



CITIZEN WATCH

Consolidated Financial Statements**for the Nine Months Ended December 31, 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)

February 10, 2021

CITIZEN WATCH CO., LTD.

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Scheduled release of fiscal 2020 Quarterly Business Report: February 12, 2021

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Nine months ended December 31, 2020 (April 1, 2020 to December 31, 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	
Nine months ended December 31, 2020	151,129	(32.8%)	(6,075)	-	(2,650)	-	(21,915)	-
Nine months ended December 31, 2019	224,943	(9.2%)	11,223	(45.9%)	12,417	(46.6%)	7,022	(51.2%)

Note: Comprehensive income:

Nine months ended December 31, 2020: ¥ (20,746) million (-%)

Nine months ended December 31, 2019: ¥ 6,564 million (-46.5%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Nine months ended December 31, 2020	(70.10)	-
Nine months ended December 31, 2019	22.33	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Nine months ended December 31, 2020	371,543	208,752	53.8%	639.77
March 31, 2020	369,575	230,791	60.0%	709.21

Reference: Shareholders' Equity:

As of December 31, 2020: ¥ 200,016 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: None

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	204,000 (26.8%)	(10,500) -	(6,500) -	(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)	December 31, 2020	314,353,809	March 31, 2020	314,353,809
(ii) Number of treasury stock at the end of term	December 31, 2020	1,714,057	March 31, 2020	1,714,407
(iii) Average number of common stocks	December 31, 2020	312,640,086	December 31, 2019	314,556,892

** 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 6 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 Nine Months Ended December 31, 2020

(1) Qualitative data on the consolidated financial results

During the nine months ended December 31, 2020, the Japanese economy faced harsh conditions given a fall in inbound demand and continuously stagnant consumer activities because of the COVID-19 pandemic, despite signs of recovery beginning to emerge. In the United States, the economy recovered moderately, with a resurgence in new COVID-19 cases becoming a burden on the economic recovery. European economies also suffered low levels of economic activity due to a severe limitation on activities re-imposed in many countries. While consumer spending was gradually recovering in the Chinese market, other Asian economies lacked momentum.

In this environment, the Citizen Group posted a decrease in sales and profit in the nine months ended December 31, 2020. Net sales stood at 151.1 billion yen (down 32.8% year on year), and the operating loss was 6.0 billion yen (compared with operating profit of 11.2 billion yen in the same period of the previous fiscal year). The ordinary loss was 2.6 billion yen (compared with ordinary profit of 12.4 billion yen in the same period of the previous fiscal year) and the loss attributable to owners of parent was 21.9 billion yen (compared with profit attributable to owners of parent of 7.0 billion yen in the same period of the previous fiscal year) mainly due to the posting of extraordinary losses associated with offering voluntary retirement and the reversal of part of deferred tax assets to post income taxes - deferred.

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 decline in consumer confidence due to voluntary restrictions on travel, despite signs of a recovery observed in suburban stores and e-commerce sales.

In overseas markets, sales in the European market remained relatively stable, despite the impact of prolonged lockdowns. However, sales declined in the North American market due to growing uncertainties surrounding the future outlook given stronger restrictions on sales activities, in addition to sluggish sales particularly at physical stores, although online distribution, among other areas, began showing signs of a recovery toward the holiday selling season. 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, overall sales centering on the North American market declined, and sales of other brands also decreased, although the e-commerce sales of Bulova brand watches remained firm.

While sales of movements declined, reflecting a worldwide fall in consumption, demand for analog quartz movements continued increasing, in addition to steady demand for mechanical movements, particularly in the Chinese market.

As a result, the watches segment posted a decline in sales with net sales of 71.7 billion yen (down 39.4% 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 also deteriorated to a loss of 3.8 billion yen (compared with operating profit of 8.2 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 sluggish demand for capital expenditures in the first half, despite a sense of bottoming out observed in orders received from the automobile industry and other industries. In overseas markets, sales to IT and other industries in China continued to remain strong and orders received in Europe and the Americas were on the upturn in expectation of market recovery. 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 32.5 billion yen (down 28.1% year on year) despite the Group's enhancement of new efforts to receive orders, including the holding of online exhibitions, amid orders following the recovery trend. Operating profit also fell to 1.4 billion yen (down 76.2% year on year) due to the impact of lower sales.

