



# CITIZEN

CITIZEN REPORT  
2021

# 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.

## 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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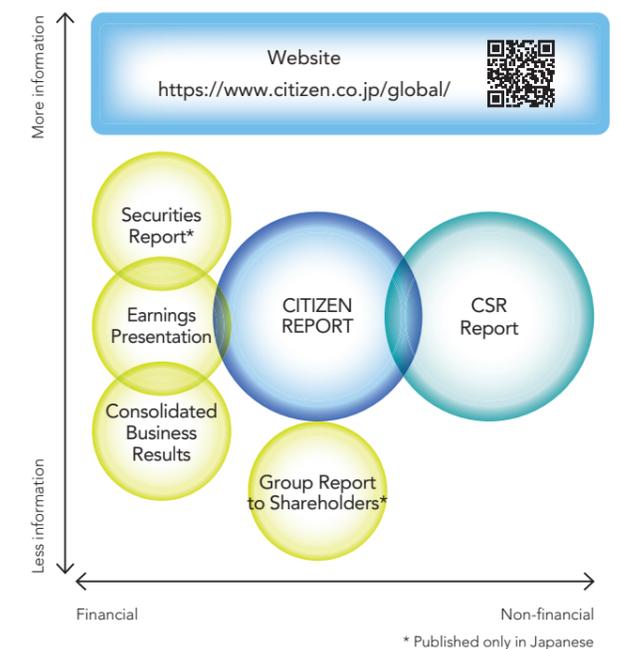
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### Editorial Policy

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.

Note: QR Code is a registered trademark of Denso Wave Incorporated.

### 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.

# Value Creation Model

The CITIZEN Group was founded in 1918. Under the Corporate Philosophy, "Loved by citizens, working for citizens," we have grown into a *manufacture d'horlogerie* capable of integrated in-house manufacture of everything from individual parts to completed products. Leveraging the strengths of miniaturization, low power consumption and precision processing—core technologies cultivated in our Watch business—we manufacture Sustainable Products, through which we contribute to sustainable development for all stakeholders and for society.

## External Environment

- Changes in lifestyle
- Changes in demographic structure
- Climate change
- Protection of biodiversity
- Resource usage
- Technological progress

## Inputs (As of March 2021)

### Financial Capital

Equity ratio **55.8%**  
 FY2021 payout ratio (forecast) **48.6%**  
 Credit rating (R&I) **A**

### Intellectual Capital

CITIZEN Group patents held  
 Over **5,000**  
 CITIZEN Group trademarks held  
 Over **5,000**

### Manufactured Capital

FY2020 capital investment  
**10.9** billion yen  
 Overseas consolidated subsidiaries **66**

### Social and Relationship Capital

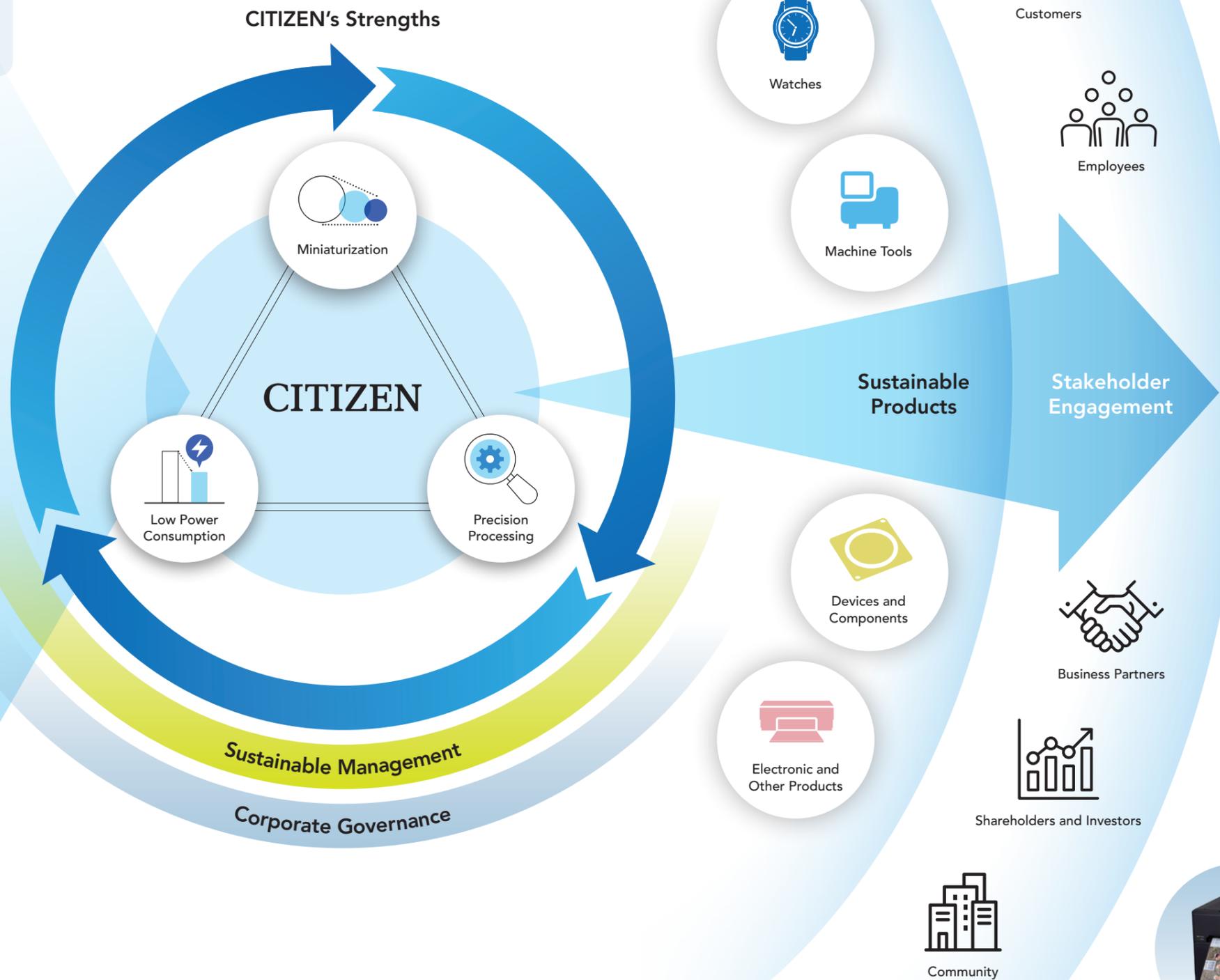
Social Contribution Mission Program  
 Employees participating **164** (FY2019)  
 Environmental conservation  
 Investment **127** million yen  
 Costs **1,361** million yen

### Human Capital

Employees **17,044**  
 Ratio of men taking childcare leave  
 (Citizen Watch only) **25.9%**

### Natural Capital

Scope 1+2 emissions **130,380** t  
(Across all businesses; emissions derived from renewable energy considered to be 0)  
 Scope 3 emissions  
**89,375** t (Watch business only)



"Loved by citizens, working for citizens."



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

FY2021 will be pivotal for CITIZEN  
for shifting to the offensive with  
a focus on growth and profit.

**Toshihiko Sato**

President & CEO  
Citizen Watch Co., Ltd.

**Review of FY2020**

In FY2020, the CITIZEN Group was among those significantly affected by the COVID-19 pandemic. In this environment, unprecedented as a crisis for humanity, we faced challenges in continuing to do business while working as a company to prevent infections.

The Watch business saw the largest impact, affected by lockdowns around the world as well as other issues. Sales dropped significantly, primarily in the Japanese and U.S. markets. Unable to move around, gather or even talk in public, people found their lifestyles drastically altered. The reality is that doing business solely through traditional brick-and-mortar sales is no longer viable. As the market for analog watches continues to shrink with the rise of smartwatches, the pandemic has dealt an additional blow to the business.

Under these conditions, over the past year the Watch business worked to optimize personnel to match the scale of analog quartz movement production given the market contraction, instituting structural reforms and taking other steps to navigate the severe market environment.

Meanwhile, in the Machine Tools business and the Devices and Components business, performance slowed in the first half due to the impact of COVID-19, but began to pick up starting in the second half.

**Toward a Recovery in Performance in FY2021**

We believe that FY2021 will be pivotal for getting back on a recovery track, and to do so we need to put all of our businesses on an offensive footing.

In the Watch business, although an end to the COVID-19 pandemic is still uncertain, the market is steadily recovering, and management is prepared to do whatever is necessary to bring about a recovery in performance.

The Machine Tools business is seeing a clear recovery in both domestic and international orders, and as one of our core businesses, we expect it to be a significant growth driver. We also expect some positive results from the Devices and Components business following structural reforms and given the trend toward recovery in the automotive market.

## Initiatives in the Watch Business

### Expanding Online Sales

As the “new normal” becomes a part of peoples’ lives everywhere, we are seeing the steady proliferation of consumption based on shopping online, which is possible even when visiting a physical store is not. While working to create strong products, it is also important that we build strong sales channels, and strengthening online distribution is a pressing issue for us to address, notwithstanding the pandemic. In the North American market, where we launched a direct-sales e-commerce website for the CITIZEN brand in 2014, our emphasis on detailed services that respond to sales data has brought a steady increase in sales, with that market growing into a pillar of sales. In other markets as well, initiatives tailored to individual regions, and efforts to calibrate product appeal to those markets, will lead to growth.

In Japan, we launched a digital boutique in FY2021. By offering content and experiences that only CITIZEN can, and by creating new spaces that can emotionally engage people with no previous interest in watches, we will strengthen our ties to customers.

### New Challenges Creating a Foundation for Growth in Mechanical Watches

The market for mechanical watches continues to grow even with the rise of smartwatches. The CITIZEN mechanical models, which features the Caliber 0200 mechanical movement developed in collaboration with La Joux-Perret of Switzerland (which joined the CITIZEN Group in 2012), generated quite a stir even prior to their launch in August 2021, and we feel confident about the lineup’s potential. With the adoption of robotics, AI and other technologies, more and more products are created beyond the touch of human hands. Mechanical watches are the rare product that, for their delicacy and extreme precision, are impossible to fabricate without the involvement of people. With these watches, this indispensable hand-made aspect creates added value, moves emotions and brings joy when worn. With The CITIZEN mechanical models as a new starting point, we will work to create watches that can be passed down over generations, as well as to establish the foundation for their further growth.

### Further Growth with Eco-Drive

Looking at medium-to-long-term trends in the watch market, we must ask ourselves what kind of watches customers will choose. One answer is “sustainable watches.” As an example, Eco-Drive, one of our core technologies, can power a watch using only a small amount of sunlight or indoor light. In addition to being good for the environment, Eco-Drive incorporates technologies that enable not only accurate timekeeping and the convenience of never needing battery replacement, but also a more beautiful design, miniaturization, a thin form, light weight and multi-functionality. This pursuit has given



watches new added value, and continues to evolve today. Moving forward, I believe we can nurture demand even further through enhanced marketing and branding.

Products that demonstrate CITIZEN’s uniqueness backed by technology and beauty have stayed strong. Examples include The CITIZEN, a light-powered Eco-Drive watch that has achieved the world’s highest level of accuracy— $\pm 1$  second per year—with no reliance on external time signals; and CITIZEN L, which features a band made using recycled PET bottle material. Watches have special value in the rich emotions they can inspire in the wearer. We will work to more clearly convey brand features, and in so doing ensure that our passion for watchmaking leads to the creation of value for the customer.

## Medium-to-Long-Term Initiatives

### The CITIZEN Group Will Unite to Achieve Further Growth

Throughout its history, the CITIZEN Group has overcome innumerable hardships in step with the constant changes in the social and economic environment. We have been able to do this because the CITIZEN Group of today was built by employees uniting under the Corporate Philosophy, “Loved by citizens, working for citizens,” bringing their collective strength to bear in invigorating existing business and taking on the challenges of creating new businesses. “Working for citizens” means “creating and offering customer value.” Whether in B-to-B or B-to-C markets, we must ultimately connect everything to “working for citizens.” Our success in achieving business growth will enable us to contribute to a variety of stakeholders, including customers, shareholders and investors, employees, society and the environment. Moving forward, the Group remains unified in its efforts to achieve further growth toward “working for citizens.”

### Each and Every Small, Delicate Part Produced In-House

I am proud of the CITIZEN brand. As a *manufacture d’horlogerie*, we are able to produce each and every small, delicate watch part in-house. I am confident in our strong technical and manufacturing



capabilities. By applying the technologies used in creating CITIZEN watches, we expanded our businesses beyond the Watch business, into the Machine Tools business for making tiny parts, and the Devices and Components business that leverages our part machining technology.

The Machine Tools business, born from watch manufacturing, has continued to grow through repeated economic cycles, and today is a major pillar of the CITIZEN Group. Going forward, with the globally expanding trend toward automation of production processes and labor-saving, we expect that the addition of proprietary technologies such as low frequency vibration cutting (LFV) technology to our portfolio will drive further growth.

We have similar expectations for Devices and Components as a business that still has ample potential for growth. In recent years we have focused on overhauling the business, selecting the optimal product mix while also implementing structural reforms. From here on, our efforts will be aimed at a recovery. We have been steadily growing sales of automotive components, motors and other products by incorporating customer requests and offering new value. In addition, we will expand into new product areas that leverage the technical capabilities of our precision processing.

## CITIZEN's Sustainable Management Vision

There are many customers who need CITIZEN products, from watches, to machine tools, devices and components, and electronic products, among others. Our vision for sustainable management is to offer value that delights customers while continuing to grow sustainably. This is the value we provide as a company, and something that aligns with our Corporate Philosophy, "Loved by citizens, working for citizens."

The manufacture of watches involves two major groups of technologies: processing technologies and assembly technologies. Watchmaking also involves many types of craftsmanship. The processing and assembly technologies that go into creating a watch are embedded in the very DNA of the CITIZEN Group, and we consider them our most important asset. Over the years, we have leveraged this DNA in our efforts to develop a variety of businesses. The value of these technologies and craftsmanship is not only reflected in business growth, but also in how much they have contributed to citizens everywhere. As environmental awareness grows globally and initiatives targeting carbon neutrality advance, there

are increasing calls for companies to tie business value to sustainable management. Conventional manufacturing based on the assumption of disposability will no longer be acceptable. I want us to advance manufacturing that incorporates not only technical evolution, but also ideas for how to continue to use and maintain products.

## Toward "Loved by citizens, working for citizens"

Over the past few years, the CITIZEN Group has worked on selection and concentration of products and businesses, and carried out structural reforms, but from FY2021, we will change course to focus on future growth. We will shift to the offensive across all businesses and thereby secure growth and profit.

By working continuously to benefit stakeholders we will raise our corporate value as we accelerate our evolution toward fulfilling our Corporate Philosophy, "Loved by citizens, working for citizens."

## CITIZEN OF THE YEAR

Honoring individuals who inspire society

Citizen Watch established the Citizen of the Year award in 1990. The award marked its 31st year in 2020 with the selection of two individuals and one group who have given inspiration to people. Each year, award recipients are chosen and commended from among "citizens," in recognition of the inspiration they have provided to society, or their contributions to the development, happiness or beautification of their communities. The award is open to people of Japanese nationality or foreign residents of Japan, as either individuals or groups. In an age in which citizens play an increasingly important role in society, the award takes inspiration from the Company's name, aiming to commend citizens from a broad perspective where previously there was a lack of recognition.

### FY2020 Winners



**Shinji Muraoka**

For over 40 years, Mr. Muraoka has operated facilities as a pioneer in after-school care for children with autism spectrum disorders and intellectual disabilities.



(From left) **An Suzuki, Yuki Chokki, Soma Suzuki, Taiki Chokki**

The group collected donations through crowd-funding to support Rohingya children living in refugee camps in Myanmar.



**Hiroaki Yamamoto**

For six months, Mr. Yamamoto operated a free shuttle bus for commuters to the city center as a way of alleviating concerns about infection among commuters in his community during the pandemic.

Please visit the website below to view information about the activities of Citizen of the Year award winners and their comments.  
<https://www.citizen.co.jp/global/coy/>



## The CITIZEN Group's Sustainability Committee

The CITIZEN Group promotes Group-wide sustainable management through initiatives centering on the Sustainability Committee. The committee is chaired by the President of Citizen Watch, and its members are the full-time Directors of Citizen Watch and the presidents of the operating companies.

The CSR Department and Corporate Planning Division of Citizen Watch serve as the Sustainability Committee's secretariat and work with CSR managers and corporate planning sections at Group companies, as well as the secretariats of the committees in charge of each aspect of materiality. Regular sustainability secretariat meetings are held to review sustainability issues at each company and check on matters such as the state of progress of related

initiatives. Following discussion at these meetings, proposal and reports from each company are presented to the Sustainability Committee for deliberation.

At Sustainability Committee meetings, which are held once a quarter, matters reported at sustainability secretariat meetings are deliberated, materiality is periodically reviewed, and policies for initiatives by existing business to achieve sustainability are drawn up and monitored. The results of these discussions are reported to the Management Committee and the Board of Directors, who in turn issue instructions and carry out auditing.

In FY2020, an SDGs study meeting was held for executives, including department managers and Sustainability Committee members, with outside experts invited, to deepen understanding of corporate social requirements and issues that should be tackled.

### Main matters deliberated by Sustainability Committee in FY2020

- ◆ Status of initiatives related to Group materiality
- ◆ Methodology for promoting human rights due diligence at suppliers through CSR procurement
- ◆ Self-assessment of status of each Group company's initiatives using UN Global Compact's CSR procurement self-assessment questionnaire (SAQ)
- ◆ Review of materiality and key risks of the Group

## The CITIZEN Group's System for Promoting Sustainable Management

The Group Quality Compliance Committee and three other committees have been established under the Sustainability Committee. These four committees mainly manage and promote initiatives targeting each aspect of materiality identified by the CITIZEN Group.

We have also established the Group Information Governance Committee, the Group Legal Compliance Committee, and the Group Business Continuity Management Committee to address matters related to the handling of

management-related risks and making the Group's management foundation more resilient. These committees operate under the Management Committee, which meets monthly, as a structure that enables swift detection of and deliberation on problems as well as immediate responses to them. In addition, in June 2020, CITIZEN-SIRT was established as a CSIRT (Computer Security Incident Response Team) capable of immediately responding to sudden events such as cyberattacks.

### System for Promoting Sustainable Management



## The CITIZEN Group's Materiality Roadmap (Excerpt)

With a view to achieving sustainable growth, the CITIZEN Group has formulated the Group Materiality Roadmap for 2030, which covers goals, KPIs and measures for addressing the four aspects of materiality that have been identified by the Group. Initiatives toward each goal, which also represent priority areas for the Group's CSR activities, are linked to the PDCA cycle through self-assessment. The table below shows an excerpt from the roadmap detailing

FY2020 goals and KPIs, their results and evaluation, and FY2021 goals for each aspect of materiality.

