



CITIZEN WATCH

Consolidated Financial Statements
for the Six Months Ended September 30, 2020

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

November 12, 2020

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: December 4, 2020

Scheduled release of fiscal 2020 Quarterly Business Report: November 13, 2020

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)****(1) Consolidated operating results**

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended September 30, 2020	88,999	(38.4%)	(8,266)	-	(6,147)	-	(21,513)	-
Six months ended September 30, 2019	144,416	(6.5%)	5,725	(47.8%)	5,890	(55.1%)	3,593	(57.1%)

Note: Comprehensive income:

Six months ended September 30, 2020: ¥ (20,924) million (-%)

Six months ended September 30, 2019: ¥ (1,393) million (-%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Six months ended September 30, 2020	(68.81)	-
Six months ended September 30, 2019	11.39	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Six months ended September 30, 2020	369,154	209,354	54.3	641.65
March 31, 2020	369,575	230,791	60.0	709.21

Reference: Shareholders' Equity:

As of September 30, 2020: ¥ 200,604 million As of March 31, 2020: ¥ 221,725 million

2. Dividends

	Dividends per share (Yen)				
	End of the three-month period	End of the six-month period	End of the nine-month period	End of the year	Full year
March 31, 2020	-	12.00	-	0.00	12.00
March 31, 2021	-	2.50			
March 31,2020(E)			-	2.50	5.00

Note : Revision of dividend forecast for quarter in review: Yes

3. Projected Consolidated Results for the Year ending March 31, 2021

(Millions of yen)

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

	Net sales	Operating profit	Ordinary profit	Net income	Earnings per share (Yen)
Full term	202,000 (27.5%)	(14,000) -	(10,000) -	(30,000) -	(95.96)

Note: Revision of consolidated forecasts for quarter in review: Yes

5. Others

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

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

		shares		shares
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	September 30, 2020	314,353,809	March 31, 2020	314,353,809
(ii) Number of treasury stock at the end of term	September 30, 2020	1,713,451	March 31, 2020	1,714,407
(iii) Average number of common stocks	September 30, 2020	312,640,082	September 30, 2019	315,514,970

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

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

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

Please refer to the attached "Qualitative data on the consolidated earnings forecasts" on page 7 for assumptions underlying the above forecasts and precautions regarding their use.

(Attached Documents)

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1. Qualitative Information on the Consolidated Financial Results for the Six Months Ended September 30, 2020

(1) Qualitative data on the consolidated financial results

During the first six months of the consolidated fiscal year under review, the Japanese economy declined significantly due to a fall in inbound demand and stagnant consumer activities because of the COVID-19 pandemic, despite signs of recovery beginning to emerge. In the United States, exports and corporate demand for capital expenditures declined sharply and consumer spending remained weak. European economies also suffered low levels of economic activity due to large-scale lockdowns. Recovery of consumer spending was slow despite high expectations for the recovery of the Chinese market that had resumed economic activities ahead of other countries, and other Asian economies also lacked momentum.

In this environment, the Citizen Group posted a decrease in sales and profit in the six months ended September 30, 2020. Net sales stood at 88.9 billion yen (down 38.4% year on year), and operating loss was 8.2 billion yen (compared with operating profit of 5.7 billion yen in the same period of the previous fiscal year). Ordinary loss was 6.1 billion yen (compared with ordinary profit of 5.8 billion yen in the same period of the previous fiscal year) and loss attributable to owners of parent was 21.5 billion yen (compared with profit attributable to owners of parent of 3.5 billion yen in the same period of the previous fiscal year) mainly due to reversing part of deferred tax assets and posting income taxes - deferred of 10.7 billion yen, as a result of carefully examining the recoverability of deferred tax assets taking into account the business outlook of the Group.

Watches

In the domestic market, sales of CITIZEN brand watches decreased significantly as the Group faced severe challenges with the sharp fall in demand for inbound tourism and consumption due to voluntary restrictions on travel despite signs of recovery observed in some areas.

In overseas markets, sales in the European market was relatively stable thanks to recovery that began after business resumption. However, sales declined in the North American market as the market remained weak and sales particularly at physical stores were sluggish and consumption was limited due to growing uncertainties. In the Asian market, sales decreased as the overall market continued to struggle despite steady progress made toward recovery in China.

In the multiple brand segment, sales of BULOVA brand watches fell significantly in the main North American market among other markets despite signs of a recovery, and sales of other brands also decreased.

Sales of movements declined sharply, reflecting a worldwide fall in consumption despite signs of recovery observed in the sales of analog quartz movements and steady sales of mechanical movements particularly in the Chinese market.

