



CITIZEN WATCH

Consolidated Financial Statements
for the Six Months Ended September 30, 2023

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 13, 2023

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: December 5, 2023

Scheduled release of fiscal 2022 Quarterly Business Report: November 13, 2023

Listings: Prime section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Six Months Ended September 30, 2023 (April 1, 2023 to September 30, 2023)****(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, 2023	152,924	3.5%	13,542	9.6%	17,417	3.7%	13,388	5.9%
Six Months Ended September 30, 2022	147,695	8.8%	12,354	15.6%	16,801	39.1%	12,645	28.1%

Note: Comprehensive income:

Six Months Ended September 30, 2023: ¥ 29,606 million 5.0%

Six Months Ended September 30, 2022: ¥ 28,208 million 155.2%

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Six Months Ended September 30, 2023	54.26	-
Six Months Ended September 30, 2022	43.15	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Six Months Ended September 30, 2023	411,248	245,057	57.5%	969.53
March 31, 2023	389,982	232,775	57.5%	866.68

Reference: Shareholders' Equity:

Six Months Ended September 30, 2023: ¥ 236,393 million As of March 31, 2023: ¥ 224,179 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, 2023	-	15.00	-	15.00	30.00
March 31, 2024		20.00			
March 31, 2024(E)			-	20.00	40.00

Note: Revision of dividend forecast for quarter in review: None

3. Projected Consolidated Results for the Year ending March 31, 2024

(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	310,000	2.9%	25,000	5.4%	28,500	(2.1%)	21,000	(3.8%)	81.19

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

4. 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)

	September 30, 2023		March 31, 2023	
	shares		shares	
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	September 30, 2023	246,000,000	March 31, 2023	294,000,000
(ii) Number of treasury stock at the end of term	September 30, 2023	2,176,552	March 31, 2023	35,334,190
(iii) Average number of common stocks	September 30, 2023	246,725,146	September 30, 2022	293,078,645

** 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)

○INDEX

1. QUALITATIVE INFORMATION ON THE CONSOLIDATED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2023	5
(1) Qualitative data on the consolidated financial results.....	5
(2) Qualitative data on the consolidated financial position.....	6
(3) Qualitative data on the consolidated earnings forecasts.....	7
2. CONSOLIDATED FINANCIAL STATEMENTS AND PRIMARY NOTES	8
(1) Consolidated Balance Sheet.....	8
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Income for the Six Months Ended September 30, 2023	10
Consolidated Statement of Comprehensive Income for the Six Months Ended September 30, 2023	11
(3) Consolidated Statement of Cash Flow	12
(4) Notes on the Consolidated Financial Statements.....	13
(Notes related to of going concern assumptions)	13
(Notes regarding significant changes in shareholders' equity accounts)	13
(Segment information)	14

1. Qualitative Information on the Consolidated Financial Results for the Six Months Ended September 30, 2023

(1) Qualitative data on the consolidated financial results

During the first six months under review, the Japanese economy continued to experience a moderate recovery in consumer spending, reflecting the normalization of economic activity. In North America and Europe, consumer spending remained firm due partly to increases in wages and employment, despite growing concern over an economic recession linked to inflation and rising interest rates. The Chinese economy experienced a sluggish recovery following the resumption of normal economic activity. Meanwhile, recoveries in other Asian regions were only moderate due to the lack of momentum in exports and weak demand for capital spending.

In this environment, the Citizen Group's consolidated results for the first six months of the fiscal year under review showed increases in sales and profits, with net sales of 152.9 billion yen (up 3.5% year on year) and operating profit of 13.5 billion yen (up 9.6% year on year). These results were driven mainly by strong performance in Watches. Ordinary profit and profit attributable to owners of parents also increased to 17.4 billion yen (up 3.7% year on year) and 13.3 billion yen (up 5.9% year on year), respectively.

Watches

In the domestic market, sales of Citizen brand watches increased, reflecting the firm performance of core brands such as Attesa and Promaster and the recovery of inbound tourism-related demand, despite a decline in consumer confidence linked to price increases.