Please visit our website to access the roadmap.  
[https://www.citizen.co.jp/global/csr/materiality/road\\_map/index.html](https://www.citizen.co.jp/global/csr/materiality/road_map/index.html)



Materiality	FY2020 Goals and KPIs	FY2020 Results	Evaluation	FY2021 Goals
Enhancing quality compliance	Further raising awareness of the Quality Code of Conduct and identifying risks in the state of compliance	Dissemination of Quality Code of Conduct at overseas branches continued in China and started in Vietnam and Thailand. Recognition among domestic employees was ascertained through e-learning.	○	Establishment of an effective monitoring system
	Activities to raise awareness of the Quality Code of Conduct conducted twice	Activities conducted twice online as a measure to prevent the spread of COVID-19		
	Percentage of personnel undergoing e-learning: 90%	Provided to all domestic employees. Attendance rate: 97.8%		
Respect for human rights and labor practices	Establishment of the human rights due diligence scheme and activities based on responding to/compliance with labor-related laws and regulations and basic health and safety policies	Conducted investigations into the status of measures to avoid the use of conflict minerals and due diligence concerning human rights risk in the supply chain	△	Implementation of measures that could not be established due to the pandemic
	Percentage of personnel undergoing human rights e-learning: 100%	Provided to all domestic employees. Attendance rate: 96.0%		
	Compliance with laws and regulations on overtime	Cases of violations of laws or regulations: 0		
	Preparations for establishment of human rights due diligence in 2021 (identifying negative risks, and establishing and implementing measures)	Not established because still in the early stages of identifying human rights risk of business activities		
Promoting sustainable procurement	Collecting information to help identify risks	Administered SAQ and conducted investigations concerning conflict minerals and green procurement	○	Promotion of fact-finding based on SAQ
	Sending SAQ to 20% of major suppliers	SAQ sent to 355 major suppliers		
Promoting environmental innovation	Enhancement and integration of global environmental management systems at major Group operating companies (preparations for realization in FY2021)	Renewed integrated certification (ISO 14001) in Japan. Expanded domestic initiatives to overseas as part of Group-wide environmental management.	△	Implementation of measures that could not be established due to the pandemic
	• CO <sub>2</sub> emissions: Scope 1 and 2: 5% reduction Scope 3: 2.5% reduction	Attained reduction goal and introduced electricity from renewable energy sources on a trial basis at the Tokyo Works		
	Water use: 5% reduction	Attained		
	Recycling rate: 82.5%	Attained (99% or more in Japan)		
	Nature conservation and community environmental activities implemented at all business facilities	Partially suspended to prevent the spread of COVID-19 and conducted at 59% of offices		

○: Attained, △: Partially not attained

## Recognition and Management of ESG Risks

The CITIZEN Group recognizes ESG risks as management risks that must be tackled by the entire Group. Led by the CSR Department of Citizen Watch and working with the cooperation of Group companies, we have established a system for identifying such risks through regular risk assessments, and promptly reporting and responding to risks that have manifested. Along with the establishment of this system, we have been fostering recognition of and approaches to risks relating to ESG and the SDGs within the Group, from senior management to frontline employees.

In actual risk management, progress in standardizing risk awareness throughout the Group meant that the Group was able to share information and respond effectively to the COVID-19 pandemic.

Other key risks include the risk of cyberattacks and those relating to international business such as global import and export. We have made progress in year-round gathering of the latest information on these risks, and in establishing relevant management systems. To counter cyberattacks and other cybersecurity-related risks, we have established CITIZEN-SIRT as a response team.

As part of its sustainable management, by building and developing systems to manage ESG risks the CITIZEN Group will not only be able to identify risks at an early stage, but also to find opportunities in risks.

## Support for the TCFD Recommendations

In November 2020, the CITIZEN Group announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Starting in

2020, we are disclosing information in accordance with the recommendations. <https://www.fsb-tcdf.org/supporters/>



## Work Style Reform and Human Resources Development

The CITIZEN Group believes that securing and developing capable human resources leads to sustainable management. Each Group company takes the initiative in moving forward with the creation of a workplace environment where diverse human resources can fulfill their potential. The entire Group is promoting the creation of a better workplace environment by sharing example initiatives taken at each company at Group Human Resources Committee meetings. In FY2020, the introduction of telecommuting progressed in the Group.

For human resources development, the results of the 360-degree evaluation that Citizen Watch has been

conducting since FY2019 are used to enhance human resources management and training content. In striving for talent management that best leverages capable human resources, we are building mechanisms for helping individuals to plan their careers. These include opportunities for employees to notify the Company of their certifications or submit transfer requests, and a selection of training programs tailored to individual learning aspirations or career objectives. As with building a better workplace environment, knowledge and practices for developing human resources are shared within the Group.

## Environmental Goals

The CITIZEN Group has drawn up a roadmap on initiatives for environmental protection, which is one aspect of materiality identified by the Group, based on the CITIZEN Group Environmental Vision 2050 and the CITIZEN Group Environmental Goals 2030. Initiatives for environmental protection and related goals defined in the roadmap are wide-ranging, and cover reduction of CO<sub>2</sub> emissions and

the use of hazardous chemicals, efficient use of water and other resources, prevention of environmental incidents and preservation of biodiversity. In FY2020, business activities were restricted because of the coronavirus. Under these circumstances, initiatives for environmental protection were promoted, and almost all items exceeded their set goals.

## Stakeholder Engagement

The CITIZEN Group has been emphasizing engagement with suppliers with a view to realizing sustainable procurement as part of the promotion of sustainable management—one of the key strategies of Medium-Term Management Plan 2021, which began in FY2019. Specifically, although we were impacted by the COVID-19 pandemic, we surveyed suppliers

using an SAQ, held online briefings via streaming video, and conducted remote fact-finding (equivalent to auditing). In addition, we have built engagement with employees, including through stress checks with regard to changing work styles caused by the pandemic, and through a questionnaire sent to foreign employees living in Japan.

### Examples of Stakeholder Engagement

Note: In FY2020, certain engagement activities were suspended or conducted online due to the pandemic. We will implement respective responses and plans, taking the COVID-19 pandemic situation into consideration.

Stakeholder	Response/Plan	Result/Evaluation
Customers	Improvement of products and services, ensuring safety, promoting universal design principles	Conducting social campaign New TiMe, New Me
Suppliers	Briefings for suppliers (streaming video), evaluation based on SAQ, evaluation based on fact-finding	Implementation of human rights due diligence
Employees	Reinforcement of work-life balance, promoting health of employees, introduction of telecommuting, operation of flexible work hour system, operation of 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	In cooperation with NGOs, promotion of social contribution activities that allow participation by employees, holding briefings to report on the results of Social Contribution Mission Program	Holding sessions for reporting results of social contribution activities
Local Communities	Total number of employees participating in beautification activities: 2,294; number of plant tours accepted: 8; number of watch assembly classes held: 3; donations to social contribution activities: 16.9 million yen; holding table-tennis lessons	Inviting local residents to events held on business sites, contributing to stable communities through mutual understanding, enhancing activities to contribute to local areas through our businesses, improving table-tennis skills in the community

## Major External Recognition

The CITIZEN Group has continued to carry out business activities in line with its Corporate Philosophy, “Loved by citizens, working for citizens.” Based on our determination never to violate social norms, cause distrust among our customers or business partners, or behave dishonestly, we

implement a wide range of CSR activities aimed at offering solutions to social issues and contributing to the sustainable development of society. Our approach and initiatives have been highly evaluated by third-party institutions, and we have been selected for ESG indices and received other recognition.



**FTSE Blossom Japan**

FTSE Blossom Japan Index  
Since December 2019, we have been included in the FTSE Blossom Japan Index.



**2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX**



**2021 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)**

MSCI Japan ESG Select Leaders Index and MSCI Japan Empowering Women Select Index (WIN)  
We have been included in the MSCI Japan ESG Select Leaders Index since December 2019 and the MSCI Japan Empowering Women Index (WIN) since June 2017.



**CDP SUPPLIER ENGAGEMENT LEADER 2020**

CDP Supplier Engagement Rating  
In 2021, we were listed on CDP's Supplier Engagement Leaderboard, which recognizes only the highest-rated companies.



**2021 Sompo Sustainability Index**

SOMPO Sustainability Index  
Since 2017, we have been included in the SOMPO Sustainability Index (previously the SNAM Sustainability Index).

We will achieve an early recovery in performance and deliver stable shareholder returns.

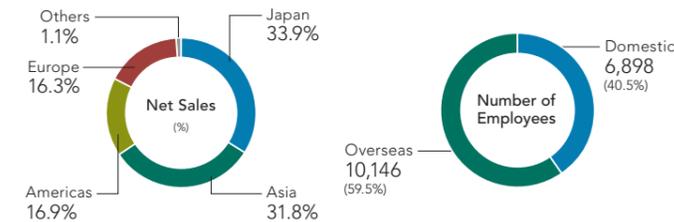
Toshiyuki Furukawa Director



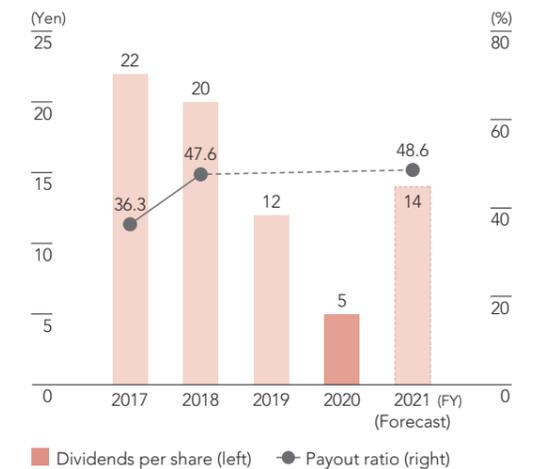
## FY2020 Results

Net Sales	Operating Profit	Profit Attributable to Owners of Parent
<b>206.6</b> billion yen	<b>-9.5</b> billion yen	<b>-25.1</b> billion yen
(down 25.8% year on year)	(-% year on year)	(-% year on year)

## Data by Region



## Dividends per Share / Payout Ratio



## FY2020 Full-Year Results and Outlook for FY2021 Performance

Full-year results for FY2020 reflected the impact of the global COVID-19 pandemic, which inevitably resulted in significantly poorer business results. Net sales were 206.6 billion yen (down 25.8% year on year), and while efforts were made to reduce costs, including a 19.5 billion yen reduction in selling, general and administrative expenses, these were not enough to offset the drop in revenue, resulting in an operating loss of 9.5 billion yen.

In North America, a primary market for the Watch business, sales fell significantly due to the impact of store closings, and the added effect of sluggish consumption due to lockdowns and other measures in response to the

COVID-19 pandemic. Performance was also poor in the Japanese market, with a decline in consumer confidence as people stayed home, while the loss of demand from inbound tourism also had an impact. The Machine Tools business, meanwhile, was also affected by the pandemic as the market continued its downward trend, with demand related to capital investment staying low in the first half. However, in the second half China led an increase in overseas orders, and the business shifted toward a recovery track.

Loss attributable to owners of parent was 25.1 billion yen. Major factors included a reversal of a part of deferred tax assets in the second quarter of FY2020, leading to income taxes - deferred of 10.7 billion yen, and extraordinary losses consisting mainly of restructuring costs of 4.3 billion yen, and loss on COVID of 3.0 billion yen.

Our outlook for FY2021 is a return to profitability, with increased sales and profit driven primarily by the mainstay Watch and Machine Tools businesses. We forecast net sales of 260.0 billion yen (up 53.4 billion yen) and operating profit of 10.0 billion yen (reversal from 9.5 billion yen operating loss).

In the Watch business, although recovery of consumption in the Japanese market continues to lack steam, consumption is steadily improving overseas, primarily in China and North America, where we expect to see a recovery in brick-and-mortar sales in addition to increased e-commerce sales, which we have worked to strengthen. Additionally, as a result of our efforts to optimize production scale and reduce inventory through structural reforms implemented in FY2020, we have established the foundation for enhanced profitability linked with a recovery in consumption.

In the Machine Tools business, we expect to see a full-scale recovery as orders quickly pick up not only in China, but in Europe, North America and other developed economies, primarily in the automotive and medical sectors. We will also continue new initiatives aimed at capturing orders, including exhibitions that utilize online tools. With lead times to shipping growing due to strong orders, ramping up production will be an issue for us to address. Following relocation and expansion, our new factory in China is scheduled to begin operation in the summer of 2021, and we are targeting further results growth.

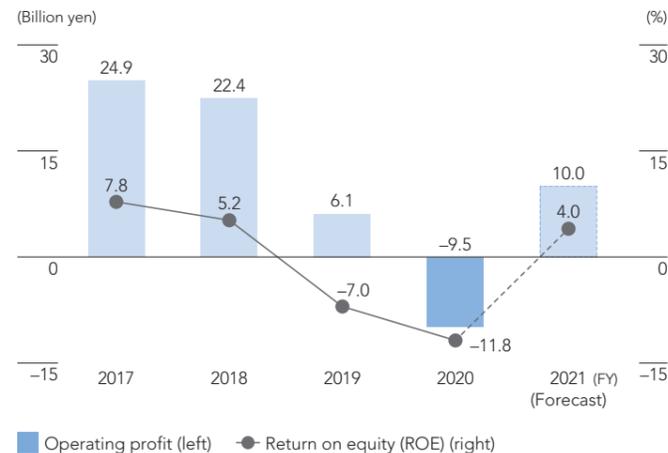
investment of 17.0 billion (up 6.0 billion yen), including accelerated investments to boost capacity in the Machine Tools business. In the Watch business, along with a phased expansion of investments in automation and rationalization, we will invest in strengthening e-commerce sales, which are becoming increasingly important. Furthermore, the launch of a website that offers new experiences unique to the digital space, among other initiatives, will increase consumer touchpoints as we work toward integrating online and offline engagement.

## Capital Policy

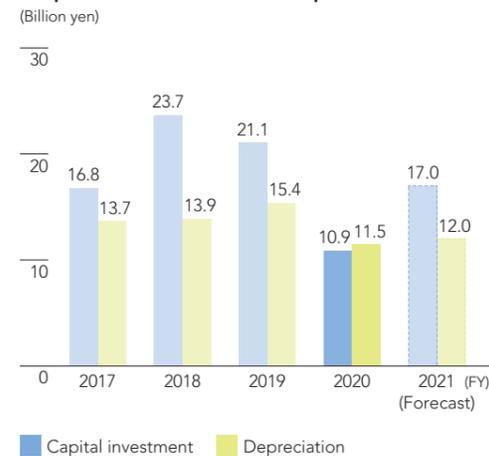
Under Medium-Term Management Plan 2021, our shareholder return policy calls for an average total return of 60% or greater for the three years of the plan. While we recorded a loss attributable to owners of parent in FY2020, we paid an annual dividend of 5 yen per share upon comprehensive consideration of the need to balance short-term liquidity with stable dividends. In FY2021, we plan to continue our policy of issuing dividends that take into consideration the overall balance between performance and the payment of stable dividends.

Our basic policy on cross-shareholdings, as outlined in our Corporate Governance Report, is that their rationality and necessity will be examined based on the relationship between the business partner and the Group, as well as the possibility for mutually enhancing corporate value. We will work to reduce the scale of shareholdings if the significance of continuing to hold the shares is diluted. To date, we have steadily reduced the number of strategic cross-shareholdings. We will continue to review holdings going forward.

## Business Results (Operating Profit / ROE)



## Capital Investment / Depreciation



# 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.



Watches



Movements



CNC automatic lathes



LEDs for lighting



Automotive components



Digital photo printers



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 Chryston 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)
- 2021 Announcement of Caliber 0200  
A mechanical watch movement that achieves both high precision and aesthetic beauty

\* As a light-powered watch. As of June 2021, CITIZEN survey.

Business Characteristics	Main Products	Main Customers	Net Sales and Operating Profit																		
<p><b>Watches</b></p> <p>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 <i>manufactures d'horlogerie</i>, capable of integrated in-house manufacture of everything from individual parts to completed products.</p> <p>46.3%</p>	<p>Top share of the U.S. mid-priced market</p> <p>A global leader in movement sales</p> <ul style="list-style-type: none"> <li>• Watches</li> <li>• Movements</li> <li>• System clocks</li> </ul>	<ul style="list-style-type: none"> <li>• General consumers</li> <li>• Retail stores</li> <li>• Dealers</li> </ul> <p>and others</p>	<p>(Millions of yen)</p> <table border="1"> <tr><th>Year</th><th>Net sales</th><th>Operating profit</th></tr> <tr><td>2017</td><td>163,718</td><td>16,183</td></tr> <tr><td>2018</td><td>163,525</td><td>12,440</td></tr> <tr><td>2019</td><td>141,620</td><td>3,938</td></tr> <tr><td>2020</td><td>95,625</td><td>-8,192</td></tr> <tr><td>2021 (Forecast)</td><td>124,000</td><td>4,000</td></tr> </table>	Year	Net sales	Operating profit	2017	163,718	16,183	2018	163,525	12,440	2019	141,620	3,938	2020	95,625	-8,192	2021 (Forecast)	124,000	4,000
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<p><b>Machine Tools</b></p> <p>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.</p> <p>22.6%</p>	<p>A leader in global share for small- and mid-sized computer numerical control (CNC) automatic lathes</p> <ul style="list-style-type: none"> <li>• Sliding headstock type CNC automatic lathe</li> <li>• Fixed headstock type CNC automatic lathe</li> </ul>	<ul style="list-style-type: none"> <li>• Automotive parts manufacturers</li> <li>• Medical device manufacturers</li> <li>• Semiconductor production equipment manufacturers</li> </ul> <p>and others</p>	<p>(Millions of yen)</p> <table border="1"> <tr><th>Year</th><th>Net sales</th><th>Operating profit</th></tr> <tr><td>2017</td><td>64,049</td><td>10,443</td></tr> <tr><td>2018</td><td>72,164</td><td>13,082</td></tr> <tr><td>2019</td><td>58,545</td><td>7,261</td></tr> <tr><td>2020</td><td>46,707</td><td>2,935</td></tr> <tr><td>2021 (Forecast)</td><td>67,000</td><td>9,000</td></tr> </table>	Year	Net sales	Operating profit	2017	64,049	10,443	2018	72,164	13,082	2019	58,545	7,261	2020	46,707	2,935	2021 (Forecast)	67,000	9,000
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<p><b>Devices and Components</b></p> <p>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.</p> <p>22.2%</p>	<p>A global leader in compact chip LEDs</p> <ul style="list-style-type: none"> <li>• Automotive components</li> <li>• Compact switches</li> <li>• Chip LEDs</li> <li>• LEDs for lighting</li> <li>• Crystal devices</li> <li>• Motors</li> </ul>	<ul style="list-style-type: none"> <li>• Automotive manufacturers</li> <li>• Lighting manufacturers</li> <li>• Home appliance manufacturers</li> <li>• Consumer electronics manufacturers</li> </ul> <p>and others</p>	<p>(Millions of yen)</p> <table border="1"> <tr><th>Year</th><th>Net sales</th><th>Operating profit</th></tr> <tr><td>2017</td><td>65,596</td><td>2,782</td></tr> <tr><td>2018</td><td>60,807</td><td>2,543</td></tr> <tr><td>2019</td><td>55,946</td><td>926</td></tr> <tr><td>2020</td><td>45,919</td><td>-493</td></tr> <tr><td>2021 (Forecast)</td><td>51,000</td><td>1,500</td></tr> </table>	Year	Net sales	Operating profit	2017	65,596	2,782	2018	60,807	2,543	2019	55,946	926	2020	45,919	-493	2021 (Forecast)	51,000	1,500
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<p><b>Electronic and Other Products</b></p> <p>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.</p> <p>8.9%</p>	<p>Application of small precision technology</p> <ul style="list-style-type: none"> <li>• Digital photo printers</li> <li>• POS and barcode printers</li> <li>• Electronic thermometers</li> <li>• Electronic blood pressure monitors</li> </ul>	<ul style="list-style-type: none"> <li>• Retailers</li> <li>• Wholesalers</li> <li>• Household appliance retailers</li> </ul> <p>and others</p>	<p>(Millions of yen)</p> <table border="1"> <tr><th>Year</th><th>Net sales</th><th>Operating profit</th></tr> <tr><td>2017</td><td>20,580</td><td>513</td></tr> <tr><td>2018</td><td>19,330</td><td>438</td></tr> <tr><td>2019</td><td>16,875</td><td>-257</td></tr> <tr><td>2020</td><td>18,389</td><td>394</td></tr> <tr><td>2021 (Forecast)</td><td>18,000</td><td>500</td></tr> </table>	Year	Net sales	Operating profit	2017	20,580	513	2018	19,330	438	2019	16,875	-257	2020	18,389	394	2021 (Forecast)	18,000	500
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(In FY2020, the segment name was changed with the integration of the Electronic Products business and the Other Products business. Net sales and operating profit for FY2017 through FY2019 are for the Electronic Products business only.)

