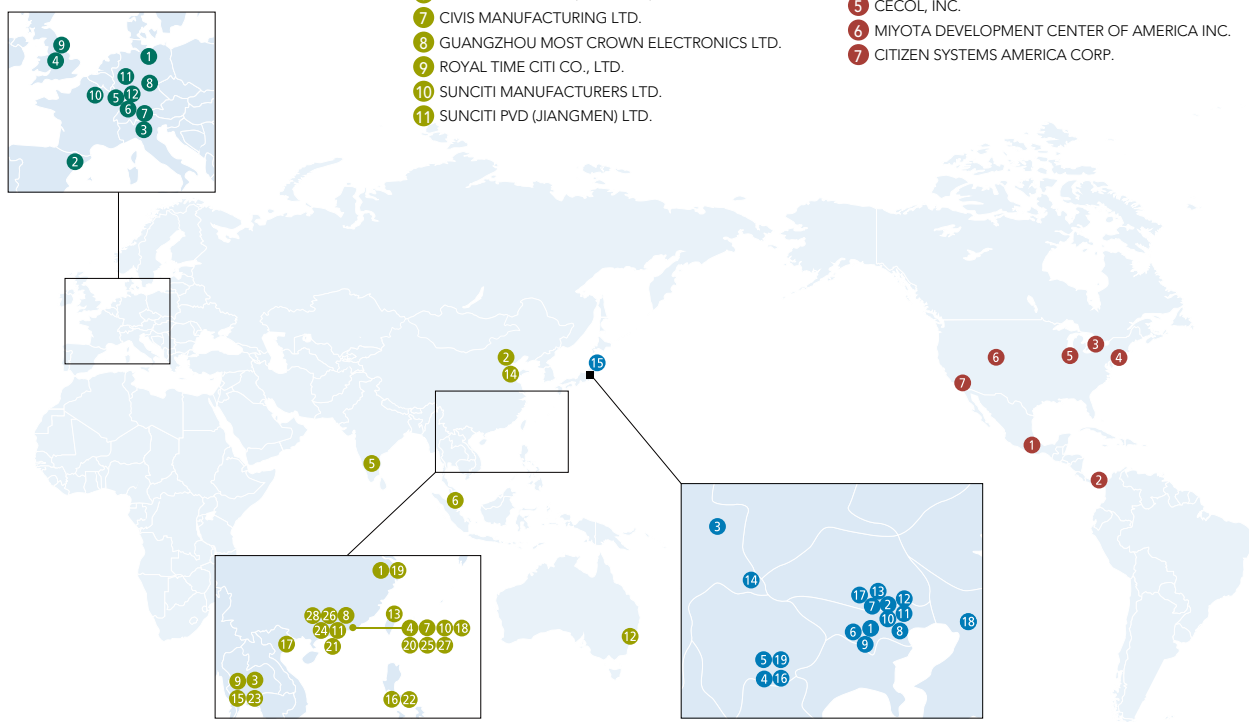
ASIA, OCEANIA

- 1 CITIZEN (SHANGHAI) TRADING CO., LTD.
- 2 CITIZEN WATCH (CHINA) CO., LTD.
- 3 CITIZEN WATCH MANUFACTURING (THAILAND) CO., LTD.
- 4 CITIZEN WATCHES (H.K.) LTD.
- 5 CITIZEN WATCHES (INDIA) PVT. LTD.
- 6 CITIZEN WATCHES (MALAYSIA) SDN. BHD.
- 7 CIVIS MANUFACTURING LTD.
- 8 GUANGZHOU MOST CROWN ELECTRONICS LTD.
- 9 ROYAL TIME CITI CO., LTD.
- 10 SUNCITI MANUFACTURERS LTD.
- 11 SUNCITI PVD (JIANGMEN) LTD.

- 12 CITIZEN WATCHES AUSTRALIA PTY LTD.
- 13 CINCOM MIYANO TAIWAN CO., LTD.
- 14 CITIZEN (CHINA) PRECISION MACHINERY CO., LTD.
- 15 CITIZEN MACHINERY ASIA CO., LTD.
- 16 CITIZEN MACHINERY PHILIPPINES INC.
- 17 CITIZEN MACHINERY VIETNAM CO., LTD.
- 18 C-E (HONG KONG) LTD.
- 19 CITIZEN ELECTRONICS (CHINA) CO., LTD.
- 20 FIRSTCOME ELECTRONICS LTD.
- 21 JIANG XING ELECTRONICS LTD.
- 22 CITIZEN FINEDEVICE PHILIPPINES CORP.
- 23 CITIZEN SEIMITSU (THAILAND) CO., LTD.
- 24 MASTER CROWN ELECTRONICS (WUZHOU) LTD.
- 25 MOST CROWN INDUSTRIES LTD.
- 26 CITIZEN SYSTEMS (DONGGUAN) CO., LTD.
- 27 CITIZEN SYSTEMS (H.K.) LTD.
- 28 CITIZEN SYSTEMS (JIANGMEN) CO., LTD.

NORTH AMERICA, SOUTH AMERICA

- 1 CITIZEN DE MEXICO, S. DE R. L. DE C. V.
- 2 CITIZEN LATINAMERICA CORPORATION
- 3 CITIZEN WATCH CANADA, LTD.
- 4 CITIZEN WATCH COMPANY OF AMERICA, INC.
- 5 CECOL, INC.
- 6 MIYOTA DEVELOPMENT CENTER OF AMERICA INC.
- 7 CITIZEN SYSTEMS AMERICA CORP.



CITIZEN

Citizen Watch Co., Ltd.

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<https://www.citizen.co.jp/global>

CITIZEN is a registered trademark and a trade name of Citizen Watch Co., Ltd.
Eco-Drive is a registered trademark and a trade name of Citizen Watch Co., Ltd.