Looking at overseas markets, the North American market showed signs of weakness in sales for distribution such as jewelry chain stores and department stores amid growing uncertainty about the future because the rate of price increases still remained high. Even so, sales increased, chiefly reflecting the strong performance of online sales. The European market suffered significant price increases. Despite this, sales climbed due to the strong performance recorded mainly in the UK and Italy, as well as good progress made in the acquisition of new customers in France. In the Asian market, sales increased, reflecting a continued upward trend in business in Taiwan and Singapore attributable to a recovery in the flow of people, as well as a gradual recovery in China although this recovery was still limited.

Sales of Bulova brand watches rose. This was attributable to, in the mainstay North American market, the cultivation of new sales channels including sales for tourism-related distribution, offsetting weak sales for main distribution channels such as jewelry chain stores.

Sales of movements were at the level of the previous year. Sales of mechanical movements were solid, but sales of analog quartz movements were slow due to concerns about a recession in the North American and European markets.

As a result, notwithstanding concerns about a decline in consumer confidence linked to the long-term price increases occurring globally, thanks to the progress made in initiatives for the enhancement of sales of global brands, premium brands and mechanical watches, the watches segment as a whole posted an increase in sales, with net sales of 78.5 billion yen (up 7.0% year on year). Operating profit increased 15.9% year on year, to 10.2 billion yen, mainly reflecting the contribution of increased net sales and the ongoing efforts to improve profitability.

Machine Tools

Sales increased in the domestic market due to firm sales in the construction machinery and medical equipment industries, among other industries, although shipments of automobile-related products were sluggish as a generally cautious stance on capital expenditures took hold. Sales in overseas markets were at the same level as the previous fiscal year. While sales fell in the Chinese market and other Asian markets as the markets remained sluggish, sales related to medical equipment in particular continued to perform well in Europe and the Americas.

As a result, the machine tools segment as a whole posted an increase in sales, with net sales of 41.4 billion yen (up 1.3% year on year). Operating profit fell to 5.2 billion yen (down 5.5% year on year) chiefly due to sharp rises in materials prices.

Devices and Components

In precision components, sales of automotive parts increased with the easing of shortages of parts supplies that had been caused by semiconductor shortages, together with a recovery in production at car manufacturers. Sales of small motors rose, reflecting market recoveries in a broad range of areas including medical products. However, sales of crystal devices decreased, reflecting sluggish demand growth in demand in the personal computer and IoT markets. As a result, sales in precision components as a whole were at the same level as the previous fiscal year.

In opto-devices, sales of chip LEDs decreased, reflecting a decline in sales of LEDs for lighting due to the delay in the recovery of demand for in-vehicle LEDs and slowdowns in the Chinese market and other Asian markets, which offset solid sales of chip LEDs for game consoles.

As a result, net sales in the devices and components segment as a whole decreased to 22.1 billion yen (down 3.2% year on year), but operating profit increased to 0.4 billion yen (up 1,708.2% year on year) due to a reduction in fixed cost.

Electronic and Other Products

In information equipment, the recovery of demand was weak due to the deterioration of the market environment outlook, resulting in the sluggish growth of POS printers and bar code printers. Even so, sales increased, reflecting strong sales of photo printers due to the growth of demand for events. Sales of healthcare products decreased, mainly reflecting a decline in demand for thermometers as a result of the reduced impact of COVID-19 and the reduced number of blood pressure monitors sold which is linked to price increases.

As a result, the electronic and other products segment overall recorded an increase in sales and a decrease in profit, with net sales of 10.7 billion yen (up 3.0% year on year) and operating profit of 0.6 billion yen (down 9.3% year on year), chiefly reflecting a decrease in profit from healthcare products.

(2) Qualitative data on the consolidated financial position

Total assets at the end of the first six months under review stood at 411.2 billion yen, an increase of 21.2 billion yen from the end of the previous consolidated fiscal year. Current assets increased 13.7 billion yen, mainly reflecting a 14.3 billion yen increase in inventories and a 6.8 billion yen increase in notes and accounts receivable – trade, offsetting a 3.5 billion yen decrease in cash and deposits. Non-current assets increased 7.5 billion yen, attributable chiefly to a 2.2 billion yen increase in machinery, equipment and vehicles and a 2.1 billion yen increase in leased assets.