# Our Business Portfolio

## 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

We will leverage CITIZEN technologies to convey the wonder of watches to the world.



Yoshitaka Oji  
Director



### Review of FY2020

The CITIZEN Watch Group boasts a strong market presence in physical stores, not only in Japan, but also in the U.S. and China. At the same time, we have earned steady support among retailers for travelers, where our ability to capture demand from inbound tourists in addition to domestic consumers is another strength. Nevertheless, these two areas of strength have been directly impacted by the global COVID-19 pandemic, resulting in a significant drop in performance in FY2020.

Even before the pandemic, we had been working to grow sales through the e-commerce channel, as well as at physical stores. In China in particular, our e-commerce sales ratio already exceeded 50% before the pandemic, and we have managed to maintain a certain level of sales despite the pandemic. In recent months, e-commerce and in-store sales have improved and are showing signs of a strong recovery.

In the U.S., in addition to e-commerce sales through existing channels, we have built a brand direct-sales e-commerce website and are focusing on enhancing its quality. Our efforts to build a website that makes it easy for visitors to understand the appeal of and purchase our products have earned us a favorable reputation from the market, including selection as one of *Newsweek* magazine's Best Online Shops 2021.<sup>1</sup> E-commerce direct sales have more than doubled over the previous year, which shows the growth of e-commerce as a primary sales channel.

In Japan, we saw firm sales of SATELLITE WAVE GPS F950, our flagship model launched to mark the 50th anniversary of our world's first titanium watch, as well as of 50th anniversary limited models taking their design inspiration from outer space. This enabled us to achieve a measure of success even in these difficult circumstances.

We have also been working on several other unprecedented challenges. These include our Fine Tuning Service (FTS), which allows users to customize their watches in as many as 40,000 possible combinations; our AI Watch Recommend service, which uses AI to suggest watches to consumers based on their preferences; and Riiiver, an IoT platform service that connects watches, services and people through a variety of devices. In June 2020, our direct-sales e-commerce website in Japan had its full-scale launch. FY2020 as a whole was a year in which we worked to strengthen our shift to digital sales.

1. A ranking of the "best online shops" in 8 main industries divided into 39 categories, based on evaluations by a panel of more than 8,000 American online shoppers, as conducted by Newsweek, Inc. of the U.S. and global data research firm Statista GmbH.

### Strengths of Our Watch Business

Citizen Watch has world-leading technology development capabilities in analog quartz watches, and to date has developed Eco-Drive movements, including the Caliber 0100 movement that has an annual accuracy of  $\pm 1$  second and is used in The CITIZEN, making it the world's most precise light-powered watch, as well as the Eco-Drive One, a watch made with the world's thinnest light-powered movement at just 1.00 mm thick.

Our proprietary technology Eco-Drive has been at the core of CITIZEN technology development. Since the 1976 launch of the Cryston Solar Cell, the world's first analog light-powered watch, we have continued to create a variety of "world's first" light-powered watches. The evolution of Eco-Drive involves not only movements but also development of the watch dial, an essential part of the aesthetic of a watch. With metal-like reflectivity and depth of design, Eco-Drive dials have striking expressiveness and beauty. In an age

that demands sustainability, we believe Eco-Drive is a technology that enhances the value of the watch.

We also possess advanced titanium processing technology and surface hardening technology, meaning we can create products with our proprietary watch material Super Titanium™ that are lightweight, scratch-resistant and gentle on the skin (hypoallergenic). These technologies have gained a strong reputation even in non-watch-related fields. Components made with Super Titanium™, which combines our titanium processing technology with surface hardening technology Duratect, are scheduled for use in the lunar lander for HAKUTO-R,<sup>2</sup> a commercial lunar exploration program.

2. A program led by ispace, inc. which plans to conduct two lunar exploration missions by 2023.

### FY2021 Market Conditions and Outlook Based on Business Expansion

While risks from the COVID-19 pandemic will persist through FY2021, the countermeasures we implemented in FY2020 form a system for responding flexibly to changes in the market environment.

The situation regarding the COVID-19 pandemic varies depending on country and region, requiring an agile response tailored to each situation. The growth of e-commerce has brought significant changes to existing distribution infrastructure, so in addition to our ongoing initiatives to enhance direct-sales e-commerce—our direct connection to customers—we are working to restructure and strengthen both the physical store channel and directly-managed stores. In Japan, we are also expanding our e-commerce website and CITIZEN Premium Doors, our chain of specialist retail spaces for high-end watches.

In August 2021 we plan to launch The CITIZEN mechanical models, featuring our proprietary Caliber 0200 high-precision mechanical movement, and the Series 8, featuring a modern, sporty design and a mechanical movement offering enhanced magnetic resistance. Both have generated a solid pre-sales response, and in demonstrating our advanced technical capabilities we expect these models to serve as a new strength. Moreover, in June 2021, as part of our initiatives to capture consumers in segments that may otherwise have few touchpoints with watches, we launched CITIZEN Timeless City (available in Japanese only), a virtual space in which customers can enjoy the many attractive features of our watches.

We will continue to constantly move forward, driven by our belief that "BETTER STARTS NOW."



Please visit the website below to access CITIZEN Timeless City.  
<https://city.citizen.jp/> (Japanese language only)



# Technologies for Citizens

## Eco-Drive

What is the ideal source of power for a watch? In 1976, CITIZEN launched the world's first analog light-powered watch. We named the technology Eco-Drive in acknowledgment of its eco-friendly origins. It converts any kind of light into energy to power a watch and stores the surplus in a power cell. On a full charge, an Eco-Drive watch runs for months even in darkness with no need for regular battery replacement. As a light-power pioneer, we continue exploring new possibilities.

In a first for a watchmaker, Eco-Drive products obtained Eco Mark certification in 1996, a label managed by the Japan Environment Association (JEA), in recognition of their contribution to environmental sustainability. Eco-Drive went on to be awarded a Gold Prize at the JEA's Eco Mark Awards 2014, a first in the watch industry.



## Developing High-Value-Added Watches



Eco-Drive One, the world's thinnest analog quartz light-powered watch



The CITIZEN Caliber 0100, the world's most accurate light-powered watch



Caliber 0200, a new mechanical movement

Our high-value-added models include the Eco-Drive One, a light-powered watch with a movement just 1.00 mm thick; The CITIZEN Caliber 0100, a light-powered watch accurate to ±1 second per year; and the Caliber 0200 mechanical movement, grounded in the watchmaking traditions of both Japan and Switzerland. These models, which offer added value beyond that of conventional watches, comprise a unique lineup made possible only through CITIZEN's in-house capabilities, from design, to manufacture of components, assembly, and final adjustments.

### Skilled Watchmaking "Meisters" Aspiring to Greater Accuracy and Precision

Watches, which are made up of many components and require advanced precision, are assembled entirely by hand. Those responsible for that work are our watchmaking "Meisters," people 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.



## Titanium Processing Technology

Compared to other metals, titanium is soft and difficult to process. CITIZEN addresses this challenge using proprietary processing technologies. These technologies include pressing-related technologies for thermal control and demolding; technologies for cutting that allow for detailed finishing of titanium parts formed in the pressing process; and polishing technologies that involve the craftsman hand-finishing the precisely cut titanium to a smooth, mirror shine. Initiatives in recent years to reduce costs and achieve low-volume, high-mix production led us to establish a new case processing method without the use of metal molds, which were previously essential, and to develop automated polishing equipment that delivers a level of polishing comparable to that of an experienced technician. The culmination of these processes is the beauty of a finished CITIZEN watch.

Super Titanium™ is a unique material that overcomes the weaknesses of conventional titanium and is achieved through CITIZEN's proprietary titanium processing and surface hardening technologies. It is scratch-resistant, lightweight, gentle on the skin and rust-resistant.



Proprietary technology used in the HAKUTO-R commercial lunar exploration program



## Surface Hardening

Meticulous cleaning involving multiple cleaning solutions is followed by Duratect, CITIZEN's proprietary surface hardening technology that uses proprietary equipment. There are three types of Duratect technology: technology for coating the material, technology for hardening the surface of the material, and technology for doing both. Applying Duratect according to the intended usage of the watch enables flexible control over hardness and color tone. These characteristics also make it suitable for products other than watches.



## Multi-Brand Portfolio

<p>BULOVA</p> <p>BULOVA was founded by Joseph Bulova in New York in 1875. Based on its advanced technological capabilities, the firm has been a driving force in the watch market. Over the years, BULOVA has been responsible for many "world's firsts," including the first tuning fork watch.</p>	<p>FREDERIQUE CONSTANT GENEVE</p> <p>Frederique Constant takes inspiration from the concept of "accessible luxury," and all aspects of production are conducted in-house, from design and development to final assembly. The brand's mission is to use outstanding manufacturing to offer high-quality watches at sensible prices.</p>	<p>ARNOLD &amp; SON 1764</p> <p>Arnold &amp; Son bears the name of John Arnold, an English watchmaker who made a name for himself in the 18th century. Inspired by his work, the firm continues to create watches using traditional watchmaking techniques.</p>
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# Machine Tools

Main Operating Companies  
Citizen Machinery Co., Ltd.



## Message from the Director in Charge

We will establish a position as a “new manufacturing (*monozukuri*) company,” creating the world’s most advanced solutions for innovative manufacturing.



**Keiichi Nakajima**  
Director  
President, Citizen Machinery Co., Ltd.



### Review of FY2020

Orders fell significantly in the first quarter of FY2020 due to the COVID-19 pandemic, and we expected it would take time for markets to recover. Subsequently, however, orders quickly turned upward in the Chinese market and elsewhere, and have been on a recovery course since the second quarter.

Current strong orders are not simply a temporary rebound from the pandemic-related drop; they also include an economic cycle-driven recovery in orders. Furthermore, the global trend toward labor-saving and automation is accelerating.

In addition to alkappysolution, our network technology-based service, our Online NC School for NC automatic lathe programming and machine operation has been very well-received by customers given restrictions on movement due to the pandemic.

While current circumstances make it difficult to achieve the targets of the Medium-Term Management Plan, progress continues generally as planned with our three key strategies: establish a firm business base through innovative manufacturing; further strengthen the competitiveness of existing businesses, centered on emerging markets; and expand business tailored to the age of IOT (solutions business).

Construction of our new, relocated factory in China is scheduled to be completed in the summer of 2021, and we also plan to open new sales and service sites in Italy and Germany. In Japan, in addition to expanding the lineup of display machines at our solution centers, we are also enhancing our online services, including remote support connecting customers with solution centers and programming training through alkartschool.

In February 2021, we held Citizen Machinery Online Private Show 2021, introducing new machines and proprietary technologies via livestream and video to a warm reception from many customers.

### Strengths of Our Machine Tools Business

We consider the Machine Tools business to have competitive advantages over other companies in terms of proprietary technologies such as low frequency vibration cutting (LFV) and friction joining technologies, as well as expertise in operability and processing technologies.

Our sales are well-balanced among the four key regions of Japan, Asia including China, Europe and the U.S. In addition, our business focus is becoming broader, dealing with a wide range of industries without overreliance on any one field, including automotive-, medical-, IT- and telecommunications-related products, as well as precision equipment.

Consequently, we are able to maintain relatively stable results compared to other companies in the machine tools industry, which is vulnerable to the impact of economic fluctuations.

### FY2021 Market Conditions and Outlook Based on Business Expansion

According to the Japan Machine Tool Builders' Association (JMTBA), in 2021 total annual machine tool orders across JMTBA members are expected to rise about 30% year on year to 1,200 billion yen. We believe this recovery trend will continue for some time, supported by growing demand, including for automotive-related products and semiconductor production equipment.

Order levels in the Chinese market continue to stay strong, but we believe full-scale growth is yet to come. We are expanding production capacity through construction of a new factory, while also strengthening efforts to expand sales. We are also focusing on the Indian market, where significant growth is expected in the medium

to long term. We expect growing demand for technologies that offer high productivity and advanced processing, advantages offered by our automatic lathes.

### Addressing the Shift to Electric Vehicles

Many reports from think tanks and financial institutions predict that, until about 2035, gasoline, electric and hybrid vehicles will continue to coexist, with the shift to electric vehicles having a limited impact in the short term.

There are some concerns that the adoption of electric vehicles will result in a decrease in the number of engine parts. However, even if the shift gains major traction, demand for components such as brakes, drive and steering systems, doors, air conditioners and seats will not disappear. We also expect that the shift to electric vehicles and the evolution of autonomous driving and automatic braking technologies will drive demand for components that will see increased use, including compact motors and sensors. If anything, we believe that business opportunities could potentially expand.

Furthermore, we are broadening our focus into a wide range of fields outside of automotive-related products as well as other regions. The medical field, which has ample potential for growth with the advancement of medical technology, is one field for which CITIZEN has particularly high expectations.

### ESG Initiatives

In accordance with the CITIZEN Group's Corporate Philosophy, “Loved by citizens, working for citizens,” the Machine Tools business does not sell products to military weapons-related manufacturers.

Because machine tools can be used for mass production of precision, minute components, they are sometimes used in the manufacture of military weapons, but we believe that CITIZEN's machine tools must never be used for such purposes.

The CITIZEN Group also promotes sustainable management, with the goal of ensuring the peace of mind, growth and sustainable development of our customers. The Machine Tools business is developing proprietary technologies and expanding its lineup of eco-friendly products. Our proprietary low frequency vibration cutting (LFV) and friction joining technologies improve productivity, but they also reduce environmental impact, and as such, have gained strong recognition both in and outside Japan, including commendations from trade journals. In looking to expand our eco-friendly lineup, we evaluate products from the development stage using criteria such as energy and resource savings, recyclability, long-term usability and environmental conservation, before moving to commercialization.



Citizen Machinery Online Private Show 2021

# Achieving Innovative Production

Product Fields

Machine tools play a role in the manufacture of components for a variety of products encountered every day. This goes beyond watch components to include automotive components, components for medical equipment and precision equipment, all of which are manufactured using machine tools.

## Cincom

Sliding Headstock Type NC Automatic Lathes



Small-diameter, long-length precision components

Medium-diameter, short-length components

New Automatic Lathes

## Miyano

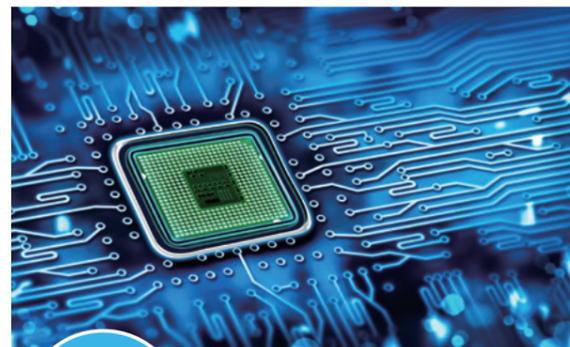
Fixed Headstock Type NC Automatic Lathes



Engines and motors; drive and steering system components; brakes; safety equipment; doors and windows



Endoscopes; implants; bone screws



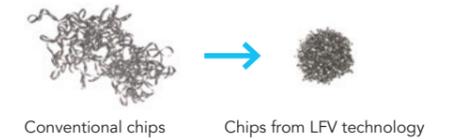
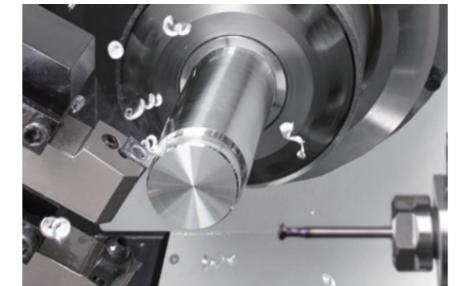
Watch components; semiconductor manufacturing equipment; pneumatic equipment



Cell phones, smartphones and other telecommunications equipment; 5G and other telecommunications infrastructure; televisions; computers; digital cameras; printers

## 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.

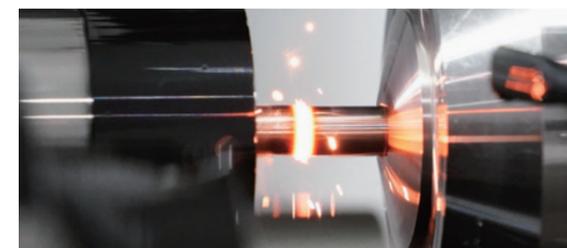


Cumulative global number of units shipped: 2,500 (As of October 2020)



## Friction Joining Technology

We have developed proprietary friction joining technology and a clamping device that achieve advanced weld quality. This reduces the amount of remnant bars to about one-fifth that of conventional methods, contributing significantly to reduced environmental load through effective use of materials and to lower processing costs when using high-value-added materials.

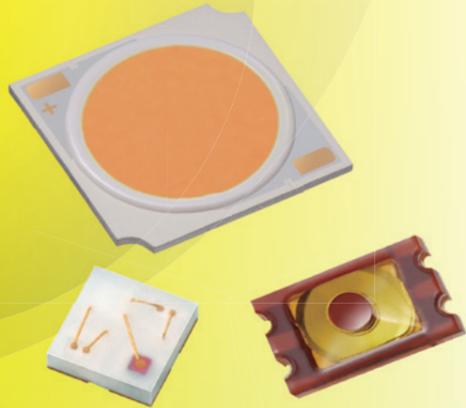


Cincom L32 Sliding Headstock Type CNC Automatic Lathe with Remnant Bar Reduction Function

# Devices and Components

## Main Operating Companies

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



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 small 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 precise metal part machining technology. In automotive components, we offer products in the areas of safety, comfort, the environment, and controls. We supply automotive manufacturers around the world, primarily with functional components. We are also working to create added value through the rationalization and integration of processing systems made possible with manufacturing facilities we have designed ourselves, as we aim to expand into areas beyond automotive-related products.