As a result, the watches segment posted a decline in sales with net sales of 38.1 billion yen (down 47.3% year on year), reflecting a substantial decrease in sales caused by the global suspension of economic activities despite accelerated efforts to strengthen e-commerce sales. Operating result deteriorated to a loss of 5.3 billion yen (compared with operating profit of 3.4 billion yen in the same period of the previous fiscal year), profoundly affected by the fall in sales, despite efforts to secure profit primarily by reducing expenses.

Machine Tools

In the domestic market, revenues decreased due to the significant contraction of demand for capital expenditures in the overall economy despite a sense of bottoming out observed in the automobile industry and other industries. In overseas markets, sales to IT and other industries in the China remained strong and orders received in Europe and the Americas began to grow gradually. However, this was insufficient to offset a year-on-year decrease and resulted in a fall in revenues.

As a result, the machine tools segment as a whole posted a decrease in sales with net sales of 20.7 billion yen (down 32.8% year on year) despite the Group's efforts to promote sales with a focus on China and emerging economies. Operating profit fell to 0.5 billion yen (down 87.0% year on year) due to the impact of lower sales.

Devices and Components

While sales of auto parts as part of precision machining components remained low due to a fall in new car sales, sales to the Europe and American markets began to recover in the second quarter, which helped reduce the

amount of fall. Sales of switches declined due to sluggish sales of those for smartphones.

In opto-devices, sales of LED chips decreased due to a fall in demand in the European and American markets as well as in the Chinese market and sluggish sales of LED for automobiles reflecting the weak market, amid the continued severe price competition in LED for lighting products.

In other products, demand for quartz devices for communication devices increased, while overall sales of other products decreased, reflecting a fall in demand associated with the impact of the COVID-19 pandemic.

As a result, net sales in the devices and components segment as a whole decreased to 21.3 billion yen (down 27.3% year on year). An operating loss was 1.0 billion yen (compared with operating profit of 0.7 billion yen in the same period of the previous fiscal year), despite the Group's efforts to increase profitability, including a review of product focus through structural reforms.

Electronic and Other Products

Among information equipment, demand for capital expenditure that includes barcode printers as well as photo printers and POS printers, which are the Group's mainstay products, continued to be weak despite signs of recovery beginning to appear as economic activities have resumed. Consequently, revenues in the overall information equipment sector decreased. Revenues from healthcare products increased mainly due to significant growth in demand for thermometers in the domestic market.

In addition, sales declined due to the Group's withdrawal from the jewelry product business.

As a result, the electronic and other products segment overall recorded decreases in sales and profits, with net sales of 8.8 billion yen (down 25.5% year on year) and an operating loss of 0.1 billion yen (compared with operating profit of 0 billion yen in the same period of the previous fiscal year).

(2) Qualitative data on the consolidated financial position

Total assets at the end of the second quarter under review stood at 369.1 billion yen, a decrease of 0.4 billion yen from the end of the previous consolidated fiscal year. Current assets increased by 11.9 billion yen, mainly due to increases of 19.5 billion yen in cash and deposits and 0.4 billion yen in inventories, despite a decrease of 3.0 billion yen in notes and accounts receivable-trade. Non-current assets decreased by 12.4 billion yen, reflecting a 9.5 billion yen decrease in deferred tax assets and 1.7 billion yen decrease in investment securities. Liabilities totaled 159.8 billion yen, an increase of 21.0 billion yen from the end of the preceding consolidated fiscal year, reflecting a 35.2 billion yen increase in long-term borrowings and a 1.7 increase in deferred tax liabilities, which was partially offset by a 4.5 billion yen decrease in notes and accounts payable-trade, a 2.4 billion yen decrease in electronically recorded obligations-operating, and a 1.3 billion yen decrease in provision for loss on reorganization.

Net assets decreased by 21.4 billion yen from the end of the previous consolidated fiscal year, to 209.3 billion yen, reflecting a 22.0 billion yen decrease in retained earnings and a 0.5 billion yen decrease in foreign currency translation adjustment, which was partially offset by a 1.3 billion yen increase in valuation difference on available-for-sale securities.

(3) Qualitative data on the consolidated earnings forecasts

The Group has been postponing the announcement of its earnings forecasts for the fiscal year ending March 31, 2021, due to the difficulties in performing rational calculations as a result of the COVID-19 pandemic. While there is no outlook that COVID-19 will be contained or subside any time soon, the Group has developed its forecasts on information available as of the date of announcement on the assumption that restrictions and other factors significantly limiting economic activities will not increase. The foreign exchange rates in the third quarter of the fiscal year under review and thereafter are assumed to be 105 yen against the U.S. dollar and 125 yen against the euro.