Liabilities totaled 166.1 billion yen, an increase of 8.9 billion yen from the end of the previous consolidated fiscal year, chiefly reflecting a 2.6 billion yen increase in accrued expenses and a 2.0 billion yen increase in income taxes payable, which was partially offset by a 0.9 billion yen decrease in short-term borrowings.

Net assets increased 12.2 billion yen from the end of the previous consolidated fiscal year. This result chiefly reflected a decrease of 3.8 billion yen in shareholders' equity due to the purchase of treasury shares and payment of dividends amounting to 12.3 billion yen and 4.9 billion yen, respectively, and an increase of 13.3 billion yen in the foreign currency translation adjustment, as well as the posting of profit attributable to owners of parent.

Both retained earnings and treasury shares decreased due to the cancellation of treasury shares amounting to 39.1 billion yen.

(3) Qualitative data on the consolidated earnings forecasts

Economic conditions are expected to be on a moderate recovery trend. However, the outlook remains uncertain, chiefly due to monetary tightening to curb inflation and heightened geopolitical risks.

In the Company, the performance of the mainstay watches segment was stronger than expected, mainly in the European market, and sales of CITIZEN brand watches remained strong. In the machine tools segment, orders received are still in an adjustment phase. The devices and components segment is struggling due to a delayed recovery in the Chinese market.

Taking the above factors into account, the Company has revised its forecasts for full-year overall financial results and those for full-year financial results by business segment as follows.

The foreign exchange rates in the third quarter of the fiscal year under review and thereafter are assumed to be 145 yen against the U.S. dollar and 155 yen against the euro.

Revision of consolidated earnings forecast for the fiscal year ending March 31, 2024
(from April 1, 2023 to March 31, 2024)

Unit: Millions of yen

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Earnings per share
Forecast previously announced (May 12, 2023)	310,000	25,000	26,000	20,000	Yen 77.32
(November 13, 2023)	310,000	25,000	28,500	21,000	81.19

Revision of full-year segment forecasts for the fiscal year ending March 31, 2024
(from April 1, 2023 to March 31, 2024)

Unit: Millions of yen

	Watches	Machine Tools	Devices and components	Electronic and other products	Eliminations or general corporate	Totals
Net sales Forecast previously announced (May 12, 2023)	155,000	87,000	47,500	20,500	-	310,000
Net sales (November 13, 2023)	166,000	79,000	42,000	23,000	-	310,000
Operating profit Forecast previously announced (May 12, 2023)	17,000	12,500	700	800	(6,000)	25,000
Operating profit (November 13, 2023)	19,700	9,200	200	1,900	(6,000)	25,000

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

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	82,490	78,981
Notes and accounts receivable - trade	53,718	58,930
Electronically recorded monetary claims - operating	2,081	2,401
Merchandise and finished goods	58,604	68,239
Work in process	24,291	28,422
Raw materials and supplies	25,595	26,168
Consumption taxes refund receivable	3,052	2,328
Other	10,907	9,173
Allowance for doubtful accounts	(1,099)	(1,250)
Total current assets	<u>259,642</u>	<u>273,395</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,808	42,625
Machinery, equipment and vehicles, net	15,868	18,150
Tools, furniture and fixtures, net	3,899	4,373
Land	10,367	10,474
Leased assets, net	5,134	7,261
Construction in progress	2,443	2,353
Total property, plant and equipment	<u>79,521</u>	<u>85,238</u>
Intangible assets		
Software	3,951	4,239
Other	799	856
Total intangible assets	<u>4,751</u>	<u>5,095</u>
Investments and other assets		
Investment securities	39,021	40,599
Long-term loans receivable	163	180
Deferred tax assets	5,581	5,240
Other	1,675	1,758
Allowance for doubtful accounts	(236)	(260)
Allowance for investment loss	(138)	—
Total investments and other assets	<u>46,066</u>	<u>47,518</u>
Total non-current assets	<u>130,340</u>	<u>137,853</u>
Total assets	<u>389,982</u>	<u>411,248</u>