Our LEDs for lighting are next-generation light sources designed in pursuit of high performance, point light source and light quality. Our tactile switches, crystal device components and motors are vital in smartphones, home appliances, consumer electronics, and medical devices. We will use these and other proprietary, differentiated technologies to expand our offering of high-quality, high-value-added products in response to market changes.

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



Automotive components



LEDs for lighting



Crystal units, crystal oscillators



Motors

# Electronic and Other Products

## Main Operating Companies

Citizen Systems Japan Co., Ltd.; Tokyo Bijutsu Co., Ltd.



## Providing Value to People Around the World

Our Electronic and Other Products business, based on small precision technology accumulated through watchmaking, encompasses the printer business, including photo printers and compact printers, and the healthcare device business, including blood pressure monitors and digital thermometers. Building on our core businesses of healthcare devices made from the customer's perspective and high-quality, high-functionality 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



Digital body composition monitors



POS printers



Publishing

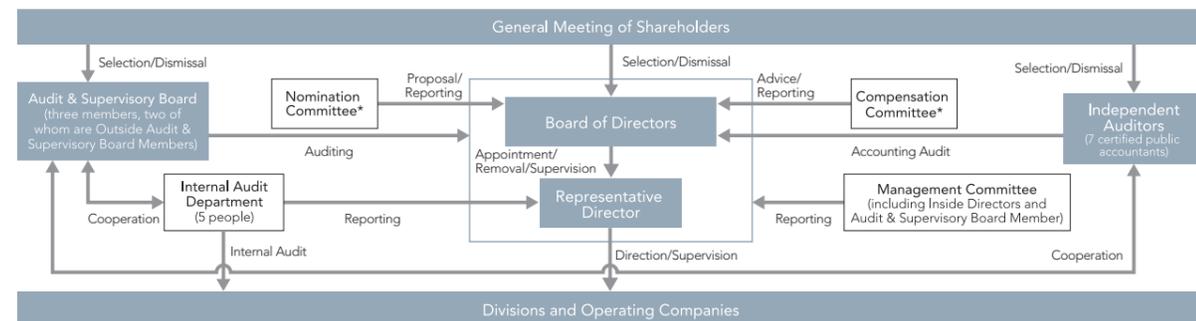
# Corporate Governance

## 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 six 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.



\* 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

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.

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 from an independent, objective standpoint, 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. The Company also expects that she will take on a supervisory function in the decision-making process regarding selection of the President and CEO, Director compensation and other matters from an independent, objective standpoint, and has thus reappointed her as 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 believes her capable of properly performing her duties 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 with the expectation that he will take on a supervisory function in the decision-making process regarding selection of the President and CEO, Director compensation and other matters from an independent, objective standpoint, 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]	11 [3]	159 [28]	159 [28]	— [—]	— [—]
Audit & Supervisory Board Members [of whom, Outside Audit & Supervisory Board Members]	3 [2]	43 [24]	43 [24]	— [—]	— [—]
Total [of whom, Outside Officers]	14 [5]	203 [52]	203 [52]	— [—]	— [—]

(Notes) 1. The above figures include Directors who retired at the conclusion of the 135th Ordinary General Meeting of Shareholders held on June 25, 2020.  
2. Due to the decline in business performance, the fixed compensation of Directors (excluding Outside Directors) was reduced by between 10% and 25%, depending on the Director's position, for the period May 2020 through October 2020, and no bonuses were paid for FY2020.  
3. Bonuses are paid to increase motivation toward contributing to the improvement of single-year and medium-to-long-term performance as well as to the enhancement of corporate value. Performance indicators for bonuses are consolidated net sales and consolidated operating profit as outlined in the annual plan, and consolidated net sales, consolidated operating profit and ROE as outlined in the Medium-Term Management Plan. In FY2020, the Company recorded consolidated net sales of 206,641 million yen, a consolidated operating loss of 9,551 million yen and ROE of -11.8%. Bonuses are calculated by multiplying the base monthly compensation of each position by a coefficient determined by the level of achievement of performance indicators and non-financial items.  
4. Performance-linked share-based compensation is in the form of shares of the Company, and the conditions, etc. for allotment are as stated in "1) Policies, etc. on determination of officer compensation, etc." of the Notice of the 136th Ordinary General Meeting of Shareholders. Furthermore, the status of granting shares during FY2020 is stated in "1) 1. (5) Status of shares delivered to officers of the Company as compensation for the performance of the duties during the fiscal year under review" of the Notice. Performance-linked share-based compensation is paid to clarify the link between Directors' compensation and the Company's share value, and to increase motivation toward contributing to the improvement of medium-to-long-term performance as well as to the enhancement of corporate value. Performance indicators for performance-linked share-based compensation are consolidated net sales, consolidated operating profit and ROE as outlined in the Medium-Term Management Plan. In FY2020, the Company recorded consolidated net sales of 206,641 million yen, a consolidated operating loss of 9,551 million yen and ROE of -11.8%. Performance-linked share-based compensation is calculated according to the level of achievement of performance indicators, etc.  
5. 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, and the number of Directors (excluding Outside Directors) at the conclusion of the 136th Ordinary General Meeting of Shareholders is eight. Compensation for the performance of the duties of employees who also serve as Directors is included in the above compensation, etc.  
6. Separate from Note 5 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), and the number of Directors (excluding Outside Directors and Directors who are non-residents of Japan) at the conclusion of the 136th Ordinary General Meeting of Shareholders is eight.  
7. 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, and the number of Outside Directors at the conclusion of the 136th Ordinary General Meeting of Shareholders is three. No bonuses are paid to Outside Directors.  
8. 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, and the number of Audit & Supervisory Board Members at the conclusion of the 136th Ordinary General Meeting of Shareholders is four. No bonuses are paid to Audit & Supervisory Board Members.  
9. In order to increase the transparency of compensation for Directors, the Board of Directors has delegated the determination of the content of individual compensation, etc. for Directors for FY2020 to the Compensation Committee chaired by Outside Director Fumiaki Terasaka and with Outside Directors Toshiko Kuboki and Yoshio Osawa, and President and CEO Toshihiko Sato as members. Given that the determination of such content has been delegated to the Compensation Committee by resolution of the Board of Directors and that the content of the compensation, etc. is in line with the policy on the determination of the content of individual compensation, etc. for Directors resolved by the Board of Directors, the Compensation Committee has deemed that individual compensation, etc. for Directors for FY2020 conforms with said policy.

## Analysis and Evaluation of the Effectiveness of the Board of Directors and the Audit & Supervisory Board

1. Method of Evaluation	2. Overview of Results
<p>The Company used an evaluation tool provided by an external organization to administer a questionnaire to all members of the Board of Directors and the Audit &amp; Supervisory Board for the purpose of analyzing and evaluating the effectiveness of the Board of Directors. The questionnaire was implemented using questions prepared by the external organization and the results of the analysis and evaluation were then discussed by the Board of Directors.</p> <ul style="list-style-type: none"> <li>• Respondents: All Directors and Audit &amp; Supervisory Board Members (13 people)</li> <li>• Method: Questionnaire survey</li> <li>• Period: March 2021</li> <li>• Questions: 18 in total</li> </ul> <p>(1) Questions regarding the management/administration of the Board of Directors (2 questions) (2) Questions regarding the agenda items at meetings of the Board of Directors (9 questions) (3) Questions regarding the systems that support the Board of Directors (7 questions)</p>	<p>Based on the analysis and evaluation of the questionnaire regarding the effectiveness of the Board of Directors, the Directors and the Audit &amp; 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> <p>(1) Management/Administration of the Board of Directors Responses indicated that the materials used at Board of Directors meetings are of an appropriate volume and an adequate amount of information is disclosed in advance. There were also other opinions on how materials are arranged and on meeting preparations.</p> <p>(2) Agenda items at meetings of the Board of Directors Responses indicated that Outside Directors actively provided opinions during deliberations by the Board of Directors, and that matters with a high degree of managerial importance were covered, resulting in more active Q&amp;A and discussion.</p> <p>(3) Systems that support the Board of Directors Responses indicated that the Company appropriately responds to requests from Directors concerning proposals, findings and requests with a high level of managerial importance. This includes providing briefings and information outside of Board of Directors meetings. Responses also indicated that the Nomination Committee and the Compensation Committee appropriately fulfill their roles, and that the decisions of the Compensation Committee show sound judgment.</p>
3. Initiatives in FY2020	<ul style="list-style-type: none"> <li>• In order to verify evaluation of the effectiveness of the Board of Directors with greater objectivity and clarify future issues, the questions used were prepared by an external organization. Furthermore, the questionnaire was conducted online to increase convenience. The expression of a variety of meaningful opinions will lead to future improvements.</li> <li>• For certain proposals, senior operating officers and operating officers were called to meetings of the Board of Directors to provide detailed explanations. This increased Directors' understanding of the underlying business conditions and resulted in more in-depth discussion.</li> <li>• Providing more briefings and information outside of Board of Directors meetings, as well as more opportunities for communication between Inside Directors and Outside Directors, enabled more in-depth discussion by the Board of Directors.</li> </ul>
4. Future Initiatives	<p>The Board of Directors will strive to increase its effectiveness and enhance corporate value by incorporating issues raised in the evaluation, while considering the Company's current condition and responses to changes in the environment, and by continuing to encourage active discussion.</p> <p>Furthermore, through constructive discussion at Board of Directors meetings based on Japan's Corporate Governance Code, the Board of Directors will ensure its effectiveness and ability to appropriately fulfill its roles and responsibilities.</p>

### Strengthening Group Risk Management

The CITIZEN Group has established the Basic Policy on Group Risk Management, the Basic Regulations on Group Risk Management and the Basic Regulations on Group Crisis Management for the purpose of centrally managing and swiftly responding to risks, and actively undertakes initiatives to strengthen corporate governance that will contribute to Group-wide achievement of business goals and sustainable development.

The Sustainability Committee was established in FY2020. Its main responsibilities are identifying and handling the Group's key risks and responding to new risks, in addition to acting as the steering committee for Group-wide sustainability initiatives.

The President and CEO is the chair of the Sustainability Committee, which in turn has established subcommittees for main risk themes. Officers in charge and representatives from risk management departments participate in these subcommittees, and senior management identifies and addresses key risks including ESG risks such as those related to human rights and labor practices, environmental issues, procurement and the supply chain. Furthermore, the Management Committee is in direct control of the committee and the organization responsible

for managing financial risks and risks concerning the management foundation as it relates to compliance, business continuity planning, intellectual property, information and cybersecurity. As a result, Group companies are able to share important risk management-related information including information on risks common across the Group and risks faced by individual companies, while also standardizing risk management across the Group.

In FY2018, the CITIZEN Group established the Group Quality Compliance Committee responsible for considering and formulating 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. In addition, we regularly conduct training, education and audits on the CITIZEN Group Quality Assurance Code of Conduct 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 FY2020, 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

CITIZEN should leverage technology cultivated throughout its history to create new value for society.

Toshiko Kuboki  
Outside Director



#### Q. What is your impression of the CITIZEN Group?

My impression is that the CITIZEN Group has continued to tirelessly develop precision machine technology over many years. CITIZEN shows great respect for manufacturing as a craft, and its approach seems both diligent and focused.

The resulting trust it has established and the CITIZEN brand itself are great strengths for the CITIZEN Group. That said, I sense that despite having this great trust, history and brand, CITIZEN is sometimes unaware of the inherent value of those strengths.

Many of the CITIZEN Group's products and initiatives have compelling stories behind them. I always thought Eco-Drive technology was excellent, and lately CITIZEN has been pursuing sustainable manufacturing that is both eco- and people-friendly. This includes watches that use ethical materials and specialty lubricants with low environmental impact, friction joining technology in the Machine Tools business, and LEDs and compact motors for the medical field developed by the Devices and Components business. CITIZEN has also launched its Eco Tree ACTION initiative, whereby one mangrove seedling will be donated through NICE, an international NGO, for every new watch owner opting not to receive a box with their purchase. Greening activities at CITIZEN's headquarters and factories are also designed for the enjoyment of the changing seasons and coexistence with nature. While not necessarily aware of it at the time, CITIZEN has in fact long been engaged in addressing the Sustainable Development Goals (SDGs). The CITIZEN Group is a good citizen of society. The Group holds many other "seeds of value" for society; CITIZEN just needs to be more aware of and more proactive in communicating that value.

#### Q. What are your thoughts on the structure of the Board of Directors?

Meetings of the Board of Directors always generate a lively exchange of opinions. Coming from a diverse range of experiences and viewpoints, opinions are always intriguing and provide insights into potential solutions. One important theme is business succession, in other words, how to hand the enterprise over to the next generation. Outside Directors are expected to enhance the functions of management transparency and governance, and I feel I play an important role in that regard.

The issue of diversity has often been brought up in recent years. Gender, nationality and other attributes are part of a person's individuality. In that regard, companies today need human resources with diverse experiences and diverse

communication styles and other skills, which are dependent on differences in individuality.

The CITIZEN Group is currently seeing an increase in female employees—and not just executives—but there are far fewer role models for women in management than there are for men. The CITIZEN Group needs to increase the number of women with leadership experience, and enable them to gain more experience.

#### Q. What is your perspective on the CITIZEN Group's business environment?

Market conditions have changed significantly due to the COVID-19 pandemic, and this is particularly true for the Watch business. Business performance has also fallen in some areas. Nevertheless, CITIZEN is advancing a variety of reforms and plans, including a greater focus on marketing. As the saying goes, a crisis is also an opportunity. From a medium-to-long-term perspective, I do not view the situation pessimistically.

Besides, overcoming adversity as in the current situation is an experience that will certainly prove beneficial in the future, both for the Company and for individual employees. The CITIZEN Group has not only technical capabilities and brand strength, but many "seeds of value" for society; these attributes give CITIZEN the ability to turn adversity into opportunity.

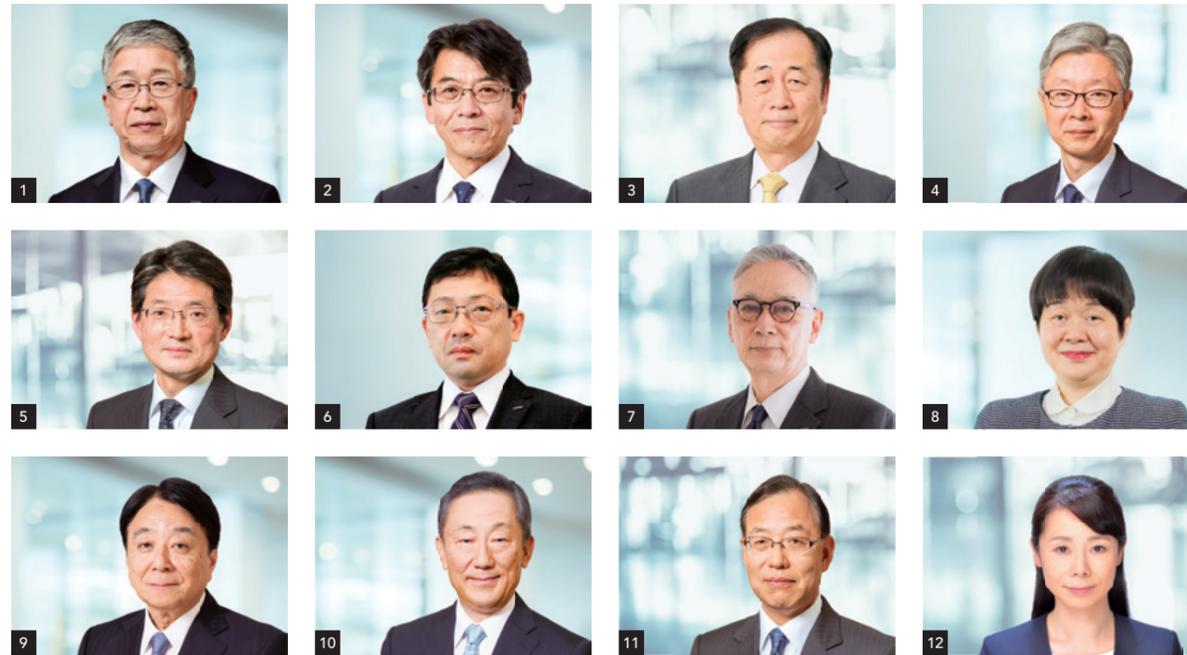
#### Q. What are your expectations for the CITIZEN Group?

I think the CITIZEN Group has succeeded in cultivating a flat culture that facilitates free discussion while maintaining mutual respect. It is really pleasing to hear people addressing one another by name rather than title.

Given that culture, in the same way that winds from different directions combine to create the lifting force of a whirlwind, my hope is that by engaging in dynamic discussions that transcend the boundaries of workplace and area of responsibility, the CITIZEN Group will see an even greater diversity of ideas, and ride the resulting updraft as one unified team.

Rather than a collection of individuals simply doing their job well in their respective fields, I hope that members of the CITIZEN Group show an interest in areas beyond their specific areas of responsibility, engage in discussion, maintain a sense of urgency, and take on the challenge of making those "seeds of value" for society bloom.

# Management Team



## Directors

### 1 Toshihiko Sato

President and CEO

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

### 2 Toshiyuki Furukawa

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

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.

### 3 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.

### 4 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.

### 5 Yoshitaka Oji

Director, Senior General Manager of Watch Business Division, Senior General Manager of Product Development Division, and in charge of Movement 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.

### 6 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.

### 7 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)

### 8 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)

### 9 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  
2007 Executive Officer and General Manager of Media Division of Sumitomo Corporation  
2008 Managing Executive Officer and General Manager of Media, Network & Lifestyle Retail Business Unit of Sumitomo Corporation  
2008 Representative Director and Managing Executive Officer of Sumitomo Corporation  
2011 Representative Director and Senior Managing Executive Officer of Sumitomo Corporation  
2013 Representative Director, President and Chief Operating Officer of SCSK Corporation  
2015 Representative Director and President of SCSK Corporation  
2016 Director and Chairman of the Board of SCSK Corporation  
2017 Director of SCSK Corporation  
2018 Outside Director of Canon Marketing Japan Inc. (present)  
2019 Outside Director of the Company (present)

## Auditors

### 10 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)

### 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 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 Kitadai in her profession as an attorney-at-law.