Revision to the consolidated full-year earnings forecasts for the fiscal year ending March 31, 2021

(April 1, 2020 to March 31, 2021)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share
Forecasts announced before (A)	million yen -	million yen -	million yen -	million yen -	yen -
Revised forecasts (B)	202,000	(14,000)	(10,000)	(30,000)	(95.96)
Change (B-A)	-	-	-	-	-
Rate of change (%)	-	-	-	-	-
(Reference) Results for the previous fiscal year (Fiscal year ended March 31, 2020)	278,531	6,136	7,531	(16,667)	(53.07)

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

(Millions of yen)

As of March 31, 2020 As of September 30, 2020

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	80,168	99,676
Notes and accounts receivable - trade	43,254	40,213
Electronically recorded monetary claims - operating	1,395	1,351
Merchandise and finished goods	58,708	61,733
Work in process	20,563	19,630
Raw materials and supplies	21,920	20,245
Consumption taxes receivable	2,586	1,253
Other	8,090	4,578
Allowance for doubtful accounts	(1,033)	(1,044)
Total current assets	235,655	247,638
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,222	39,995
Machinery, equipment and vehicles, net	17,014	16,721
Tools, furniture and fixtures, net	6,162	4,937
Land	10,164	10,553
Leased assets, net	1,264	1,128
Construction in progress	3,704	3,931
Total property, plant and equipment	78,532	77,266
Intangible assets		
Software	3,830	3,781
Leased assets	11	20
Other	710	1,068
Total intangible assets	4,552	4,870
Investments and other assets		
Investment securities	33,449	31,724
Long-term loans receivable	408	552
Deferred tax assets	14,604	5,023
Other	2,657	2,448
Allowance for doubtful accounts	(239)	(324)
Allowance for investment loss	(46)	(46)
Total investments and other assets	50,833	39,378
Total non-current assets	133,919	121,515
Total assets	369,575	369,154

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(Millions of yen)

As of March 31, 2020 As of September 30, 2020

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,485	11,895
Electronically recorded obligations - operating	9,223	6,814
Notes payable - facilities	508	160
Electronically recorded obligations - non-operating	784	463
Short-term borrowings	17,227	16,054
Income taxes payable	1,551	918
Accrued expenses	8,160	8,789
Provision for bonuses	4,855	4,761
Provision for bonuses for directors (and other officers)	170	—
Provision for product warranties	1,133	1,162
Provision for environmental measures	87	1
Provision for loss on reorganization	1,840	444
Other	9,242	4,863
Total current liabilities	71,271	56,327
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	27,929	63,215
Deferred tax liabilities	585	2,326
Provision for loss on reorganization	829	829
Retirement benefit liability	24,038	23,384
Asset retirement obligations	66	66
Other	4,061	3,649
Total non-current liabilities	67,511	103,472
Total liabilities	138,783	159,800
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,730	33,741
Retained earnings	154,855	132,835
Treasury shares	(1,069)	(1,068)
Total shareholders' equity	220,165	198,157
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,578	4,931
Foreign currency translation adjustment	(1,095)	(1,623)
Remeasurements of defined benefit plans	(921)	(860)
Total accumulated other comprehensive income	1,560	2,447
Non-controlling interests	9,066	8,749
Total net assets	230,791	209,354
Total liabilities and net assets	369,575	369,154

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

Consolidated Statement of Income for the Six months ended September 30, 2020

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	144,416	88,999
Cost of sales	90,040	62,578
Gross profit	54,375	26,420
Selling, general and administrative expenses	48,649	34,687
Operating profit (loss)	5,725	(8,266)
Non-operating income		
Interest income	253	136
Dividend income	466	449
Share of profit of entities accounted for using equity method	498	106
Subsidy income	117	1,962
Other	207	164
Total non-operating income	1,543	2,819
Non-operating expenses		
Interest expenses	223	195
Foreign exchange losses	979	22
Commission for syndicated loans	—	189
Other	175	292
Total non-operating expenses	1,378	700
Ordinary profit (loss)	5,890	(6,147)
Extraordinary income		
Gain on sales of non-current assets	42	657
Other	6	32
Total extraordinary income	48	689
Extraordinary losses		
Loss on retirement of non-current assets	188	34
Loss on sales of non-current assets	6	14
Reorganization cost	341	93
Loss on valuation of investment securities	0	1,934
Extra retirement payments	—	335
Loss on COVID-19	—	2,280
Other	179	158
Total extraordinary losses	717	4,850
Profit (loss) before income taxes	5,221	(10,308)
Income taxes	1,506	11,477
Profit (loss)	3,715	(21,786)
Profit (loss) attributable to non-controlling interests	121	(272)
Profit (loss) attributable to owners of parent	3,593	(21,513)

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Consolidated Statement of Comprehensive Income for the Six months ended September 30, 2020

