



CITIZEN WATCH

**Consolidated Financial Statements****for the Nine Months Ended December 31, 2019**

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 12, 2020

**CITIZEN WATCH CO., LTD.**

Code No.: 7762

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Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)****(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, 2019	224,943 (9.2%)	11,223 (45.9%)	12,417 (46.6%)	7,022 (51.2%)
Nine months ended December 31, 2018	247,786 1.4%	20,729 (7.0%)	23,272 (1.4%)	14,386 (9.9%)

Note: Comprehensive income:

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

Nine months ended December 31, 2018: ¥12,272million (-50.5%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Nine months ended December 31, 2019	22.33	-
Nine months ended December 31, 2018	45.20	-

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
Nine months ended December 31, 2019	406,176	264,101	62.5%	812.28
March 31, 2019	413,911	267,547	62.2%	808.87

Reference: Shareholders' Equity:

As of December 31, 2019: ¥ 253,950 million As of March 31, 2019: ¥ 257,449 million

**2. Dividends**

	Dividends per share(Yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
March 31, 2019	-	10.00	-	10.00	20.00
March 31, 2020	-	12.00			
March 31,2020 (E)			-	0.00	12.00

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

**3. Projected Consolidated Results for the Year ending March 31, 2020**

(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	287,500 (10.6%)	9,000 (59.8%)	10,500 (60.5%)	4,000 (70.1%)	12.72

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: Yes
  - (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, 2019	314,353,809	March 31, 2019	320,353,809
(ii) Number of treasury stock at the end of term	December 31, 2019	1,713,610	March 31, 2019	2,070,969
(iii) Average number of common stocks	December 31, 2019	314,556,892	December 31, 2018	318,284,380

*\* 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)

## ○INDEX

<b>1. QUALITATIVE INFORMATION ON THE CONSOLIDATED FINANCIAL RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2019 .....</b>	<b>5</b>
(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 .....	6
<b>2. CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>7</b>
(1) Consolidated Balance Sheet.....	7
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income .....	9
Consolidated Statement of Income for the nine months ended December 31, 2019 .....	9
Consolidated Statement of Comprehensive Income for the nine months ended December 31, 2019 ...	10
(3) Notes on the Consolidated Financial Statements .....	11
(Notes related to of going concern assumptions).....	11
(Notes regarding significant changes in shareholders' equity accounts)	11
(Changes in the accounting policy)	11
(Additional Information)	12
(Segment information)	14
(Significant Subsequent Events)	15

## 1. Qualitative Information on the Consolidated Financial Results for the Nine Months Ended December 31, 2019

### (1) Qualitative data on the consolidated financial results

During the nine months ended December 31, 2019, the Japanese economy appeared stagnant owing to growing political risks overseas and an overall slowdown in consumer spending. In the United States, the economy remained sluggish due to concern over developments in conjunction with trade with other countries, despite signs of bottoming out being seen in capital expenditure and exports. The European market also continued to slow down due to the increasing instability of trade and political uncertainty. In Asia, economic growth in China softened, and other Asian economies also showed some weakness. In this environment, the Citizen Group posted decreases in sales and profit in the nine months ended December 31, 2019. Net sales stood at 224.9 billion yen (down 9.2% year on year), and operating profit was 11.2 billion yen (down 45.9% year on year). Ordinary profit and profit attributable to owners of parent both decreased, reaching 12.4 billion yen (down 46.6% year on year) and 7.0 billion yen (down 51.2% year on year), respectively.

#### Watches

With respect to sales of CITIZEN brand watches in the domestic market, luxury items such as The CITIZEN and medium-priced models such as the PROMASTER continued to show strong results. Sales of low-priced models decreased, however, and a fall in consumer confidence following the consumption tax hike and multiple natural disasters affected sales, with watch sales remaining mostly unchanged as a result.

In the overseas market, sales in North America decreased due to the substantial impact of the closure of physical stores, mainly of the jewelry chain, despite some support provided by the rising market share of our mainstay medium-priced items, primarily through enhanced online sales. In the European market, growing political uncertainty had a negative impact on consumer spending, resulting in a decline in sales, despite stable sales being maintained in major markets. In the Asian market, sales remained flat due to the impact of the timing of online sales, which more than offset stable sales in Vietnam, Singapore, and other countries.