# Company Information

## Company Overview (As of March 31, 2021)

Corporate name	Citizen Watch Co., Ltd.	Employees	17,044 (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, 2021)

Securities 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	42,588

## 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 CUSTOMER SERVICE CO., LTD.
- 12 CITIZEN LOGISTICS SERVICE CO., LTD.
- 13 CITIZEN ELECTRONICS TIMEL CO., LTD.
- 14 CITIZEN MICRO CO., LTD.
- 15 CITIZEN CHIBA PRECISION CO., LTD.
- 16 FUJIMI CORPORATION

### [OVERSEAS GROUP] EUROPE

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

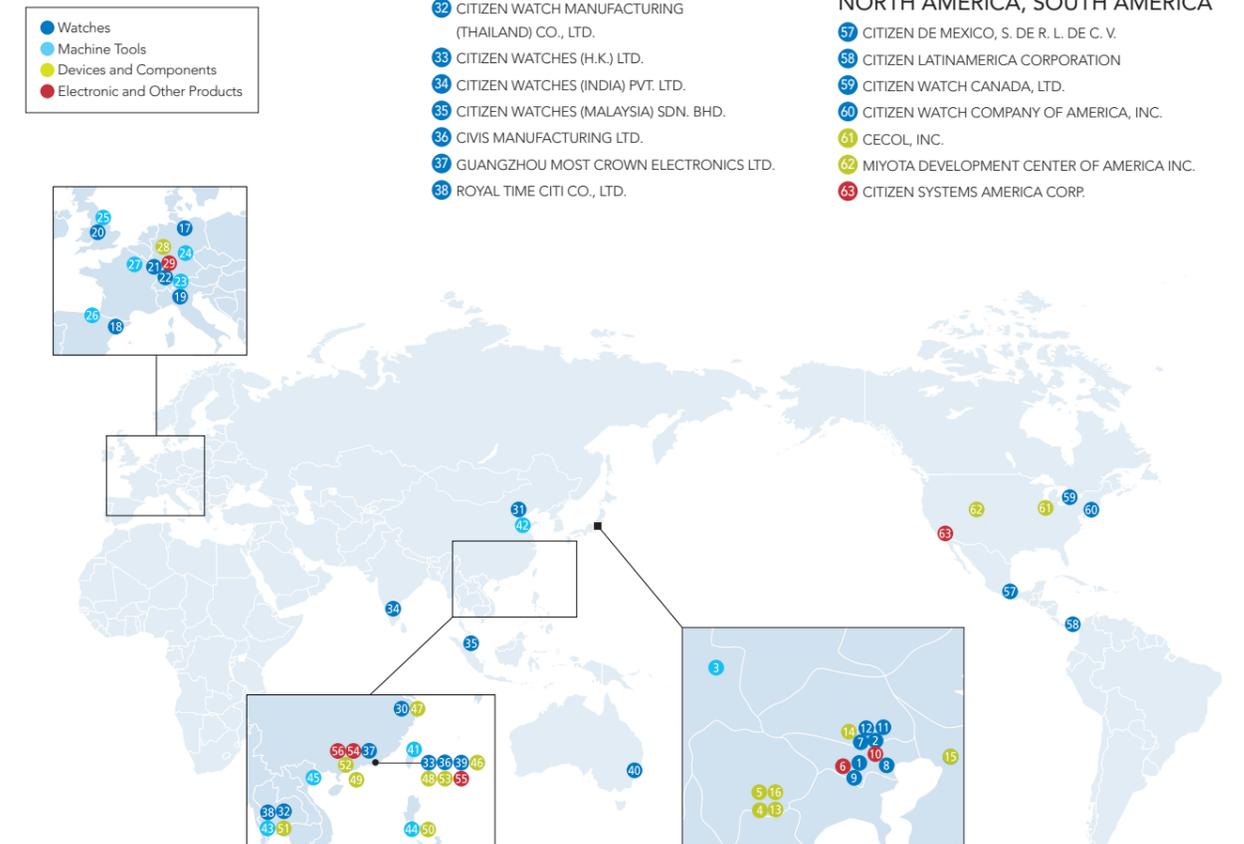
### ASIA, OCEANIA

- 30 CITIZEN (SHANGHAI) TRADING CO., LTD.
- 31 CITIZEN WATCH (CHINA) CO., LTD.
- 32 CITIZEN WATCH MANUFACTURING (THAILAND) CO., LTD.
- 33 CITIZEN WATCHES (H.K.) LTD.
- 34 CITIZEN WATCHES (INDIA) PVT. LTD.
- 35 CITIZEN WATCHES (MALAYSIA) SDN. BHD.
- 36 CIVIS MANUFACTURING LTD.
- 37 GUANGZHOU MOST CROWN ELECTRONICS LTD.
- 38 ROYAL TIME CITI CO., LTD.

- 39 SUNCITI MANUFACTURERS LTD.
- 40 CITIZEN WATCHES AUSTRALIA PTY LTD.
- 41 CINCOM MIYANO TAIWAN CO., LTD.
- 42 CITIZEN (CHINA) PRECISION MACHINERY CO., LTD.
- 43 CITIZEN MACHINERY ASIA CO., LTD.
- 44 CITIZEN MACHINERY PHILIPPINES INC.
- 45 CITIZEN MACHINERY VIETNAM CO., LTD.
- 46 C-E (HONG KONG) LTD.
- 47 CITIZEN ELECTRONICS (CHINA) CO., LTD.
- 48 FIRSTCOME ELECTRONICS LTD.
- 49 JIANG XING ELECTRONICS LTD.
- 50 CITIZEN FINEDEVICE PHILIPPINES CORP.
- 51 CITIZEN SEIMITSU (THAILAND) CO., LTD.
- 52 MASTER CROWN ELECTRONICS (WUZHOU) LTD.
- 53 MOST CROWN INDUSTRIES LTD.
- 54 CITIZEN SYSTEMS (DONGGUAN) CO., LTD.
- 55 CITIZEN SYSTEMS (H.K.) LTD.
- 56 CITIZEN SYSTEMS (JIANGMEN) CO., LTD.

### NORTH AMERICA, SOUTH AMERICA

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



# FINANCIAL DATA 2021

## Analysis of Operating Results

### Fiscal Year-End Operating Results

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021	Year-on-year change	% change
Net sales	278,531	206,641	(71,890)	(25.8%)
Operating profit (loss)	6,136	(9,551)	(15,687)	—
Ordinary profit (loss)	7,531	(4,143)	(11,674)	—
Profit (loss) attributable to owners of parent	(16,667)	(25,173)	(8,505)	—

During the fiscal year ended March 31, 2021, the Japanese economy faced severe conditions, reflecting a fall in demand from inbound tourism and a sustained period of weak consumer activity due to the COVID-19 pandemic. In the United States, the economy recovered moderately, although a resurgence in new COVID-19 cases put strain on the economic recovery. European economies also suffered low levels of economic activity, partly due to severe limitations on movement re-imposed in many countries. In Asia, while a recovery was evident in China, other Asian economies lacked momentum.

In this environment, the CITIZEN Group instituted a range of initiatives in accordance with the Medium-Term Management Plan 2021, which was established in February 2019. These initiatives included facilitating the growth of the Watch business and Machine Tools business, promoting sustainable management and strengthening quality compliance, 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 showed a decline in both sales and profit. Net sales stood at 206.6 billion yen (down 25.8% year on year), and operating loss was 9.5 billion yen (compared with operating profit of 6.1 billion yen in the previous fiscal year). Ordinary loss was 4.1 billion yen (compared with ordinary profit of 7.5 billion yen in the previous fiscal year), and loss attributable to owners of parent came to 25.1 billion yen (compared with loss attributable to owners of parent of 16.6 billion yen in the previous fiscal 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 3.7 billion yen from the end of the previous consolidated fiscal year, to 365.8 billion yen. Current assets increased by 8.7 billion yen, mainly due to a 21.6 billion yen increase in cash and deposits, despite a 10.9 billion yen decrease in inventories. Non-current assets decreased by 12.5 billion yen, mainly reflecting a 9.3 billion yen decrease in deferred tax assets and a 1.8 billion yen decrease in tools, furniture and fixtures, net.

Liabilities increased by 14.1 billion yen from the end of the previous consolidated fiscal year, to 152.9 billion yen, chiefly reflecting a 27.2 billion yen increase in long-term borrowings and a 1.6 billion yen increase in deferred tax liabilities, which was partially offset by a 7.5 billion yen decrease in short-term borrowings.

Net assets decreased by 17.9 billion yen from the end of the previous consolidated fiscal year, to 212.8 billion yen, primarily reflecting a 5.9 billion yen increase in foreign currency translation adjustment and a 2.9 billion yen increase in valuation difference on available-for-sale securities, which was more than offset by a 26.4 billion yen decrease in retained earnings.

#### • Cash Flows

Net cash provided by operating activities decreased by 9.8 billion yen year on year, to 7.4 billion yen. Major factors contributing to this result included 13.7 billion yen in decrease in inventories, 11.5 billion yen in depreciation and 3.2 billion yen in subsidies received, despite 13.7 billion yen in loss before income taxes, 3.5 billion yen in decrease in trade payables and 1.8 billion yen in decrease in provision for loss on reorganization.

Net cash used in investing activities decreased by 7.8 billion yen year on year, to 7.6 billion yen. Major factors contributing to this result included 3.1 billion yen in proceeds from sale of investment securities and 1.5 billion yen in proceeds from sale of property, plant and equipment, offsetting 9.2 billion yen in purchase of property, plant and equipment and 2.8 billion yen in purchase of intangible assets.

Net cash provided by financing activities was 18.3 billion yen, compared with net cash used in financing activities of 7.0 billion yen in the same period of the previous fiscal year. Major factors contributing to this result included 35.1 billion yen in proceeds from long-term borrowings, offsetting 13.7 billion yen in repayments of long-term borrowings.

For the consolidated fiscal year under review, cash and cash equivalents increased by 21.5 billion yen year on year, to 99.5 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 2022

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. Based on this concept, it established a basic policy of ensuring that the ratio of return to shareholders is at least 60% on average for three years.

The Company determines dividends by considering the balance between consolidated results-based dividend payments and stable dividend payments.

The year-end dividend for the fiscal year under review will be 2.50 yen per share. Consequently, the full-year dividend for the fiscal year under review will be 5.00 yen per share.

The Company expects that the full-year dividend for the next fiscal year will be 18.00 yen per share, comprehensively taking into consideration stable dividend payments and results trends, among other factors.

## 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. With respect to movements, demand for analog quartz movements is trending downward, primarily in the low-end range, reflecting an increase in demand for smartwatches. In addition, unit prices are falling due to an intensifying competitive environment resulting mainly from the rise of Chinese manufacturers. Consequently, there is a risk of a decline in sales quantity 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 a fall in appetite for capital investment and disruption to supply chains 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 disruption to supply chains as a result of the spread of COVID-19.

#### Electronic and Other Products

The Electronic and Other 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 and disruption to semiconductor and other supply chains due to 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 Group's 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&As 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. Risks related to information security

Given that the number of illegitimate access attempts and external cyberattacks continues to grow globally, the Group has been working to strengthen information security. Nevertheless, in the event of any damage to the functioning of the Group's information systems due to an external cyberattack or other reasons, or the occurrence of an incident such as the suspension of services by a service provider, the Group's business activities, operating results and financial position may be seriously affected.

The Group holds and manages, in a variety of forms, personal information obtained from customers and other sources, as well as confidential information related to the technologies, research and development, manufacture and sales of the Group and customers. The Group takes measures to protect such confidential information. Nevertheless, such measures may not be sufficiently effective if unforeseen circumstances arise. If such information is disclosed without authorization, the Group may be asked to pay compensation for losses and damages, or face legal action, which may affect the operating results, financial position, reputation and credibility of the Group.

### 11. 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, 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, 2020 and 2021

ASSETS	(Millions of yen)	
	2020	2021
<b>Assets</b>		
Current assets		
Cash and deposits	80,168	101,816
Notes and accounts receivable - trade	43,254	44,102
Electronically recorded monetary claims - operating	1,395	1,371
Merchandise and finished goods	58,708	52,018
Work in process	20,563	19,372
Raw materials and supplies	21,920	18,857
Consumption taxes receivable	2,586	2,129
Other	8,090	5,926
Allowance for doubtful accounts	(1,033)	(1,150)
Total current assets	235,655	244,444
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*3,*4 40,222	*3,*4 39,877
Machinery, equipment and vehicles, net	*3 17,014	*3 15,811
Tools, furniture and fixtures, net	6,162	4,275
Land	10,164	10,649
Leased assets, net	1,264	1,249
Construction in progress	3,704	4,085
Total property, plant and equipment	*1 78,532	*1 75,948
Intangible assets		
Software	3,830	3,590
Leased assets	11	2
Other	710	1,059
Total intangible assets	4,552	4,652
Investments and other assets		
Investment securities	*2 33,449	*2 33,341
Long-term loans receivable	408	251
Deferred tax assets	14,604	5,293
Other	2,657	2,185
Allowance for doubtful accounts	(239)	(306)
Allowance for investment loss	(46)	—
Total investments and other assets	50,833	40,765
Total non-current assets	133,919	121,366
<b>Total assets</b>	<b>369,575</b>	<b>365,811</b>

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	(Millions of yen)	
	2020	2021
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	16,485	15,576
Electronically recorded obligations - operating	9,223	9,041
Notes payable - facilities	508	241
Electronically recorded obligations - non-operating	784	395
Short-term borrowings	*5 17,227	*5 9,648
Income taxes payable	1,551	1,381
Accrued expenses	8,160	9,451
Provision for bonuses	4,855	4,778
Provision for bonuses for directors (and other officers)	170	157
Provision for product warranties	1,133	984
Provision for environmental measures	87	2
Provision for loss on reorganization	1,840	715
Other	9,242	7,369
Total current liabilities	71,271	59,745
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	*5 27,929	*5 55,212
Deferred tax liabilities	585	2,281
Provision for loss on reorganization	829	103
Retirement benefit liability	24,038	22,590
Asset retirement obligations	66	75
Other	4,061	2,937
Total non-current liabilities	67,511	93,201
Total liabilities	138,783	152,946
<b>Net assets</b>		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,730	33,740
Retained earnings	154,855	128,393
Treasury shares	(1,069)	(1,069)
Total shareholders' equity	220,165	193,713
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,578	6,503
Foreign currency translation adjustment	(1,095)	4,871
Remeasurements of defined benefit plans	(921)	(1,100)
Total accumulated other comprehensive income	1,560	10,273
Non-controlling interests	9,066	8,878
Total net assets	230,791	212,864
<b>Total liabilities and net assets</b>	<b>369,575</b>	<b>365,811</b>

## Consolidated Statements of Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2020 and 2021

(Millions of yen)

	2020		2021	
Net sales		278,531		206,641
Cost of sales	*10	177,431	*10	140,742
Gross profit		101,100		65,898
Selling, general and administrative expenses	*1, *2	94,964	*1, *2	75,450
Operating profit		6,136		(9,551)
Non-operating income				
Interest income		479		256
Dividend income		1,378		1,129
Rental income		171		166
Share of profit of entities accounted for using equity method		801		440
Foreign exchange gains		—		854
Subsidy income	*3	230	*3	3,357
Other		396		297
Total non-operating income		3,459		6,501
Non-operating expenses				
Commission for syndicated loans		105		215
Interest expenses		406		415
Loss on sale of notes receivable - trade		88		16
Depreciation of assets for rent		39		51
Foreign exchange losses		919		—
Bad debt expenses		213		—
Other		396		394
Total non-operating expenses		2,063		1,093
Ordinary profit		7,531		(4,143)
Extraordinary income				
Gain on sale of investment securities		1,860		1,452
Gain on sale of non-current assets	*4	75	*4	819
Other		5		491
Total extraordinary income		1,941		2,762
Extraordinary losses				
Loss on sale of non-current assets	*6	34	*6	19
Loss on retirement of non-current assets	*5	252	*5	241
Impairment losses	*7	19,272	*7	2,857
Loss on valuation of investment securities		1		1,220
Reorganization cost	*8	1,404	*8	238
Extra retirement payments	*9	2,835	*9	4,374
Loss on COVID		—	*11	3,034
Other		758		394
Total extraordinary losses		24,559		12,381
Profit before income taxes		(15,086)		(13,761)
Income taxes - current		4,126		920
Income taxes - deferred		(1,754)		10,756
Total income taxes		2,371		11,677
Profit		(17,458)		(25,439)
Profit attributable to non-controlling interests		(790)		(265)
Profit attributable to owners of parent		(16,667)		(25,173)

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2020 and 2021

(Millions of yen)

	2020		2021	
Profit		(17,458)		(25,439)
Other comprehensive income				
Valuation difference on available-for-sale securities		(4,533)		2,924
Foreign currency translation adjustment		(4,403)		6,000
Remeasurements of defined benefit plans, net of tax		(65)		(174)
Share of other comprehensive income of entities accounted for using equity		(63)		66
Total other comprehensive income	*	(9,065)	*	8,817
Comprehensive income		(26,523)		(16,622)
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		(25,666)		(16,460)
Comprehensive income attributable to non-controlling interests		(856)		(161)

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2020 and 2021

(Millions of yen)

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

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	8,111	3,303	(855)	10,559	10,098	267,547
Cumulative effects of changes in accounting policies						(199)
Restated balance	8,111	3,303	(855)	10,559	10,098	267,348
Changes during period						
Purchase of shares of consolidated subsidiaries						0
Increase by merger						363
Change in scope of consolidation						(283)
Dividends of surplus						(6,936)
Profit (loss) attributable to owners of parent						(16,667)
Cancellation of treasury shares						-
Purchase of treasury shares						(3,001)
Disposal of treasury shares						0
Transfer of loss on disposal of treasury shares						-
Transfer from retained earnings to capital surplus						-
Net changes in items other than shareholders' equity	(4,533)	(4,399)	(66)	(8,999)	(1,032)	(10,031)
Total changes during period	(4,533)	(4,399)	(66)	(8,999)	(1,032)	(36,556)
Balance at end of period	3,578	(1,095)	(921)	1,560	9,066	230,791

Financial year ended March 31, 2021

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	32,648	33,730	154,855	(1,069)	220,165
Cumulative effects of changes in accounting policies					-
Restated balance	32,648	33,730	154,855	(1,069)	220,165
Changes during period					
Purchase of shares of consolidated subsidiaries		9			9
Increase by merger					
Change in scope of consolidation			(506)		(506)
Dividends of surplus			(782)		(782)
Profit (loss) attributable to owners of parent			(25,173)		(25,173)
Cancellation of treasury shares					-
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				1	1
Transfer of loss on disposal of treasury shares					-
Transfer from retained earnings to capital surplus					-
Net changes in items other than shareholders' equity					
Total changes during period	-	9	(26,462)	0	(26,451)
Balance at end of period	32,648	33,740	128,393	(1,069)	193,713

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	3,578	(1,095)	(921)	1,560	9,066	230,791
Cumulative effects of changes in accounting policies						-
Restated balance	3,578	(1,095)	(921)	1,560	9,066	230,791
Changes during period						
Purchase of shares of consolidated subsidiaries						9
Increase by merger						-
Change in scope of consolidation						(506)
Dividends of surplus						(782)
Profit (loss) attributable to owners of parent						(25,173)
Cancellation of treasury shares						-
Purchase of treasury shares						(0)
Disposal of treasury shares						1
Transfer of loss on disposal of treasury shares						-
Transfer from retained earnings to capital surplus						-
Net changes in items other than shareholders' equity	2,924	5,966	(179)	8,712	(187)	8,524
Total changes during period	2,924	5,966	(179)	8,712	(187)	(17,927)
Balance at end of period	6,503	4,871	(1,100)	10,273	8,878	212,864