CITIZEN WATCH

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,889	19,938
Electronically recorded obligations - operating	13,325	13,743
Notes payable - facilities	18	99
Electronically recorded obligations - non-operating	384	993
Short-term borrowings	3,787	2,798
Current portion of bonds payable	10,000	—
Income taxes payable	2,179	4,241
Accrued expenses	10,997	13,667
Provision for bonuses	6,156	6,144
Provision for bonuses for directors (and other officers)	303	—
Provision for product warranties	1,244	1,327
Provision for loss on reorganization	110	111
Other	11,918	10,808
Total current liabilities	79,317	73,873
Non-current liabilities		
Bonds payable	—	10,000
Long-term borrowings	51,328	52,351
Deferred tax liabilities	3,628	4,938
Provision for loss on reorganization	6	6
Retirement benefit liability	16,572	16,942
Lease liabilities	4,679	6,756
Other	1,673	1,321
Total non-current liabilities	77,889	92,317
Total liabilities	157,206	166,191
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,740	33,740
Retained earnings	150,483	119,781
Treasury shares	(28,581)	(1,696)
Total shareholders' equity	188,290	184,474
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,161	12,788
Foreign currency translation adjustment	25,659	39,019
Remeasurements of defined benefit plans	67	110
Total accumulated other comprehensive income	35,888	51,918
Non-controlling interests	8,596	8,664
Total net assets	232,775	245,057
Total liabilities and net assets	389,982	411,248

CITIZEN WATCH

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

Consolidated Statement of Income for the Six Months Ended September 30, 2023

	(Millions of yen)	
	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	147,695	152,924
Cost of sales	88,486	88,338
Gross profit	59,208	64,585
Selling, general and administrative expenses	46,854	51,042
Operating profit	12,354	13,542
Non-operating income		
Interest income	284	590
Dividend income	501	523
Share of profit of entities accounted for using equity method	584	750
Subsidy income	131	10
Foreign exchange gains	3,084	2,838
Other	280	170
Total non-operating income	4,864	4,883
Non-operating expenses		
Interest expenses	146	177
Commission for purchase of treasury shares	79	586
Bond issuance costs	—	53
Other	191	190
Total non-operating expenses	417	1,008
Ordinary profit	16,801	17,417
Extraordinary income		
Gain on sale of non-current assets	1,743	31
Gain on sale of investment securities	—	554
Other	238	6
Total extraordinary income	1,982	592
Extraordinary losses		
Loss on retirement of non-current assets	305	234
Loss on sale of non-current assets	11	21
Impairment losses	670	2
Reorganization cost	20	5
Loss on valuation of investment securities	—	14
Other	22	11
Total extraordinary losses	1,031	288
Profit before income taxes	17,752	17,721
Income taxes	5,261	4,381
Profit	12,490	13,339
Loss attributable to non-controlling interests	(155)	(48)
Profit attributable to owners of parent	12,645	13,388

CITIZEN WATCH

Consolidated Statement of Comprehensive Income for the Six Months Ended September 30, 2023

	(Millions of yen)	
	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	12,490	13,339
Other comprehensive income		
Valuation difference on available-for-sale securities	(669)	2,627
Foreign currency translation adjustment	15,531	12,899
Remeasurements of defined benefit plans, net of tax	(18)	42
Share of other comprehensive income of entities accounted for using equity method	874	697
Total other comprehensive income	<u>15,717</u>	<u>16,266</u>
Comprehensive income	<u>28,208</u>	<u>29,606</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	28,001	29,418
Comprehensive income attributable to non-controlling interests	207	188