In the multiple brand segment, sales fell, due in part to the reorganization of brick and mortar retail stores, mostly in North America, despite efforts to increase online sales and a fall in sales of other brands.

Sales of movements declined, reflecting the ongoing harsh conditions such as sluggish sales of high value-added products against the backdrop of a weak market recovery.

As a result, the watches segment posted a decline in sales, with net sales of 118.3 billion yen (down 6.9% year on year), reflecting sluggish sales of movements, although sales of finished products remained solid thanks to measures such as the active launch of new products despite the harsh market conditions. Operating profit decreased to 8.2 billion yen (down 32.7% year on year) due to the significant impact of poor sales of movements despite the growth of high-end products that was promoted as one of the priority measures.

#### Machine Tools

Revenues from the domestic market decreased due to an increasing sense of uncertainty regarding capital expenditure, despite signs of recovery seen in products related to semiconductors.

Revenues from overseas markets declined, affected by the sluggish European and Asian markets mainly in the ASEAN countries, while revenues from the Americas and China remained strong as we focused on products related to medical equipment, for which stable demand was expected, following the ongoing economic slowdown affected by the trade friction between the United States and China.

As a result, the machine tools segment as a whole posted a decrease in both sales and profit with net sales of 45.1 billion yen (down 16.7% year on year) and operating profit of 6.2 billion yen (down 36.5% year on year) due to an increasingly cautious stance toward capital expenditure both in Japan and abroad and a reactionary fall from the strong performance a year ago, although we pursued sales of machines equipped with low frequency vibration (LFV) cutting, one of the Group's unique technologies.

#### Devices and Components

Sales of auto parts as part of precision machining components fell due to a decrease in new car sales, particularly in China, as well as worldwide uncertainty about the future, and sales of switches also declined owing to a decrease in models equipped with side switches despite some growth in switch sales in China. Consequently, overall revenues from precision machining components decreased.

Among opto-devices, with regard to LED chips, we focused on initiatives for placing the emphasis on profitability instead of making pricing compromises, despite intensifying price competition for lighting products, and we were hit by a drop in sales of backlight units. This resulted in a decrease in overall revenues from opto-devices.

Sales of quartz devices, among other products, were slow, mainly reflecting a decline in the smartphone market and the consumer product market.

As a consequence, the devices and components segment as a whole recorded a decrease in sales, with net

sales of 43.9 billion yen (down 7.3% year on year), due mainly to a fall in opto-devices. Operating profit declined to 1.2 billion yen (down 54.5% year on year), largely affected by a decrease in sales despite our efforts regarding sales strategies with a focus on profitability.

### **Electronic Products**

Among information equipment, sales of POS printers and bar code printers remained strong, thanks in part to large orders received. Sales of photo printers were sluggish, however, largely due to a fall in appetite for capital expenditure, and consequently, revenues in the overall information equipment sector declined. Overseas sales of healthcare equipment remained strong in the Middle East and Asia, however they were more than offset by a drop in sales in Japan, resulting in lower overall sales.

Consequently, sales in the overall electronic products segment decreased and net sales came to 13.0 billion yen (down 10.5% year on year). Operating loss came to 0.1 billion yen (operating profit of 0.3 billion yen a year ago).

### **Other Products**

Revenues from jewelry products struggled, chiefly due to a reactionary fall following the consumption tax hike and increasingly sluggish sales in department and specialty stores, particularly in regional markets, despite growth in the mainstay wedding rings thanks to improvements in sales of wedding products.

As a result, the other products segment as a whole posted a decrease in sales and an increase in profit with net sales of 4.3 billion yen (down 1.1% year on year) and operating profit of 0.1 billion yen (up 97.2% year on year).