## Consolidated Statements of Cash Flows

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2020 and 2021

(Millions of yen)

	2020	2021
<b>Cash flows from operating activities</b>		
Profit before income taxes	(15,086)	(13,761)
Depreciation	15,438	11,557
Increase (decrease) in provision for loss on reorganization	1,375	(1,849)
Increase (decrease) in allowance for doubtful accounts	(91)	132
Increase (decrease) in other provisions	(1,211)	(441)
Increase (decrease) in retirement benefit liability	639	(1,683)
Interest and dividend income	(1,858)	(1,386)
Subsidy income	(230)	(3,357)
Interest expenses	406	415
Loss (gain) on valuation of investment securities	1	1,220
Loss (gain) on sale of investment securities	(1,858)	(1,452)
Loss (gain) on sale of non-current assets	(40)	(799)
Loss on retirement of non-current assets	252	241
Impairment losses	19,272	2,857
Decrease (increase) in trade receivables	20,214	1,402
Decrease (increase) in inventories	(4,096)	13,737
Increase (decrease) in trade payables	(8,999)	(3,559)
Other, net	(1,351)	(201)
Subtotal	22,774	3,072
Interest and dividends received	1,858	1,380
Interest paid	(408)	(421)
Income taxes paid	(7,107)	212
Subsidies received	230	3,245
Net cash provided by (used in) operating activities	17,347	7,489
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(1,971)	(0)
Proceeds from sale of investment securities	4,061	3,163
Purchase of property, plant and equipment	(16,851)	(9,240)
Proceeds from sale of property, plant and equipment	773	1,534
Purchase of intangible assets	(2,254)	(2,892)
Loan advances	(2)	(153)
Proceeds from collection of loans receivable	173	103
Other, net	572	(141)
Net cash provided by (used in) investing activities	(15,498)	(7,627)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	(518)	(1,785)
Proceeds from long-term borrowings	15,270	35,180
Repayments of long-term borrowings	(10,717)	(13,738)
Dividends paid	(6,936)	(782)
Dividends paid to non-controlling interests	(170)	(34)
Purchase of treasury shares	(3,001)	(0)
Proceeds from sale of treasury shares	—	1
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(557)	(0)
Other, net	(416)	(503)
Net cash provided by (used in) financing activities	(7,049)	18,336
Effect of exchange rate change on cash and cash equivalents	(1,880)	2,843
Net increase (decrease) in cash and cash equivalents	(7,080)	21,042
Cash and cash equivalents at beginning of period	84,533	77,996
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	544	522
Cash and cash equivalents at end of period	* 77,996	* 99,561

## Notes to Consolidated Financial Statements

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2020 and 2021

(Significant matters providing the basis for the preparation of consolidated financial statements)

### 1. Scope of consolidation

(1) Number of consolidated subsidiaries 80  
The names of main consolidated subsidiaries are Citizen Machinery Co., Ltd., Citizen Electronics Co., Ltd., Citizen Finedevice Co., Ltd. and Citizen Systems Japan Co., Ltd. Effective from the beginning of the fiscal year under review, Egasca S.A. was included in the scope of consolidation because of increased materiality. In addition, effective from the beginning of the fiscal year under review, Miyano Service Engineering, Inc. was excluded from the scope of consolidation because the company was merged with Citizen Machinery Co., Ltd., a consolidated subsidiary of the Company. Further, Citizen Jewelry Co., Ltd., Astar Precision Co., Ltd., Bulova Italy s.r.l and Bulova Trading (Shanghai) Co., Ltd. were excluded from the scope of consolidation because they were liquidated.

(2) Number of non-consolidated subsidiaries 13  
The name of a main non-consolidated subsidiary is Citizen Customer Service Co., Ltd.  
The reason for exclusion is because the total assets, net sales, profit/loss (equivalent portion for equity holdings), and retained earnings (equivalent portion for equity holdings) of the non-consolidated subsidiary excluded from the scope of consolidation were individually immaterial in comparison to net assets, net sales, profit/loss and retained earnings, as reported on the consolidated financial statements, and also would not materially impact the consolidated financial statements taken together.

### 2. Application of the equity method

(1) Number of affiliates under the equity method 2  
The names of affiliates under the equity method are Marubeni Citizen-Cincom Inc. and First Cainta Resources Corporation.  
(2) Status of non-consolidated subsidiaries and affiliates to which the equity method is not applied  
The major non-consolidated subsidiary to which the equity method is not applied is Citizen Customer Service Co., Ltd., and the main affiliate to which the equity method is not applied is VELDT Inc.

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

### 3. Fiscal year of consolidated subsidiaries

(1) Consolidated subsidiaries whose closing date is different from the closing date for the consolidated financial statements are as follows:  
December 31 (Number of consolidated subsidiaries 57)  
(2) When preparing consolidated financial statements, the necessary settlements are made to prepare the financial statements which form the basis for the consolidated financial statements prepared on the consolidated closing date.  
(3) Conventionally, when preparing the consolidated financial statements, for certain consolidated subsidiaries whose closing dates fall on December 31, the necessary settlements are made to prepare the financial statements

which form the basis for the consolidated financial statements; however, from the fiscal year under review, for the convenience of consolidated subsidiary management, eight consolidated subsidiaries (Citizen Watch Company of America, Inc. and seven others) have had their closing dates changed to March 31.  
There is no impact from this change on the consolidated financial statements.

### 4. Accounting policies

(1) Valuation standards and valuation method for significant assets  
a. 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.  
b. 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.  
c. 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.  
(2) Property, plant and equipment  
a. 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.  
b. 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.  
c. 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.  
(3) Treatment of significant deferred assets

Bond issuance costs

One-time depreciation in fiscal year incurred.

(4) Standards for recording significant allowances

a. Allowance for doubtful accounts

In preparation for bad debt expenses on trade receivables and loans, etc., the amount expected to be irrecoverable is recorded considering the individual recoverability of specific receivables such as doubtful accounts receivable using the loan loss ratio for general receivables of the Company and its domestic subsidiaries. Furthermore, the required estimate is recorded considering the recoverability of individual receivables for overseas consolidated subsidiaries.

b. Provision for bonuses

In order to allocate funds for the payment of bonuses for employees, the Company and some consolidated subsidiaries record an amount based on the expected level of payment.

c. Provision for bonuses for directors (and other officers)

In order to allocate funds for the payment of bonuses for directors (and other officers), the Company and some consolidated subsidiaries record an amount based on the expected level of payment.

d. Provision for product warranties

Some consolidated subsidiaries record a certain percentage of net sales as a provision for the costs required for after-sales service for products.

e. Provision for business restructuring and liquidation losses

In preparation for the expenses and losses incurred in association with business restructuring, the expected amount is recorded.

f. Provision for environmental measures

In preparation for expenditure associated with future environmental measures, an amount is recorded based on a reasonably estimated amount.

(5) Retirement benefits

a. Calculation of retirement benefit obligation

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

b. 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.

(6) 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.

(7) Significant hedging methods

a. Hedging methods

Deferral hedging is used. Furthermore, special treatment is used for interest rate swaps when the requirements for special treatment are satisfied.

b. Hedging instruments and hedged items

The hedged items and hedging instruments are as follows.

Hedging instruments: Interest rate swaps

Hedged items: Interest on borrowings

c. Hedging policy

Hedging is used to avoid interest-rate risk on some borrowings.

d. Method of evaluation of hedging effectiveness

Evaluation of hedging effectiveness has been omitted for interest rate swaps because special treatment is used.

(8) Scope of funds in the Consolidated Statement of Cash Flow

Cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and are redeemable in three months or less from each acquisition date.

(9) Other important matters for preparation of consolidated financial statements

a. Accounting treatment of consumption taxes, etc.

Consumption taxes, etc. are accounted using the net-of-tax method.

b. Application of tax effect accounting pertaining to the transition from the consolidated taxation system to the group tax sharing system

For items for which transition to the group tax sharing system created in the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) was made and for which the non-consolidated taxation system was reviewed in step with transition to the group tax sharing system, the Company and some of its consolidated subsidiaries in Japan do not apply the provisions in Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) based on the treatment in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020), and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Income Tax Act before amendment.

(Notes on accounting estimates)

1. Recoverability of deferred tax assets

(1) Amount recorded in consolidated financial statements for the fiscal year under review

\*The amount of deferred tax assets is the same as the amount shown in "Notes (Tax Effect Accounting)" 11 in the Consolidated Financial Statements.

(2) Information on the content of accounting estimates

In calculating deferred tax assets, the Group made careful judgements, and revised them to an amount that is highly likely to be realized by recording valuation allowance.

Such assessment regarding the need for valuation allowance involves careful consideration of future taxable income and prevailing tax plans.

2. Impairment losses on non-current assets

(1) Amount recorded on the consolidated financial statements for the fiscal year under review

The amount of impairment losses on fixed assets is the same as the amount stated in "Notes (Notes to the

Consolidated Statement of Income) 7. Impairment Losses" in the Consolidated Financial Statements.

(2) Information on the details of significant accounting estimates pertaining to identified items

With regard to assets or asset groups found to show signs of impairment losses arising from the market value of non-current assets and gains or losses arising from operating activities using those assets, if the total future undiscounted cash flow from such assets or asset groups is less than the book value, the Group writes down the book value to the recoverable amount, and records the reduction as impairment losses. The higher of the net sale value or use value is used as the recoverable amount, and use value is calculated as the present discounted value of future cash flow. Future cash flow is calculated based on business plans approved by the Board of Directors, etc. and future market forecasts, etc.

The recoverability of deferred tax assets and impairment losses on non-current assets are estimated based on the assumption that although global economic activity in the next fiscal year will recover from the severe slump caused by the spread of COVID-19, the impact of the slowdown in economic activity will continue.

This assumption entails a high degree of uncertainty, and the impact becoming more prolonged or more severe may have an impact on next fiscal year's consolidated financial statements.

(New accounting pronouncements)

1.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 26, 2021)

•"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.

2. Accounting Standards for Fair Value Measurement

•"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.

(Changes in Methods of Presentation)

(Application of Accounting Standard for Disclosure of Accounting Estimates)

The "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) applies to consolidated financial statements for the fiscal year-end of the fiscal year ended March 31, 2021, and notes on material accounting estimates are stated on the consolidated financial statements.

However, the notes do not include information on the fiscal year ended March 31, 2020 in accordance with the transitional treatment specified in the proviso of Section 11 of the Standard.

(Consolidated Statements of Income)

The "Commission for syndicated loans" that had been included in "Other" under "Non-operating expenses" in the fiscal year ended March 31, 2020 is stated separately from the fiscal year ended March 31, 2021 because the significance of the amount has increased. In order to reflect the change in the method of presentation, the financial statements for the fiscal year ended March 31, 2020 have been reclassified.

As a result, the ¥396 million that had been represented in "Other" under "Non-operating expenses" in the Consolidated Statements of Income for the fiscal year ended March 31, 2020 has been reclassified as ¥105 million in "Commission for syndicated loans" and ¥291 million in "Other".

(Consolidated Statements of Cash Flows)

The "Subsidy income" and the "Proceeds from subsidy income" that had been included in "Other" under "Cash flows from operating activities" in the fiscal year ended March 31, 2020 is stated separately from the fiscal year ended March 31, 2021 because the significance of the amount has increased. In order to reflect the change in the method of presentation, the financial statements for the fiscal year ended March 31, 2020 have been reclassified.

As a result, the (¥1,350 million) that had been represented in "Other" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the fiscal year ended March 31, 2020 has been reclassified as (¥230 million) in "Subsidy income", ¥230 million in "Proceeds from subsidy income" and (¥1,351 million) in "Other".

Additional information  
(Board Incentive Plan)

(1) 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.

(2) Shares of the Company remaining in the trust  
The shares of the Company remaining in the trust are recorded as treasury stock under net assets. The book value and the number of shares of the treasury stock for the year ended March 31, 2020 were ¥243 million and 376,600 shares, and the book value and the number of shares of the treasury stock for the year ended March 31, 2021 were ¥242 million and 374,652 shares.

(Accounting estimates due to the impact of COVID-19)  
The Companies have made accounting estimates based on the assumption that concerning the impact of COVID-19 are as stated in "V. Status of Accounting 1. Consolidated Financial Statements, etc. (1) Notes to Consolidated Financial Statements (Significant Accounting Estimates)".

(Financial restriction clause)

The loans executed on July 17, and August 7, 2020 are subject to a financial restriction clause. The clause is as follows.

(1) The amount obtained by deducting the foreign currency translation adjustment from the amount of net assets on the Consolidated Balance Sheets as of the final day of each fiscal year and the second quarter of each fiscal year must be maintained at 75% or higher.

(2) The operating profit/loss indicated in the Consolidated Statements of Income at the end of each fiscal year must not be a loss for two consecutive fiscal years from the fiscal year ended March 31, 2021.

The fiscal year ended March 31, 2021 does not infringe upon the above

(Notes to Consolidated Balance Sheet)

\*1. Accumulated depreciation of tangible fixed assets as follows

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Accumulated depreciation	219,006	221,719

\*2. Those pertaining to non-consolidated subsidiaries and associates are as follows.

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Investment securities	5,939	4,818

\*3. Accumulated reduction entry for tangible fixed assets based on government subsidies, etc. as follows

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Buildings and structures	243	249
Machinery, equipment and vehicles	24	20

\*4. Pledged assets and secured liabilities

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Buildings and structures	1,122	1,118

\*5. The Group has entered into overdraft and commitment line agreements with five correspondent banks for the efficient procurement of working capital. The balance of unused credit based on these agreements at the end of the consolidated fiscal year is as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Total amount of current account overdrafts and loan commitments	60,628	59,376
Balance of borrowings	1,358	—
Balance	59,270	59,376

(Notes to Consolidated Income Statement)

\*1. Details of selling, general and administrative expenses are as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Depreciation	5,868	4,554
Provision of allowance for doubtful accounts	(38)	(126)
Provision for bonuses	2,213	1,778
Provision for bonuses for directors (and other officers)	131	78
Retirement benefit expenses	1,456	1,427
Personnel expenses	31,282	26,476
Advertising and promotion expenses	18,143	12,168
Provision for product warranties, etc.	96	2
Research and development expenses	6,164	5,576

\*2. Research and development costs are as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Research and development costs	6,164	5,576

\*3. The details of subsidy income are as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Subsidy income	230	3,357

Subsidy income in the previous fiscal year mainly comprised subsidies for projects promoting commerce and industry. Subsidy income in the fiscal year under review mainly comprises employment adjustment subsidies associated with the impact of the spread of COVID-19.

\*4. Gain on sale of non-current assets are as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Machinery, equipment and vehicles	40	54
Land	29	737

\*5. Loss on retirement of non-current assets are as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Buildings and structures	150	88
Machinery, equipment and vehicles	30	42
Tools, furniture and fixtures	64	56

\*6. Loss on retirement of non-current assets are as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Buildings and structures	8	0
Machinery, equipment and vehicles	20	18
Tools, furniture and fixtures	4	0

\*7. Impairment losses

The main breakdown of impaired assets for the years ended March 31, 2021 and 2020 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 2021

Location	Use	Type
Japan	Implements, software, idle equipment, etc.	Tools, furniture and fixtures, software, Machinery, equipment and vehicles, etc.
Thailand	Watch making equipment	Machinery, equipment and vehicles, buildings and structures, tools, furniture and fixtures
China	Watch making equipment, Electronic device manufacturing facilities	Machinery, equipment and vehicles, etc.

In principle, the Group uses business units based on business categories in management and accounting to group the minimum units generating cash flow. Company units are used to group some consolidated subsidiaries in light of their size. Furthermore, assets not clearly related to a specific business, such as the head office, are treated as common assets.

In the previous fiscal year, impairment losses were recognized on assets not expected to be used in future and assets in businesses with deteriorated profitability, with the book value being written down to the recoverable amount, and the reduction being recorded under extraordinary losses as impairment losses (19,272 million yen). The breakdown of these is as follows: 9,081 million yen in machinery and equipment, 4,402 million yen in other intangible assets, 2,750 million yen in buildings and structures, and 1,894 million yen in tools, furniture and fixtures.

In the fiscal year under review, the book value of assets not expected to be used in future, assets in businesses with deteriorated profitability and assets in businesses where the business environment deteriorated significantly was written down to the recoverable amount, and the reduction was recorded under extraordinary losses as impairment losses (2,857 million yen). The breakdown of these is as follows: 1,365 million yen in machinery, equipment and vehicles, 646 million yen in software, 519 million yen in tools, furniture and fixtures, and 280 million yen in buildings and structures.

The recoverable amounts are calculated based on net sale value or use value. Net sale value is assessed using the disposal value, and use value is calculated primarily by discounting future cash flow at 8%.

\*8. Reorganization costs

The total amount of reorganization costs is as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Reorganization	1,404	238

The loss on business restructuring in the previous consolidated fiscal year was mainly restructuring expenses associated with withdrawal from the jewelry business. (Of which, provision for loss on business restructuring was 129 million yen) The loss on business restructuring in the current fiscal year mainly consists of restructuring expenses for the watches business and restructuring expenses for withdrawal from the leisure and service business. (Of which, provision for loss on business restructuring is 80 million yen)

\*9. Extra retirement payments

The total amount of extra retirement payments is as follows:

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Extra retirement payments	2,835	4,374

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

Provision for reorganization costs of ¥1,337 million was recorded in the consolidated balance sheets as of March 31, 2020.

Premium severance pay in the year ended March 31, 2021 is primarily the premium severance pay associated with restructuring of the Watches business.

\*10. Inventories at the end of the term are the amount after the lowering of book value associated with the decline in profitability, and the next loss on valuation of inventories is included in cost of sales. The following amounts are after offsetting with reversals.

(Millions of yen)	
For the year ended March 31, 2020	For the year ended March 31, 2021
804	2,006

\*11. Fixed expenses, etc. associated with the suspension of operation of plants and stores due to the impact of the spread of COVID-19 are recorded under extraordinary losses as loss on COVID-19.