Devices and Components

While sales of auto parts as part of precision machining components were close to results in the same period of the previous fiscal year due to gradual growth in sales associated with the recovery of new car sales. 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, amid the continued severe price competition in LED for lighting products, despite the recovering market for LED for automobiles.

In other products, demand for quartz devices for communication devices increased, but 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 33.2 billion yen (down 24.3% year on year). An operating loss was 0.7 billion yen (compared with operating profit of 1.2 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 photo printers and POS printers, which are the Group's mainstay products, continued to be weak despite signs of a recovery beginning to appear in barcode printers and others 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 a decrease in sales and an increase in profits, with net sales of 13.5 billion yen (down 22.1% year on year) and operating profit of 0.1 billion yen (up 993.9% year on year).

(2) Qualitative data on the consolidated financial position

As of the end of the third quarter under review, total assets increased by 1.9 billion yen from the end of the previous fiscal year, to 371.5 billion yen. Current assets increased by 17.4 billion yen, mainly due to increases of 26.8 billion yen in cash and deposits and 4.2 billion yen in notes and accounts receivable-trade, despite a decrease of 9.4 billion yen in inventories. Non-current assets decreased by 15.5 billion yen, reflecting a 10.4 billion yen decrease in deferred tax assets and a 3.3 billion yen decrease in investment securities.

Liabilities totaled 162.7 billion yen, an increase of 24.0 billion yen from the end of the preceding consolidated fiscal year, reflecting a 34.2 billion yen increase in long-term borrowings and a 1.6 billion yen increase in accrued expenses, which was partially offset by a 3.6 billion yen decrease in notes and accounts payable-trade, a 2.7 billion yen decrease in electronically recorded obligations-operating, and a 2.2 billion yen decrease in provision for bonuses.

Net assets decreased by 22.0 billion yen from the end of the previous consolidated fiscal year, to 208.7 billion yen, reflecting a 23.2 billion yen decrease in retained earnings, which was partially offset by a 1.5 billion yen increase in valuation difference on available-for-sale securities.

(3) Qualitative data on the consolidated earnings forecasts

The Group has revised its previously announced consolidated earnings forecasts for the fiscal year ending March 31, 2021 upward because the results in the mainstay Watches and Machine Tools segments were better than expected, taking into consideration the financial results for the nine months under review, although there is still no prediction that COVID-19 will be contained or will subside any time soon.

The foreign exchange rates in the fourth 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. For further details, refer to "Notice of Revision to Consolidated Operating Results Forecasts" announced today (February 10, 2021).

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

(Millions of yen)

As of March 31, 2020 As of December 31, 2020

Assets		
Current assets		
Cash and deposits	80,168	106,975
Notes and accounts receivable - trade	43,254	47,475
Electronically recorded monetary claims - operating	1,395	1,325
Merchandise and finished goods	58,708	54,744
Work in process	20,563	18,971
Raw materials and supplies	21,920	18,019
Consumption taxes receivable	2,586	1,345
Other	8,090	5,282
Allowance for doubtful accounts	(1,033)	(1,012)
Total current assets	235,655	253,128
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,222	40,173
Machinery, equipment and vehicles, net	17,014	16,938
Tools, furniture and fixtures, net	6,162	4,703
Land	10,164	10,601
Leased assets, net	1,264	1,022
Construction in progress	3,704	3,173
Total property, plant and equipment	78,532	76,613
Intangible assets		
Software	3,830	3,885
Leased assets	11	2
Other	710	1,047
Total intangible assets	4,552	4,935
Investments and other assets		
Investment securities	33,449	30,104
Long-term loans receivable	408	549
Deferred tax assets	14,604	4,175
Other	2,657	2,375
Allowance for doubtful accounts	(239)	(291)
Allowance for investment loss	(46)	(46)
Total investments and other assets	50,833	36,867
Total non-current assets	133,919	118,415
Total assets	369,575	371,543