## **(2) Qualitative data on the consolidated financial position**

As of the end of the third quarter under review, total assets decreased by 7.7 billion yen from the end of the previous fiscal year, to 406.1 billion yen from the end of the previous fiscal year. Current assets fell by 10.7 billion yen, mainly due to decreases of 14.5 billion yen in cash and deposits and 2.9 billion yen in notes and accounts receivable – trade, despite an increase of 5.4 billion yen in inventories. Non-current assets rose by 3.0 billion yen, primarily reflecting increases of 2.3 billion yen in machinery, equipment, and vehicles and 1.9 billion yen in investment securities, which more than offset a decrease of 2.1 billion yen in construction in progress.

Liabilities decreased by 4.2 billion yen from the end of the previous fiscal year, to 142.0 billion yen. This was mainly attributable to decreases of 2.9 billion yen in electronically recorded obligations - operating, 2.1 billion yen in provision for bonuses, and 0.9 billion yen in income taxes payable, which more than offset increases of 1.8 billion yen in other noncurrent liabilities and 1.1 billion yen in short-term loans payable.

Net assets decreased by 3.4 billion yen from the end of the previous fiscal year, to 264.1 billion yen. This was primarily the result of decreases of 3.2 billion yen in retained earnings, 0.8 billion yen in foreign currency translation adjustment, and 0.7 billion yen in treasury shares due to the purchase and retirement of treasury stock.

## **(3) Qualitative data on the consolidated earnings forecasts**

The full-year forecasts have been revised because the consolidated financial results are likely to be below the previous forecasts, largely due to the deteriorating situation in the market of the Watches and Machine Tools segments and an extraordinary loss from structural reforms to be posted in the fiscal year under review.

The foreign exchange rates in the fourth quarter of the fiscal year under review and thereafter are assumed to be 108 yen against the U.S. dollar and 120 yen against the euro. For details, please refer to “Notice of Revision to Consolidated Operating Results Forecasts” published on February 12, 2020.

## 2. Consolidated Financial Statements

## (1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	86,875	72,359
Notes and accounts receivable - trade	64,139	61,232
Electronically recorded monetary claims - operating	1,225	1,579
Merchandise and finished goods	55,614	60,431
Work in process	22,982	22,159
Raw materials and supplies	19,605	21,091
Consumption taxes receivable	3,131	2,229
Other	6,522	7,903
Allowance for doubtful accounts	△1,111	△765
Total current assets	258,985	248,222
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,496	43,319
Machinery, equipment and vehicles, net	22,685	25,051
Tools, furniture and fixtures, net	7,364	8,294
Land	10,326	10,429
Leased assets, net	1,360	1,585
Construction in progress	5,437	3,332
Total property, plant and equipment	89,669	92,013
Intangible assets		
Software	4,402	4,460
Leased assets	7	7
Other	4,323	5,466
Total intangible assets	8,732	9,934
Investments and other assets		
Investment securities	39,974	41,947
Long-term loans receivable	942	791
Deferred tax assets	11,847	10,688
Other	4,050	2,845
Allowance for doubtful accounts	△268	△243
Allowance for investment loss	△23	△23
Total investments and other assets	56,524	56,006
Total non-current assets	154,926	157,954
Total assets	413,911	406,176

As of March 31, 2019 As of December 31, 2019

	As of March 31, 2019	As of December 31, 2019
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	20,496	19,898
Electronically recorded obligations - operating	14,896	11,925
Notes payable - facilities	246	414
Electronically recorded obligations - non-operating	859	699
Short-term borrowings	13,987	15,130
Income taxes payable	2,139	1,206
Accrued expenses	13,395	13,063
Provision for bonuses	5,712	3,537
Provision for bonuses for directors (and other officers)	247	—
Provision for product warranties	1,428	1,178
Provision for environmental measures	0	—
Provision for loss on reorganization	484	473
Other	7,846	8,255
Total current liabilities	81,741	75,782
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	27,077	26,632
Deferred tax liabilities	791	598
Provision for loss on reorganization	816	567
Retirement benefit liability	23,328	24,047
Asset retirement obligations	74	66
Other	2,534	4,380
Total non-current liabilities	64,622	66,293
Total liabilities	146,363	142,075
<b>Net assets</b>		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	34,019	33,730
Retained earnings	181,995	178,744
Treasury shares	△1,773	△1,069
Total shareholders' equity	246,889	244,055
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,111	8,401
Foreign currency translation adjustment	3,303	2,473
Remeasurements of defined benefit plans	△855	△979
Total accumulated other comprehensive income	10,559	9,895
Non-controlling interests	10,098	10,150
Total net assets	267,547	264,101
Total liabilities and net assets	413,911	406,176