(Notes to Consolidated Statement of Comprehensive Income)

\* Reclassification adjustments and tax effects relating to other comprehensive income:

(Millions of yen)	
For the year ended March 31, 2020	For the year ended March 31, 2021
Valuation difference on available-for-sale securities	
Gains arising during the year	2,490
Reclassification adjustments	1,452
Amount before income tax effect	3,942
Income tax effect	(1,017)
Valuation difference on available-for-sale securities	2,924
Foreign currency translation adjustment	
Gains arising during the year	5,533
Reclassification adjustments	467
Amount before income tax effect	6,000
Income tax effect	-
Foreign currency translation adjustment	6,000
Remeasurements of defined benefit plans, net of tax	
Gains arising during the year	(405)
Reclassification adjustments	209
Amount before income tax effect	(195)
Income tax effect	21
Remeasurements of defined benefit plans, net of tax	(174)
Share of other comprehensive income of entities accounted for using equity method	
Gains arising during the year	66
Reclassification adjustment	-
Share of other comprehensive income of entities accounted for using equity method	66
Total other comprehensive income	8,817
Total other comprehensive income	(9,065)

(Notes to Consolidated Statement of Changes in Net Assets)  
For the prior fiscal year (From April 1, 2019, to March 31, 2020)

1. Matters concerning the type and total number of shares issued and the type and number of shares of treasury stock

	As of April 1, 2019 (Shares)	Increase (Shares)	Decrease (Shares)	As of March 31, 2020 (Shares)
Issued shares				
Common stock (Note 1)	320,353,809	-	6,000,000	314,353,809
Total	320,353,809	-	6,000,000	314,353,809
Treasury stock				
Common stock (Note 2,3,4)	2,070,969	5,921,049	6,277,611	1,714,407
Total	2,070,969	5,921,049	6,277,611	1,714,407

(Notes) 1. The decrease in the number of shares issued and outstanding by 6,000,000 was a reduction due to the cancellation of treasury shares.

2. The increase in the number of treasury shares by 5,921,049 shares comprised an increase of 5,640,400 shares through market purchases, an increase of 277,500 shares through the acquisition of the Company's shares by the executive remuneration BIP trust, and an increase of 3,149 shares through the acquisition of shares less than one unit.

3. The decrease in treasury shares by 6,277,611 shares comprised a decrease of 6,000,000 shares due to cancellation of treasury shares, a decrease of 277,500 shares due to disposal of treasury shares by third-party allotment to the executive remuneration BIP trust, and a decrease of 111 shares due to requests for the purchase of shares less than one unit.

4. The number of treasury shares at the end of the fiscal year under review includes the 376,600 shares owned by the executive remuneration BIP trust.

2. Dividends

(1) Dividends paid are as follows:

Resolution	Class of shares	Amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
June 26, 2019 General Meeting of Shareholders	Ordinary shares	3,183	10.00	March 31, 2019	June 27, 2019
November 8, 2019 Board of Directors' meeting	Ordinary shares	3,752	12.00	September 30, 2019	December 3, 2019

(Notes) 1. The total amount of dividends resolved by the ordinary general meeting of shareholders held on June 26, 2019 includes the 0 million yen in dividends for the Company's shares held by the executive remuneration BIP trust.

2. The total amount of dividends resolved by the Board of Directors on November 8, 2019 includes the 2 million yen in dividends for the Company's shares held by the executive remuneration BIP trust.

(2) Dividends for which the record date is during the fiscal year under review and the effective date of dividends is during the following fiscal year: Not applicable

For the current fiscal year (As of March 31, 2021)

1. Matters concerning the type and total number of shares issued and the type and number of shares of treasury stock

	As of April 1, 2020 (Shares)	Increase (Shares)	Decrease (Shares)	As of March 31, 2021 (Shares)
Issued shares				
Common stock (Note 1)	314,353,809	–	–	314,353,809
Total	314,353,809	–	–	314,353,809
Treasury stock				
Common stock (Note 2,3,4)	1,714,407	2,420	1,948	1,714,879
Total	1,714,407	2,420	1,948	1,714,879

(Notes) 1. The increase of 2,420 shares in the number of treasury stock is due to the purchase of odd-lot shares.

2. The decrease of 1,948 shares in the number of treasury stock is due to the delivery and sale of the Company's shares to persons who were directors by the Directors' Remuneration BIP Trust.

3. The number of treasury stock at the end of the current fiscal year includes 374,652 shares of the Company's stock held by the Directors' Remuneration BIP Trust.

2. Dividends

(1) Dividends paid are as follows:

Resolution	Class of shares	Amount of dividends (Millions of Yen)	Dividend per shar (Yen)	Record date	Effective date
November 12, 2020 Board of Directors' meeting	Ordinary shares	782	2.50	September 30, 2020	December 4, 2020

(Note) The total amount of dividends resolved by the Board of Directors on November 11, 2020 includes the 0 million yen in dividends for the Company's shares held by the executive remuneration BIP trust.

(2) Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Sources of dividend	Total amount (Millions of yen)	Dividend per shar (Yen)	Record date	Effective date
June 25, 2021 General Meeting of Shareholders	Ordinary shares	Retained earnings	782	2.50	March 31, 2021	June 28, 2021

(Note) The total amount of dividends resolved by the Board of Directors on June 25, 2021 includes the 0 million yen in dividends for the Company's shares held by the executive remuneration BIP trust.

(Notes to Consolidated Statement of Cash Flows)

\*1. Relationship between the fiscal year-end balance of cash and cash equivalents and the amount of consolidated balance sheet items

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Cash and deposits	80,168	101,816
Time deposits with a deposit term of more than three months	(2,170)	(2,254)
BIP trust separate deposit	(1)	(0)
Cash and cash equivalents	77,996	99,561

(Leases)

(Borrower side)

1. Finance lease transactions

Finance lease transactions without transfer of ownership

(1) Details of lease assets

Property, plant and equipment

Primarily production facilities (machinery, equipment and vehicles) and office equipment, etc. (tools, furniture and fixtures)

(2) Method of depreciation of lease assets

As stated in Basis of presenting consolidated financial statements "4. Accounting policies (2) Method of depreciation of significant depreciable assets."

2. Operating lease transactions

Future lease payments pertaining to non-cancelable operating lease transactions

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Within one year	9	10
Over one year	24	17
Total	33	27

(Financial instruments)

1. 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.

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.

Investment securities are primarily shares of companies with business relationships, which are exposed to the risk of fluctuation of market prices. The market values of these are periodically determined and reported to the Board of Directors. Furthermore, holdings are continuously reviewed in light of relationships with business partners and the financial condition of business partners.

Long-term loans are also provided to business partners.

Notes and accounts payable - trade, which are trade payables are mostly due within one year.

Borrowings and corporate bonds are primarily for the purpose of operating funds, refinancing of long-term debt and funding for strategic investment. A portion of these is exposed to interest rate fluctuation risk due to having variable interest rates, but a portion of the borrowings with variable interest rates is hedged using interest swap transactions to avoid the risk of fluctuation of interest paid and fix interest payments.

Furthermore, although trade payables and borrowings are exposed to liquidity risk, the Group prepares and updates cash flow plans in a timely manner based on reports from Group companies, and also manages liquidity risk by maintaining liquidity on hand.

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.

### (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.

### 2. 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, 2021 and 2020.

(For the year ended March 31, 2020)

(Millions of Yen)

	Carrying amount	Fair value	Differences
(1) Cash and time deposits	80,168	80,168	—
(2) Notes and accounts receivable	43,254	43,254	(0)
(3) Electronically recorded monetary claims	1,395	1,395	—
(4) Investment securities			
Available-for-sale securities	16,735	16,735	—
(5) Long-term loans	408	407	(0)
(6) Long-term receivables (*1)	69		
Allowance for long-term receivables (*2)	(69)		
	—	—	—
<b>Total</b>	<b>141,963</b>	<b>141,962</b>	<b>(0)</b>
(1) Notes and accounts payable	16,485	16,485	—
(2) Electronically recorded obligations-operating	9,223	9,223	—
(3) Short-term loans payable	3,527	3,527	—
(4) Unsecured bonds	10,000	9,968	(32)
(5) Long-term loans payable (*3)	41,629	41,699	69
<b>Total</b>	<b>80,866</b>	<b>80,904</b>	<b>37</b>
Derivative transactions (*4)			
① Derivative transactions not designated for hedge accounting	11	11	—
② Derivative transactions designated for hedge accounting	—	—	—

\*1 Recorded under "Other" in investments and other assets on the Consolidated Balance Sheet.

\*2 An allowance for doubtful accounts is deducted for distressed receivables.

\*3 Includes in current portion of long-term borrowings.

\*4 The net amount is shown for net claims and obligations arising from derivative transactions, and those recorded as liabilities are shown in parentheses.

(For the year ended March 31, 2021)

(Millions of Yen)

	Carrying amount	Fair value	Differences
(1) Cash and time deposits	101,816	101,816	—
(2) Notes and accounts receivable	44,102	44,102	(0)
(3) Electronically recorded monetary claims	1,371	1,371	—
(4) Investment securities Available-for-sale securities	17,747	17,747	—
(5) Long-term loans	251	251	—
(6) Long-term receivables (*1)	68	—	—
Allowance for long-term receivables (*2)	(68)	—	—
	—	—	—
<b>Total</b>	<b>165,289</b>	<b>165,288</b>	<b>(0)</b>
(1) Notes and accounts payable	15,576	15,576	—
(2) Electronically recorded obligations-operating	9,041	9,041	—
(3) Short-term loans payable	1,632	1,632	—
(4) Unsecured bonds	10,000	9,979	(21)
(5) Long-term loans payable (*3)	63,229	63,066	(162)
<b>Total</b>	<b>99,479</b>	<b>99,296</b>	<b>(183)</b>
Derivative transactions (*4)			
① Derivative transactions not designated for hedge accounting	(117)	(117)	—
② Derivative transactions designated for hedge accounting	—	—	—

\*1 Recorded under "Other" in investments and other assets on the Consolidated Balance Sheet.

\*2 An allowance for doubtful accounts is deducted for distressed receivables.

\*3 Includes in current portion of long-term borrowings.

\*4 The net amount is shown for net claims and obligations arising from derivative transactions, and those recorded as liabilities are shown in parentheses.

Notes:

1. Method of fair value measurement of financial instruments

Assets:

(1) 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.

(2) 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.

(3) 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.

(4) Investment securities

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

(5) 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.

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

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

Liabilities:

(1)(2)(3) 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.

(4) 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.

(5) 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

2. Unmarketable securities of ¥10,775 million and ¥10,774 million as of March 31, 2021 and 2020 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.

3. Expected maturities of cash and time deposits, notes and accounts receivable, electronically recorded monetary claims and long-term loans

(For the year ended March 31, 2020)

(Millions of yen)

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 year through 10 years	Due after 10 years
Cash and deposits	80,168	—	—	—
Notes and accounts receivable	43,110	144	—	—
Electronically recorded monetary claims	1,395	—	—	—
Long-term receivables	—	408	—	—
<b>Total</b>	<b>124,675</b>	<b>552</b>	<b>—</b>	<b>—</b>

(For the year ended March 31, 2021)

(Millions of yen)

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 year through 10 years	Due after 10 years
Cash and deposits	101,816	—	—	—
Notes and accounts receivable	43,880	222	—	—
Electronically recorded monetary claims	1,371	—	—	—
Long-term receivables	—	251	—	—
<b>Total</b>	<b>147,067</b>	<b>473</b>	<b>—</b>	<b>—</b>

4. Scheduled repayments of bonds, long-term loans payable, lease obligations, and other interest-bearing liabilities after the consolidated settlement date

(For the year ended March 31, 2020)

(Millions of yen)

	Due in 1 year or less	Due after 2 year through 3 years	Due after 2 year through 3 years	Due after 3 year through 4 years	Due after 4 year through 5 years	Due after 5 years
Short-term debt	3,527	—	—	—	—	—
Bonds	—	—	—	10,000	—	—
Long-term debt	13,700	8,037	4,619	19	10,019	5,324
Lease liabilities	440	241	81	96	113	486
<b>Total</b>	<b>17,668</b>	<b>8,278</b>	<b>4,700</b>	<b>10,115</b>	<b>10,132</b>	<b>5,720</b>

(For the year ended March 31, 2021)

(Millions of yen)

	Due in 1 year or less	Due after 2 year through 3 years	Due after 2 year through 3 years	Due after 3 year through 4 years	Due after 4 year through 5 years	Due after 5 years
Short-term debt	1,632	—	—	—	—	—
Bonds	—	—	10,000	—	—	—
Long-term debt	8,016	3,837	1,036	1,036	15,036	25,266
Lease liabilities	293	226	68	61	71	402
<b>Total</b>	<b>9,942</b>	<b>4,064</b>	<b>11,104</b>	<b>10,098</b>	<b>15,108</b>	<b>25,669</b>

## (Notes to Securities)

## 1. Other marketable securities

(For the year ended March 31, 2020)

	Category	Book value (Millions of yen)	Acquisition cost (Millions of yen)	Unrealized gain (Millions of yen)
Acquisition cost not greater than book value	(1) Stocks	10,474	4,474	6,000
	(2) Bond			
	① Government/municipal	—	—	—
	② Corporate	—	—	—
	③ Other	—	—	—
	(3) Other	—	—	—
	Subtotal	10,474	4,474	6,000
Acquisition cost greater than book value	(1) Stocks	6,260	8,195	(1,935)
	(2) Bond			
	① Government/municipal	—	—	—
	② Corporate	—	—	—
	③ Other	—	—	—
	(3) Other	—	—	—
	Subtotal	6,260	8,195	(1,935)
	Total	16,735	12,669	4,065

(Note) Unlisted shares, etc. (amount on Consolidated Balance Sheet: 10,774 million yen) are not included in "Other securities" in the above table because they have no market price and it is very difficult to determine their market value.

(For the year ended March 31, 2021)

	Category	Book value (Millions of yen)	Acquisition cost (Millions of yen)	Unrealized gain (Millions of yen)
Acquisition cost not greater than book value	(1) Stocks	17,167	9,121	8,045
	(2) Bond			
	① Government/municipal	—	—	—
	② Corporate	—	—	—
	③ Other	—	—	—
	(3) Other	—	—	—
	Subtotal	17,167	9,121	8,045
Acquisition cost greater than book value	(1) Stocks	580	618	(37)
	(2) Bond			
	① Government/municipal	—	—	—
	② Corporate	—	—	—
	③ Other	—	—	—
	(3) Other	—	—	—
	Subtotal	580	618	(37)
	Total	17,747	9,739	8,008

(Note) Unlisted shares, etc. (amount on Consolidated Balance Sheet: 10,775 million yen) are not included in "Other securities" in the above table because they have no market price and it is very difficult to determine their market value.

## 2. Other marketable securities sold

(For the year ended March 31, 2020)

Category	Amount of proceeds (Millions of yen)	Total gains on sales (Millions of yen)	Total losses on sales (Millions of yen)
(1) Stocks	4,061	1,860	1
(2) Bond			
① Government/municipal	—	—	—
② Corporate	—	—	—
③ Other	—	—	—
(3) Other	—	—	—
Total	4,061	1,860	1

(For the year ended March 31, 2021)

Category	Amount of proceeds (Millions of yen)	Total gains on sales (Millions of yen)	Total losses on sales (Millions of yen)
(1) Stocks	3,163	1,452	—
(2) Bond			
a. Government/municipal	—	—	—
b. Corporate	—	—	—
c. Other	—	—	—
(3) Other	—	—	—
Total	3,163	1,452	—

## 3. Impaired securities written down to their fair values

For the prior fiscal year (From April 1, 2019, to March 31, 2020)

Impairment loss of 1 million yen was recorded for investment securities.

For the current fiscal year (from April 1, 2020, to March 31, 2021)

The Company recorded impairment losses of 1,220 million yen on investment securities.

## (Notes to Derivative Transactions)

## 1. Derivative transactions not subject to hedge accounting

Currency-related derivatives

For the prior fiscal year (As of March 31, 2020)

Category	Type	Contract amount (Millions of yen)	Contract amount due after 1 year-period (Millions of yen)	Market value (Millions of yen) (Note)	Unrealized gain (loss) (Millions of yen)
Over-the counter transactions	Forward foreign exchange contracts (Sell)				
	U.S. dollar	1,736	—	(0)	(0)
	Euro	1,538	—	(2)	(2)
	(Buy)				
	Euro	591	—	3	3
	British pound	400	—	10	10
Total		4,267	—	11	11

(Note) Calculation of market value

Market value is calculated based on value offered by the correspondent financial institutions.

For the current fiscal year (As of March 31, 2021)

Category	Type	Contract amount (Millions of yen)	Contract amount due after 1 year-period (Millions of yen)	Market value (Millions of yen) (Note)	Unrealized gain (loss) (Millions of yen)
Over-the counter transactions	Forward foreign exchange contracts (Sell)				
	U.S. dollar	933	—	(18)	(18)
	Euro	2,496	—	(42)	(42)
	Chinese Yuan	1,011	—	(42)	(42)
	(Buy)				
	U.S. dollar	265	—	(4)	(4)
	Euro	809	—	13	13
	British pound	315	—	(24)	(24)
Total		5,831	—	(117)	(117)

(Note) Calculation of market value

Market value is calculated based on value offered by the correspondent financial institutions.

2. Derivative transactions subject to hedging

Interest rates

Previous fiscal year (March 31, 2020)

Hedging methods	Type of transaction	Main hedged items	Contract amount, etc. (Millions of yen)	Contract amount, etc. exceeding one year (Millions of yen)	Market value (Millions of yen)
Special treatment of interest rate swaps	Interest rate swap transactions Fixed payment, variable receipt	Long-term borrowings	11,100	—	(Note)

(Note) Those subject to special treatment of interest rate swaps are treated together with long-term borrowings, and the market value thereof is included in the market value of the relevant long-term borrowings.

For the current fiscal year (As of March 31, 2021)

Not applicable

(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.

Furthermore, some overseas consolidated subsidiaries use defined benefit plans or defined contribution plans.

Some consolidated subsidiaries use the simplified method of treating the amount of payment required for voluntary retirement as retirement benefit liability when calculating retirement benefit liability.

2. Defined-benefit plans

(1) Changes in retirement benefit obligations

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Balance at the beginning of the year	24,739	25,990
Service cost	1,349	1,402
Interest cost	121	124
Actuarial differences generated	720	221
Retirement benefits paid	(1,006)	(3,233)
Foreign currency translation adjustment	(18)	298
Amount of impact due to change from simple method to principle method	—	676
Other	85	(15)
Balance at the end of year	25,990	25,465

(Note) Retirement benefit expenses of consolidated subsidiaries using the simplified method are included in service cost.

(2) Changes in plan assets

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Balance at the beginning of the year	1,411	1,952
Expected return on plan assets	34	30
Actuarial differences generated	546	65
Contribution from employers	14	163
Retirement benefits paid	(125)	(97)
Foreign currency translation adjustment	(4)	200
Amount of impact due to change from simple method to principle method	—	573
Other	76	(12)
Balance at the end of the year	1,952	2,875

(3) Reconciliation of the ending balance of retirement benefit obligations and plan assets to the liabilities for retirement benefits and assets related to retirement benefits recorded in the consolidated balance sheets

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Retirement benefit obligations for accumulation-type plans	2,964	4,272
Pension assets	(1,952)	(2,875)
Retirement benefit obligations for unfunded plans	1,012	1,397
Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits on the consolidated balance sheets	23,025	21,193
Liabilities for retirement benefits	24,038	22,590
Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits on the consolidated balance sheets	24,038	22,590

(4) Retirement benefit costs

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Service costs	1,349	1,402
Interest costs	121	124
Expected return on plan assets	(34)	(30)
Amortization of actuarial differences	247	206
Amortization of prior service costs	(32)	3
Retirement benefit expenses for defined benefit plans	1,652	1,706

(Note) Retirement benefit expenses of consolidated subsidiaries using the simplified method are included in service cost.