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit (loss)	3,715	(21,786)
Other comprehensive income		
Valuation difference on available-for-sale securities	(729)	1,353
Foreign currency translation adjustment	(4,343)	(442)
Remeasurements of defined benefit plans, net of tax	54	60
Share of other comprehensive income of entities accounted for using equity method	(90)	(110)
Total other comprehensive income	(5,109)	861
Comprehensive income	(1,393)	(20,924)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,386)	(20,627)
Comprehensive income attributable to non-controlling interests	(7)	(297)

(3) Consolidated Statement of Cash Flow

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	5,221	(10,308)
Depreciation	7,322	5,773
Increase (decrease) in provisions	(681)	(1,637)
Increase (decrease) in retirement benefit liability	370	(615)
Interest and dividend income	(719)	(585)
Interest expenses	223	195
Subsidy income	(117)	(1,962)
Loss (gain) on sales of investment securities	—	(5)
Loss (gain) on valuation of investment securities	0	1,934
Loss (gain) on sales of non-current assets	(36)	(643)
Loss on retirement of non-current assets	188	34
Decrease (increase) in trade receivables	6,248	3,321
Decrease (increase) in inventories	(9,506)	(253)
Increase (decrease) in trade payables	(1,849)	(7,383)
Other, net	1,440	1,046
Subtotal	8,107	(11,091)
Interest and dividends received	715	583
Interest paid	(218)	(169)
Income taxes (paid) refund	(4,165)	834
Proceeds from subsidy income	117	1,962
Net cash provided by (used in) operating activities	4,556	(7,880)
Cash flows from investing activities		
Purchase of investment securities	(1,970)	(0)
Proceeds from sales of investment securities	—	16
Purchase of property, plant and equipment	(10,681)	(6,105)
Proceeds from sales of property, plant and equipment	568	1,209
Purchase of intangible assets	(668)	(1,379)
Loan advances	(1)	(146)
Collection of loans receivable	1	2
Other, net	(703)	(27)
Net cash provided by (used in) investing activities	(13,455)	(6,431)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,849	(1,095)
Proceeds from long-term borrowings	268	35,178
Repayments of long-term borrowings	(704)	(20)
Dividends paid	(3,183)	—
Dividends paid to non-controlling interests	(149)	(7)
Purchase of treasury shares	(3,000)	(0)
Proceeds from sales of treasury shares	—	1
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(557)	(0)
Other, net	(180)	(658)
Net cash provided by (used in) financing activities	(5,657)	33,396
Effect of exchange rate change on cash and cash equivalents	(1,910)	2
Net increase (decrease) in cash and cash equivalents	(16,467)	19,086
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	68,610	97,605

(4) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Not applicable

(Additional Information)

(Application 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)

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.

(Accounting estimate of the impact of the COVID-19 coronavirus)

COVID-19 continued to affect the Group's business in the six months of the fiscal year under review, and, based on information available as of the last day of the second quarter of the fiscal year under review, the Group re-examined the recoverability of deferred tax assets on the assumption that the impact of COVID-19 will remain for a certain period of time during the fiscal year ending March 31, 2021.

As a result, the Group posted income taxes - deferred of 10,757 million yen due primarily to reversal of a part of deferred tax assets.

The amount of income taxes - deferred is included in income taxes in the consolidated statement of income.

(Segment information)

(i) Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	72,372	30,870	29,358	11,814	144,416	-	144,416
Inter-segment	51	434	950	455	1,891	(1,891)	-
Total	72,423	31,304	30,309	12,270	146,308	(1,891)	144,416
Segment profit or loss	3,446	4,566	750	65	8,827	(3,102)	5,725

(Notes)

1. The 3,102 million yen negative adjustment to segment income (Operating profit) includes 59 million yen in inter-segment eliminations and 3,042 million yen in corporate expenses that could not be allocated to a particular segment.

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

(ii) Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	38,114	20,739	21,337	8,807	88,999	-	88,999
Inter-segment	29	116	474	326	947	(947)	-
Total	38,143	20,855	21,811	9,134	89,946	(947)	88,999
Segment profit or loss	(5,387)	591	(1,092)	(184)	(6,072)	(2,194)	(8,266)

(Notes)

1. The 2,194 million yen negative adjustment to segment income (Operating profit) includes 61 million yen in inter-segment eliminations and 2,255 million yen in corporate expenses that could not be allocated to a particular segment.

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

(iii) Matters concerning the change of reportable segments, etc.

Associated with the review of business management categories, the Group has integrated the "Electronic products" segment and the "Other products" segment in the past and changed their names to the "Electronic and other products" segment in the first quarter under review.

Segment information in the first quarter of the previous consolidated fiscal year is disclosed by preparing it based on the categories of reportable segments in the first quarter of the current consolidated fiscal year.