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

Consolidated Statement of Income for the nine months ended December 31, 2019

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	247,786	224,943
Cost of sales	149,963	139,814
Gross profit	97,823	85,128
Selling, general and administrative expenses	77,093	73,905
Operating profit	20,729	11,223
Non-operating income		
Interest income	419	385
Dividend income	876	791
Share of profit of entities accounted for using equity method	733	685
Foreign exchange gains	392	—
Other	828	542
Total non-operating income	3,251	2,405
Non-operating expenses		
Interest expenses	284	321
Foreign exchange losses	—	581
Other	424	309
Total non-operating expenses	709	1,211
Ordinary profit	23,272	12,417
Extraordinary income		
Gain on sales of investment securities	30	429
Gain on sales of non-current assets	24	67
Gain on liquidation of subsidiaries	302	—
Other	5	3
Total extraordinary income	362	500
Extraordinary losses		
Loss on retirement of non-current assets	413	216
Loss on sales of non-current assets	39	32
Impairment loss	166	107
Reorganization cost	1,814	506
Special compliance expense, etc.	205	—
Extra retirement payments	—	1,102
Other	608	174
Total extraordinary losses	3,247	2,140
Profit before income taxes	20,387	10,777
Income taxes	5,611	3,506
Profit	14,775	7,270
Profit attributable to non-controlling interests	389	248
Profit attributable to owners of parent	14,386	7,022

## CITIZEN WATCH

Consolidated Statement of Comprehensive Income for the nine months ended December 31, 2019

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	14,775	7,270
Other comprehensive income		
Valuation difference on available-for-sale securities	△3,522	290
Foreign currency translation adjustment	699	△836
Remeasurements of defined benefit plans, net of tax	198	△122
Share of other comprehensive income of entities accounted for using equity method	121	△37
Total other comprehensive income	△2,502	△706
Comprehensive income	12,272	6,564
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	11,842	6,358
Comprehensive income attributable to non-controlling interests	430	206

**(3) Notes on the Consolidated Financial Statements****(Notes related to of going concern assumptions)**

Not applicable

**(Notes regarding significant changes in shareholders' equity accounts)**

(Acquisition of treasury stock and the Cancellation of shares of treasury stock)

The Company acquired 5,640,400 shares of its treasury stock based on a resolution of the Board of Directors made on May 28, 2019. For the nine-month period under review, treasury shares increased by 2,999 million yen. In addition, based on a resolution of the Board of Directors made on August 29, 2019, we cancelled 6,000,000 shares of treasury stock on September 30, 2019. As a result, retained earnings and treasury shares each decreased 3,703 million yen for the nine-month period under review. At the end of the third quarter under review, retained earnings came to 178,744 million yen, and treasury shares arrived at 1,069 million yen.

**(Changes in the accounting policy)**

Starting from the first quarter of the current consolidated fiscal year, some overseas consolidated subsidiaries of the Group apply IFRS 16 Leases and recognize assets and liabilities for all lease assets, in principle, as the accounting of the lessee. The impact of applying this accounting standard to the Group's consolidated financial statements is minor.

**(Additional Information)****(Implementation of structural reforms)**

The Citizen Group Medium-term Management Plan 2021 that was established in February 2019 includes the selection and concentration of businesses and products of the Group's Devices and Components segment and Other Products segment. Accordingly, the Board of Directors passed resolutions at the meeting held on December 26, 2019 to liquidate certain consolidated subsidiaries and solicit the voluntary retirement of employees of consolidated subsidiaries in Japan as part of the Group's structural reforms.

**(Liquidation of consolidated subsidiaries)****(Citizen Electronics Funehiki Japan Co., Ltd.)****1. Overview of the subsidiary concerned**

- i. Name: Citizen Electronics Funehiki Japan Co., Ltd.
- ii. Business: Production and sale of device components
- iii. Capital contribution: 100%

**2. Timing of liquidation**

The liquidation is planned to be implemented in fiscal year 2020.