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(Millions of yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,485	12,853
Electronically recorded obligations - operating	9,223	6,503
Notes payable - facilities	508	101
Electronically recorded obligations - non-operating	784	629
Short-term borrowings	17,227	16,555
Income taxes payable	1,551	740
Accrued expenses	8,160	9,829
Provision for bonuses	4,855	2,587
Provision for bonuses for directors (and other officers)	170	—
Provision for product warranties	1,133	1,029
Provision for environmental measures	87	1
Provision for loss on reorganization	1,840	340
Other	9,242	11,124
Total current liabilities	71,271	62,295
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	27,929	62,218
Deferred tax liabilities	585	1,922
Provision for loss on reorganization	829	602
Retirement benefit liability	24,038	22,294
Asset retirement obligations	66	75
Other	4,061	3,381
Total non-current liabilities	67,511	100,495
Total liabilities	138,783	162,791
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,730	33,741
Retained earnings	154,855	131,651
Treasury shares	(1,069)	(1,068)
Total shareholders' equity	220,165	196,972
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,578	5,081
Foreign currency translation adjustment	(1,095)	(1,215)
Remeasurements of defined benefit plans	(921)	(821)
Total accumulated other comprehensive income	1,560	3,044
Non-controlling interests	9,066	8,735
Total net assets	230,791	208,752
Total liabilities and net assets	369,575	371,543

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

Consolidated Statement of Income for the Nine months ended December 31, 2020

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net sales	224,943	151,129
Cost of sales	139,814	102,140
Gross profit	85,128	48,989
Selling, general and administrative expenses	73,905	55,065
Operating profit (loss)	11,223	(6,075)
Non-operating income		
Interest income	385	206
Dividend income	791	673
Share of profit of entities accounted for using equity method	685	288
Subsidy income	138	2,822
Foreign exchange gains	—	12
Other	404	322
Total non-operating income	2,405	4,325
Non-operating expenses		
Interest expenses	321	317
Foreign exchange losses	581	—
Commission for syndicated loans	—	189
Other	309	393
Total non-operating expenses	1,211	900
Ordinary profit (loss)	12,417	(2,650)
Extraordinary income		
Gain on sales of investment securities	429	1,313
Gain on sales of non-current assets	67	705
Other	3	396
Total extraordinary income	500	2,415
Extraordinary losses		
Loss on retirement of non-current assets	216	75
Loss on sales of non-current assets	32	14
Impairment loss	107	73
Reorganization cost	506	117
Loss on valuation of investment securities	0	2,206
Extra retirement payments	1,102	4,184
Loss on COVID-19	—	2,604
Other	174	217
Total extraordinary losses	2,140	9,494
Profit (loss) before income taxes	10,777	(9,729)
Income taxes	3,506	12,458
Profit (loss)	7,270	(22,187)
Profit (loss) attributable to non-controlling interests	248	(272)
Profit (loss) attributable to owners of parent	7,022	(21,915)

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Consolidated Statement of Comprehensive Income for the Nine months ended December 31, 2020

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit (loss)	7,270	(22,187)
Other comprehensive income		
Valuation difference on available-for-sale securities	290	1,503
Foreign currency translation adjustment	(836)	27
Remeasurements of defined benefit plans, net of tax	(122)	99
Share of other comprehensive income of entities accounted for using equity method	(37)	(188)
Total other comprehensive income	(706)	1,441
Comprehensive income	6,564	(20,746)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,358	(20,431)
Comprehensive income attributable to non-controlling interests	206	(314)

(3) 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. Accounting estimates and assumptions remain unchanged for the nine months under review. The amount of income taxes - deferred is included in income taxes in the consolidated statement of income.

(Segment information)

(i) Nine months ended December 31, 2019 (April 1, 2019 to December 31, 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	118,345	45,187	43,952	17,457	224,943	-	224,943
Inter-segment	77	454	1,382	674	2,588	(2,588)	-
Total	118,422	45,641	45,334	18,132	227,531	(2,588)	224,943
Segment profit or loss	8,292	6,225	1,285	13	15,817	(4,593)	11,223

(Notes)

1. The 4,593 million yen negative adjustment to segment profit (operating profit) includes -100 million yen in inter-segment eliminations and -4,493 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits are adjusted with operating profit in the consolidated statement of income.

(ii) Nine months ended December 31, 2020 (April 1, 2019 to December 31, 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	71,756	32,508	33,272	13,591	151,129	-	151,129
Inter-segment	49	144	686	483	1,364	(1,364)	-
Total	71,806	32,652	33,958	14,075	152,494	(1,364)	151,129
Segment profit or loss	(3,830)	1,483	(757)	150	(2,954)	(3,121)	(6,075)

(Notes)

1. The 3,121 million yen negative adjustment to segment income (Operating profit) includes 83 million yen in inter-segment eliminations and -3,205 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.