(5) Adjustments for retirement benefits

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Past service cost	32	15
Actuarial differences	182	180
Total	215	195

(6) Accumulated adjustments for retirement benefits

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Unrecognized prior service costs	205	220
Unrecognized actuarial differences	922	1,103
Total	1,127	1,323

(7) Plan assets

① Breakdown for plan assets

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Equity securities	88.1 %	47.5 %
Bonds	1.4	10.7
Cash and deposits	6.2	0.5
General life insurance account	—	37.4
Others	4.3	3.9
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

	For the year ended March 31, 2020	For the year ended March 31, 2021
Discount rate	0.32~3.10 %	0.32~3.15 %
Expected long-term rate of return on plan asset	1.00~4.00 %	0.14~4.00 %

3. Defined contribution plan

Contributions to defined contribution plan for the years ended March 31, 2021 and 2020 are ¥1,105 million and ¥1,234 million, respectively.

(Tax effect accounting)

1. Breakdown by main causes of the occurrence of deferred tax assets and deferred tax liabilities

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Deferred tax assets:		
Depreciation in excess	6,502	5,421
Inter-company profits and write down on inventory	5,587	5,289
Liability for retirement benefits	6,703	6,051
Allowance for doubtful accounts	190	336
Provision for bonuses	1,468	1,363
Net operating loss carry-forward (Note)2	2,791	10,906
Investment securities	2,017	2,052
Provision for reorganization costs	973	225
Others	5,952	4,712
Total deferred tax assets	32,186	36,358
Valuation allowance of tax loss carried forward (Note)2	(2,680)	(9,765)
Valuation allowance for total future deductible temporary differences, etc.	(11,893)	(18,662)
Subtotal valuation allowance (Note)1	(14,573)	(28,427)
Total deferred tax assets	17,612	7,930
Deferred tax liabilities:		
Unrealized gain on subsidiaries	(535)	(1,568)
Undistributed earnings of foreign subsidiaries	(2,668)	(2,926)
Others	(390)	(424)
Total deferred tax liabilities	(3,594)	(4,918)
Net deferred tax assets	14,018	3,012

(Note) 1. The content of the increase in the valuation reserve is due to additional recognition of the valuation reserve due to the revision of the classification of the company under the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26) from the fiscal year under review.

(Note) 2. Tax losses carried forward and deferred tax assets thereof by deferral expiration date

(For the year ended March 31, 2020)

	(Millions of yen)						
	Due in 1 year or less	less Due after 1 year through 2 years	Due after 2 year through 3 years	Due after 3 year through 4 years	Due after 4 year through 5 years	Due after 5 years	Total
Tax loss carryforward*	525	228	271	102	163	1,499	2,791
Valuation allowance	(502)	(228)	(271)	(102)	(163)	(1,411)	(2,680)
Deferred tax assets	23	—	—	—	—	87	110

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

(For the year ended March 31, 2021)

	(Millions of yen)						
	Due in 1 year or less	less Due after 1 year through 2 years	Due after 2 year through 3 years	Due after 3 year through 4 years	Due after 4 year through 5 years	Due after 5 years	Total
Tax loss carryforward*	457	255	132	247	307	9,507	10,906
Valuation allowance	(421)	(255)	(132)	(244)	(307)	(8,403)	(9,765)
Deferred tax assets	35	—	—	2	—	1,103	1,141

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

2. Breakdown by principal items causing the difference between the normal effective statutory tax rate and the rate of income taxes after tax effect accounting

Previous fiscal year (March 31, 2020)

Omitted due to posting a loss before income taxes.

Current fiscal year (March 31, 2021)

Omitted due to posting a loss before income taxes.

(Asset retirement obligations)

1. Asset retirement obligations recorded on the Consolidated Balance Sheet

a. Overview of the asset retirement obligations

Asbestos removal expenses incurred when dismantling buildings owned by the Group and the cost of restoration of stores to their original state under real estate lease agreements are recorded as asset retirement obligations.

b. Method of calculation of the amount of the asset retirement obligations

Asbestos removal expenses are estimated based on the useful life of the property, plant and equipment being 38 years. Due to the expected useful life having already elapsed, the amount is calculated using the amount of expected expenditure at the end of the fiscal year under review.

The cost of restoration to original state is estimated using an expected useful life of five years from acquisition and a discount rate of 0.0% to calculate the amount of asset retirement obligations.

c. Asset retirement obligations

	(Millions of yen)	
	For the year ended March 31, 2020	For the year ended March 31, 2021
Balance as of April 1, 2020	74	66
Increase due to acquisition of tangible fixed assets	—	8
Adjusted to reflect the passage of time	—	—
Decrease due to fulfillment of asset retirement obligations	(7)	—
Balance as of March 31, 2021	66	75

2. Asset retirement obligations not recorded on the Consolidated Balance Sheet

Other than the asset retirement obligations recorded on the Consolidated Balance Sheet, the Company has obligations pertaining to restoration of land, etc. used based on lease agreements to the original state at the time it is vacated. However, the asset retirement obligations cannot be reasonably estimated because the period of use of leased assets related to such obligations is unclear and there are no plans for relocation, etc. at this time. For this reason, the asset retirement obligations corresponding to such obligations have not been recorded.

(Segment information)

1. 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 four reportable segments – Watches, Machine tools, Devices and components, Electronic and other products – based on factors like similarity of types and characteristics of products.

The main contents of each business segment are as follows:

Business Segment	Main Products
Watches	Movements
Machine tools	NC Automatic lathe
Devices and components	Automotive components, Compact switches, Chip LEDs, LEDs for lighting, Crystal devices
Electronic and other products	Digital photo printers, healthcare device, etc.

2. 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

3. Matters pertaining to changes in reportable segments

The Group has consolidated its existing "Electronic Products" and "Other Products" segments and changed the name to "Electronic and Other Products" from the fiscal year under review due to a revision of the categories of management and administration. Segment information for the previous fiscal year has been disclosed based on the classification of reportable segments applied from the fiscal year under review.

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

(For the year ended March 31, 2020)

(Millions of yen)

	Watches	Machine tools	Devices and components	Electronic and other products	Total	Adjustments (Note1)	Consolidated (Note2)
Net sales							
Sales to outside customers	141,620	58,545	55,946	22,418	278,531	–	278,531
Inter-segment sales and transfers	99	549	1,867	875	3,391	(3,391)	–
Total	141,719	59,094	57,814	23,294	281,923	(3,391)	278,531
Segment profit (loss)	3,938	7,261	926	(215)	11,911	(5,775)	6,136
Segment assets	173,621	61,208	77,152	20,269	332,252	37,323	369,575
Other							
Depreciation	8,470	1,694	4,014	323	14,503	935	15,438
Investment in affiliates	–	3,817	–	–	3,817	–	3,817
Capital expenditures	10,319	4,185	4,226	373	19,104	2,035	21,140

(Note)1. Adjustments for the year ended March 31, 2020

(1) Segment profit (loss) totaling ¥ (5,775) million includes inter-segment elimination of ¥ 23 million and general corporate expenses of ¥ (5,799) million not allocated to any reportable segments.

(2) Segment assets totaling ¥37,323 million includes inter-segment elimination of ¥ (34,923) million and general corporate assets of ¥72,247 million not allocated to any reportable segments.

(3) Depreciation is that related to general corporate assets.

(4) Increases in property, plant and equipment and intangible fixed assets are those related to general corporate assets.

2. Reported segment profit (loss) is reconciled to operating profit in the consolidated statements of income.

(For the year ended March 31, 2021)

(Millions of yen)

	Watches	Machine tools	Devices and components	Electronic and other products	Total	Adjustments (Note1)	Consolidated (Note2)
Net sales							
Sales to outside customers	95,625	46,707	45,919	18,389	206,641	–	206,641
Inter-segment sales and transfers	64	161	922	630	1,779	(1,779)	–
Total	95,690	46,869	46,841	19,019	208,421	(1,779)	206,641
Segment profit (loss)	(8,192)	2,935	(493)	394	(5,355)	(4,195)	(9,551)
Segment assets	155,522	63,318	71,486	18,908	309,235	56,575	365,811
Other							
Depreciation	5,097	1,951	3,270	137	10,457	1,100	11,557
Investment in affiliates	–	3,945	–	–	3,945	–	3,945
Capital expenditures	3,687	3,197	2,965	231	10,081	825	10,907

(Note) (1) "Adjustments" segment profit (loss) totaling ¥ (4,195) million includes inter-segment elimination of ¥ (139) million and general corporate expenses of ¥ (4,335) million not allocated to any reportable segments.

(2) "Adjustments" segment assets totaling ¥56,575 million includes inter-segment elimination of ¥ (26,567) million and general corporate assets of ¥83,143 million not allocated to any reportable segments.

(3) Depreciation is that related to general corporate assets.

(4) Increases in property, plant and equipment and intangible fixed assets are those related to general corporate assets.

2. Reported segment profit (loss) is reconciled to operating profit in the consolidated statements of income.

[Related Information]

(For the year ended March 31, 2020)

1. 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.

2. Information by region

(1) Sales

(Millions of yen)

Japan	Asia		America		Europe	Others	Total
	China		United States				
98,839	77,884	57,479	55,312	42,470	44,952	1,543	278,531

(Note) Net sales are based on the location of customers and categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Others	Total
	Thailand			
51,851	18,965	9,180	7,716	78,532

(For the year ended March 31, 2021)

1. 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.

2. Information by region

(1) Sales

(Millions of yen)

Japan	Asia		America		Europe	Others	Total
	China		United States				
70,108	65,659	50,149	34,916	30,252	33,612	2,345	206,641

(Note) Net sales are based on the location of customers and categorized by country or region.

## (2) Property, plant and equipment

Japan	Asia		Others	Total
		Thailand		
50,458	18,004	7,782	7,485	75,948

【Information on impairment loss on fixed assets by reportable segment】  
(For the year ended March 31, 2020)

	Watches	Machine tools	Devices and components	Electronic and other products	Corporate/elimination	Total
Impairment loss	15,436	—	3,153	578	103	19,272

(For the year ended March 31, 2021)

	Watches	Machine tools	Devices and components	Electronic and other products	Corporate/elimination	Total
Impairment loss	2,751	—	106	—	—	2,857

(Per share information)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Net assets per share	709.21	652.47
Net loss per share	(53.07)	(80.52)

(Note)1. Diluted earnings per share is not stated because there is no dilutive security.

(Note)2. The basis for calculation of Basic loss per share is as follows.

	For the year ended March 31, 2020	For the year ended March 31, 2021
Net loss per share		
Net loss attributable to owners of the parent (Millions of yen)	(16,667)	(25,173)
Amount not attributable to common shareholders (Millions of yen)	—	—
Net loss attributable to owners of the parent attributable to common stock (Millions of yen)	(16,667)	(25,173)
Average number of shares during the period (Thousands of shares)	314,081	312,639
Outline of latent shares not included in the calculation of diluted net income per share due to lack of dilutive effect	—————	

(Note)3. The basis for calculation of the amount of net assets per share is as follows.

	For the year ended March 31, 2020	For the year ended March 31, 2021
Total net assets (Millions of yen)	230,791	212,864
Amount deducted from total net assets (Millions of yen)	9,066	8,878
(Non-controlling interests (Millions of yen))	(9,066)	(8,878)
Net assets pertaining to common shares at end of term (Millions of yen)	221,725	203,986
Number of common shares at end of term used for calculation of net assets per share (thousands of shares)	312,639	312,638

(Note) 4. The amount of net assets per share is based on the number of shares calculated by deducting the number of treasury shares at the end of a term and the number of the Company's shares owned under the executive remuneration BIP trust at the end of the term from the total number of outstanding shares at the end of that term, and the calculation of earnings (loss) per share is based on the number of shares calculated by deducting the average number of treasury shares during a term and the average number of shares owned under the executive remuneration BIP trust during the said term from the average total number of outstanding shares during the said term.

The average number of shares owned under the executive remuneration BIP trust for the previous fiscal year was 178,494 and the number of shares at the end of the fiscal year was 376,600. The average number of shares owned under the executive remuneration BIP trust for the consolidated fiscal year under review was 375,142 and the number of shares at the end of the fiscal year was 374,652.

## ⑤ 【Consolidated Supplementary Schedules】

## 【Schedule of Corporate Bonds】

Company name	Issue	Date of issue	Balance at beginning of term (Millions of yen)	Balance at end of term (Millions of yen)	Interest rate (%)	Collateral	Maturity
Citizen Watch Co., Ltd.	3rd Unsecured Bonds	September 25, 2018	10,000	10,000	—	None	September 25, 2023
Total	—	—	10,000	10,000	—	—	—

(Note) The amounts to be redeemed over five years from the consolidated closing date are as follows.

(Millions of yen)				
Due in 1 year or less	Due after 1 year through 2 years	Due after 2 year through 3 years	Due after 3 year through 4 years	Due after 4 year through 5 years
—	—	10,000	—	—

## 【Schedule of loans】

Class	Balance as of April 1, 2020 (Millions of yen)	Balance as of March 31, 2021 (Millions of yen)	Average interest rate (%)	Repayment Date
Short-term borrowings	3,527	1,632	2.4	—
Current portion of long-term borrowings	13,700	8,016	1.1	—
Lease obligations	440	293	—	—
Long-term borrowings	27,929	55,212	0.4	2022-2039
Lease obligations	1,019	831	—	2022-2065
Other interest-bearing liabilities	—	—	—	—
Total	46,616	65,986	—	—

(Note)1. The average interest rate is calculated based on the average rate for the period.

2. The average interest rate for lease obligations is not stated because lease obligations are recorded in the consolidated balance sheets before the deduction of the amount equivalent to interest included in the total lease payments.

3. Lease obligations are included in "Other (current liabilities)" and "Other (long-term liabilities)" in the consolidated balance sheets.

4. 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.

(Millions of yen)				
Class	Due after 1 year through 2 years	Due after 2 year through 3 years	Due after 3 year through 4 years	Due after 4 year through 5 years
Long-term borrowings	3,837	1,036	10,036	15,036
Lease obligations	226	68	61	71

**English Translation**

**INDEPENDENT AUDITOR'S REPORT**

June 25, 2021

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

Nihombashi Corporation  
Chuo-Ku, Tokyo

Shigehiro Chiba  
Designated and Engagement Partner  
Certified Public Accountant

Hidekazu Takahashi  
Designated and Engagement Partner  
Certified Public Accountant

Tatsuya Orito  
Designated and Engagement Partner  
Certified Public Accountant

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, 2021, 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for

the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

**Recoverability of Deferred Tax Assets**

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
Deferred tax assets, net of deferred tax liabilities, of JPY 5,293 million was recorded on the consolidated balance sheet as of March 31, 2021. As disclosed in Note to the consolidated financial statements, total deferred tax assets was JPY 7,930 million which comprises of the gross deferred tax assets related to the future tax deductible expenses and net tax operating loss carryforward and related valuation allowances as of March 31, 2021 were JPY 36,358 million and JPY 28,427, respectively.  Assessing the recoverability of deferred tax assets is considered based on future taxable income of the consolidated Group in Japan in accordance with the Accounting Standards Board of Japan	We performed the following audit procedures to evaluate the recoverability of deferred tax assets: <ul style="list-style-type: none"><li>• Evaluated the design and tested the operating effectiveness of controls over the Company's deferred tax assets valuation process, including controls related to management's judgement of the recoverability of deferred tax assets,</li><li>• Evaluated the reasonableness of recoverable category described in ASBJ Guidance No.26 "Recoverability of Deferred Tax Assets",</li><li>• Evaluated the reasonableness of estimated future taxable income compared to the management's forecasts,</li><li>• Discussed with managements regarding assumptions, including impact of COVID-</li></ul>

<p>(ASBJ) Guidance No.26 “Recoverability of Deferred Tax Assets”.</p> <p>The estimates of future taxable income are based on the forecasts of the consolidated Group in Japan, and the projections are assessed based on assumptions arising from managements’ judgement.</p> <p>Based on the aforementioned factors above, we identified the recoverability of deferred tax assets as a key audit matter.</p>	<p>19, and read and analyzed the related information and certain publicly available information to evaluate the reasonableness of the assumptions, and</p> <ul style="list-style-type: none"> <li>Performed the retrospective analysis of management’s prior year estimated future taxable income and evaluated if the estimated future taxable income is reasonable and realizable.</li> </ul>
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**Impairment of Long-Lived Assets**

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
<p>As disclosed in Note to the consolidated financial statements, impairment loss of JPY 2,857 million was recorded on the consolidated income statement for the year ended March 31, 2021.</p> <p>The impaired assets group was evaluated based on a quoted market price or discounted future cash flows. The impairment loss was recognized since the carrying amount of the assets group was not recoverable and exceeds its fair value. The discounted future cash flows were based on the forecasts approved by managements with significant managements’ assumptions,</p>	<p>We performed the following audit procedures over the impairment loss of the long-lived assets group recorded:</p> <ul style="list-style-type: none"> <li>Assessed the reasonableness of the period utilized in the future cash flows compared to remaining economic lives of the related assets,</li> <li>Analyzed the future cash flows by comparing the managements’ business plans to quoted market condition and prior year managements’ business forecasts to actual historical financial results,</li> <li>Discussed with managements regarding assumptions, including impact of COVID-19, and evaluated them by comparing to certain publicly available information.</li> </ul>

<p>including the discount rate and uncertainty arising from COVID-19.</p> <p>Based on the aforementioned factors above, we identified the impairment of long-lived assets as a key audit matter.</p>	<ul style="list-style-type: none"> <li>Verified applied discount rate compared to publicly available information.</li> </ul>
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**Valuation of Inventories Held by the Watch Division**

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
<p>As disclosed in Note to the consolidated financial statements, inventories of JPY 52,018 was recorded on the consolidated balance sheet as of March 31, 2021 are lower valued at the cost or net realizable value.</p> <p>There are certain risks for slow-moving and obsolescence of the inventories held by the Watch Division since the change of market environment of Watch Division and the negative impact of COVID-19.</p> <p>Based on the aforementioned factors above, we identified the valuation of inventories held by the Watch Division as a key audit matter.</p>	<p>We performed the following audit procedures to evaluate valuation of inventories held by the Watch Division:</p> <ul style="list-style-type: none"> <li>Evaluated the design and tested the operating effectiveness of internal controls over the Company’s inventory valuation process,</li> <li>Inquired to the Division representative regarding the policy, including any indicator of potential slow-moving inventories and calculation of net realizable value, and evaluated the reasonableness be comparing to the market trends and the products lifecycle, and</li> <li>Tested the completeness of the slow-moving inventories report and recalculated the net realizable value.</li> </ul>

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and

for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

We also:

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

underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

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

We communicate with Audit & Supervisory Board Member and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide Audit & Supervisory Board Member and the Audit & Supervisory Board with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

#### **Notes to the Readers of Independent Auditor's Report**

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

# CITIZEN

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