**3. Impact of liquidation on financial results**

The financial impact of the liquidation is currently estimated, and an extraordinary loss of 862 million yen was posted in the third quarter of the fiscal year under review, chiefly as a result of extra retirement payments.

**4. Impact of liquidation on business activities**

The impact of the liquidation on the Company's business activities will be negligible.

**(Citizen Jewelry Co., Ltd.)****1. Overview of the subsidiary concerned**

- i. Name: Citizen Jewelry Co., Ltd.
- ii. Business: Purchase and sale of jewelry and related products
- iii. Capital contribution: 100%

**2. Timing of liquidation**

The liquidation is planned to be implemented in fiscal year 2020.

**3. Impact of liquidation on financial results**

The Company is currently estimating the impact of the liquidation on its financial results.

**4. Impact of liquidation on business activities**

The impact of the liquidation on the Company's business activities will be negligible.

**(Citizen Plaza Co., Ltd.)****1. Overview of the subsidiary concerned**

- i. Name: Citizen Plaza Co., Ltd.
- ii. Business: Leisure service business
- iii. Capital contribution: 100%

**2. Timing of liquidation**

The liquidation is planned to be implemented in fiscal year 2020.

**3. Impact of liquidation on financial results**

The financial impact of the liquidation is currently estimated, and an extraordinary loss of 330 million yen was posted in the third quarter of the fiscal year under review, chiefly as a result of extra retirement payments.

**4. Impact of liquidation on business activities**

The impact of the liquidation on the Company's business activities will be negligible.

(Implementation of Voluntary Retirement Program)

1. Overview of Voluntary Retirement Program

i . Companies subject to Voluntary Retirement Program :

Citizen Electronics Co., Ltd.

Citizen Electronics TIMEL Co., Ltd.

ii . Eligibility criteria: Employees

iii . Target number of applicants: About 200

iv . Application period: Depending on application period which is announced by each company

v . Retirement date: June 30, 2020

vi . Preferential conditions: A premium will be added to the normal retirement allowance of eligible applicants. In addition, eligible applicants will also have the option to receive job-placement assistance.

2. Impact on financial results

The Company is currently estimating the impact of on its financial results because details such as the total amount of extra retirement payments and expenses for outplacement assistance have yet to be determined.

**(Segment information)**

(i) Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)

1) Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic Products	Other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales								
Customers	127,074	54,256	47,410	14,620	4,423	247,786	-	247,786
Inter-segment	74	964	1,526	86	632	3,284	(3,284)	-
Total	127,148	55,221	48,937	14,707	5,056	251,071	(3,284)	247,786
Segment profit	12,329	9,810	2,828	380	95	25,444	(4,714)	20,729

(Notes)

1. The 4,714 million yen negative adjustment to segment profit (operating profit) includes -176 million yen in inter-segment eliminations and -4,537 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, 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 Products	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	13,081	4,376	224,943	-	224,943
Inter-segment	77	454	1,382	75	599	2,588	(2,588)	-
Total	118,422	45,641	45,334	13,156	4,975	227,531	(2,588)	224,943
Segment profit	8,292	6,225	1,285	(174)	187	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.

**(Significant Subsequent Events)**

The Board of Directors of the Company passed a resolution at the meeting held on January 23, 2020 to sell the wedding business of Citizen Jewelry Co., Ltd. to Sainte Pure Co., Ltd. and signed the business transfer agreement for the sale on the same day.

(1) Overview of the businesses transfer

1. Principal reason for the transfer

The transfer will be used to close and liquidate the business of Citizen Jewelry Co., Ltd.

2. Name of the company that will purchase the business

Sainte Pure Co., Ltd.

3. Business to be transferred

Wedding business

4. Size of business to be transferred

Net sales posted on the consolidated statement of income for the previous fiscal year: 1,738 million yen

5. Assets and liabilities to be transferred and their values

The assets consist mostly of inventories, and the value will be the book value as of the effective date of the transfer.

6. Timing of transfer (effective date)

June 30, 2020 (plan)

7. Transfer value

The transfer value will be the book value of the assets transferred as of the effective date of the transfer.