CITIZEN WATCH

(3) Consolidated Statement of Cash Flow

	(Millions of yen)	
	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	17,752	17,721
Depreciation	5,647	5,867
Increase (decrease) in provisions	(625)	(532)
Increase (decrease) in retirement benefit liability	(3,543)	187
Interest and dividend income	(785)	(1,113)
Interest expenses	146	177
Subsidy income	(131)	(10)
Loss (gain) on sale of investment securities	—	(554)
Loss (gain) on valuation of investment securities	—	14
Loss (gain) on sale of non-current assets	(1,731)	(10)
Loss on retirement of non-current assets	305	234
Impairment losses	670	2
Decrease (increase) in trade receivables	(1,460)	(209)
Decrease (increase) in inventories	(7,742)	(8,172)
Increase (decrease) in trade payables	(3,317)	(2,706)
Other, net	636	5,082
Subtotal	<u>5,820</u>	<u>15,978</u>
Interest and dividends received	803	1,118
Interest paid	(146)	(179)
Income taxes refund (paid)	(5,294)	(1,205)
Subsidies received	131	10
Net cash provided by (used in) operating activities	<u>1,313</u>	<u>15,721</u>
Cash flows from investing activities		
Purchase of investment securities	0	0
Proceeds from sale of investment securities	—	2,733
Purchase of property, plant and equipment	(6,263)	(8,003)
Proceeds from sale of property, plant and equipment	1,804	103
Purchase of intangible assets	(490)	(910)
Loan advances	(1)	(1)
Proceeds from collection of loans receivable	1	1
Payments into time deposits	(7,030)	(966)
Proceeds from withdrawal of time deposits	2,060	2,457
Other, net	(87)	(224)
Net cash provided by (used in) investing activities	<u>(10,008)</u>	<u>(4,810)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,000)	(8)
Proceeds from long-term borrowings	—	1,000
Repayments of long-term borrowings	—	(1,014)
Proceeds from issuance of bonds	—	10,000
Redemption of bonds	—	(10,000)
Dividends paid	(2,687)	(4,923)
Dividends paid to non-controlling interests	(46)	(120)
Purchase of treasury shares	(2,924)	(12,889)
Proceeds from sale of treasury shares	—	0
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	0
Other, net	(173)	(628)
Net cash provided by (used in) financing activities	<u>(6,831)</u>	<u>(18,584)</u>
Effect of exchange rate change on cash and cash equivalents	7,686	5,385
Net increase (decrease) in cash and cash equivalents	<u>(7,840)</u>	<u>(2,288)</u>
Cash and cash equivalents at beginning of period	<u>111,237</u>	<u>79,201</u>
Cash and cash equivalents at end of period	<u>103,397</u>	<u>76,912</u>

(4) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

(Acquisition and cancellation of treasury stock)

The Company's treasury shares increased 12,301 million yen in the first six months of the consolidated fiscal year under review, reflecting the acquisition of 14,875,100 treasury shares, based on a resolution of a Board of Directors' meeting held on February 13, 2023. Then, retained earnings and treasury shares decreased 39,166 million yen, respectively, in the first six months of the consolidate fiscal year under review, reflecting the cancellation of 48,000,000 treasury shares implemented on June 30, 2023 based on a resolution of a Board of Directors' meeting held on June 21, 2023.

As of the end of the second quarter of the consolidated fiscal year under review, retained earnings and treasury shares stood at 119,781 million yen and 1,696 million yen, respectively.

(Segment information)

(i) Six Months Ended September 30, 2022 (April 1, 2022 to September 30, 2022)

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	73,392	40,904	22,922	10,474	147,695	-	147,695
Inter-segment	44	76	736	314	1,173	(1,173)	-
Total	73,436	40,981	23,659	10,789	148,868	(1,173)	147,695
Segment profit or loss	8,805	5,525	22	744	150,097	(2,743)	12,354

(Notes)

1. The 2,743 million yen negative adjustment to segment income (Operating profit) includes 53 million yen in inter-segment eliminations and 2,796 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.

Impairment Loss on Non-current Assets or goodwill by Reportable Segment

(Significant impairment losses in non-current assets)

In the devices and components segment, an impairment loss of 670 million yen was recorded on machinery, equipment and vehicles.

(ii) Six Months Ended September 30, 2023 (April 1, 2023 to September 30, 2023)

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	78,507	41,432	22,198	10,786	152,924		152,924
Inter-segment	38	70	866	333	1,310	(1,310)	-
Total	78,546	41,503	23,064	11,119	154,234	(1,310)	152,924
Segment profit or loss	10,203	5,220	400	675	16,499	(2,956)	13,542

(Notes)

1. The 2,956 million yen negative adjustment to segment income (Operating profit) includes 41 million yen in inter-segment eliminations and 2,997 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.

Impairment Loss on Non-current Assets or goodwill by Reportable Segment

Not applicable.