



CITIZEN WATCH

Consolidated Financial Statements
for the Three Months Ended June 30, 2017

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)

August 10, 2017

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: -

Scheduled release of fiscal 2017 Quarterly Business Report: August 10, 2017

Listings: First section of Tokyo Stock Exchange

(URL <http://www.citizen.co.jp>)**1. Results for the Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)****(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	
Three months ended June 30, 2017	72,666	(5.2)	3,820	(17.0)	4,546	64.1	2,651	14.7
Three months ended June 30, 2016	76,659	(8.4)	4,603	(27.5)	2,770	(63.6)	2,311	(55.4)

Note: Comprehensive income:

As of June 30, 2017: ¥ 6,142 million (—%) As of June 30, 2016: ¥ 10,140 million (—%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Three months ended June 30, 2017	8.33	-
Three months ended June 30, 2016	7.26	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Three months ended June 30, 2017	408,050	252,386	59.5%	762.51
March 31, 2017	395,887	249,215	60.5%	752.21

Reference: Shareholders' Equity:

As of June 30, 2017: ¥ 242,697 million As of March 31, 2017: ¥ 239,420million

2. Dividends

	Dividends per share(Yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
March 31, 2017	-	8.50	-	8.50	17.00
March 31, 2018	-				
March 31,2018 (E)		8.50	-	8.50	17.00

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

3. Projected Consolidated Results for the Year ending March 31, 2018

(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)
Interim term	156,000	0.8%	11,000	2.5%	11,500	38.4%	7,500	42.3%	23.56
Full term	320,000	2.4%	23,500	9.3%	24,500	11.4%	16,000	(3.5%)	50.27

Note: Revision of consolidated forecasts for quarter in review: None

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)

	shares		shares	
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	June 30, 2017	320,353,809	March 31, 2017	320,353,809
(ii) Number of treasury stock at the end of term	June 30, 2017	2,065,348	March 31, 2017	2,064,808
(iii) Average number of common stocks	June 30, 2017	318,288,788	June 30, 2016	318,292,570

** 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 Three Months Ended June 30, 2017

(1) Qualitative data on the consolidated financial results

During the first quarter of the consolidated fiscal year under review, the Japanese economy experienced a trend toward moderate recovery. Growth, however, was weak as consumer spending remained sluggish. In the United States, the market conditions remained lackluster, reflecting uncertainty over policy management, although the labor market continued to recover. Despite uncertainties, including uncertainty caused by Britain's exit from the EU, the European economy continued to recover steadily. There were signs of a recovery in the Asian economy, mainly in China, following a slowdown.

In this environment, the Citizen Group posted net sales of 72.6 billion yen (down 5.2% year on year) and operating profit of 3.8 billion yen (down 17.0% year on year) in the first quarter under review. Both sales and profits declined chiefly due to the impact of weak demand in the overall watch market and intensifying competition in the devices and components segment. Ordinary profit came to 4.5 billion yen (up 64.1% year on year), mainly due to foreign exchange losses posted in the first quarter of the previous fiscal year and no foreign exchange losses in the first quarter under review. Profit attributable to owners of parent was 2.6 billion yen (up 14.7% year on year).

Watches

Revenues from the CITIZEN brand in the domestic market declined due to weak demand in the overall domestic watch market. This factor offset strong sales of new products on the back of the opening of the world's first flagship store of the Citizen Watch Group at GINZA SIX, retail facilities in Ginza, Tokyo, and an expansion of share in the SATTELITE WAVE –GPS watches market following the launch of 30th anniversary models of ATTESA, the major men's watch brand, and a LIGHT IN BLACK campaign run for the third consecutive year.

In the overseas market, results expanded in some regions, where the market improved moderately, but overall, revenue in the overseas market declined, reflecting weak demand for watches generally. In North America, the impact of major distributors' streamlining of store networks on sales was only partially offset by signs of a moderate recovery in the market. The European market saw sluggish growth in sales due to the effects of sales in the U.K., where growth in consumer spending was weakened by terrorist attacks and rising inflation, and sales in Italy, where the economy has long struggled. Sales in the Asian market also saw sluggish growth due to poor demand for watches, with the exception of certain areas where the market improved. Meanwhile, sales expanded in China, with the continued recovery in market conditions, partly backed by the government's fiscal policy.

Revenues from the "BULOVA" brand declined, reflecting overall weak demand for watches and the impact of leading distributors' streamlining of store networks, although there were signs of a recovery at some distributors.

Revenues from the "Q&Q" brand fell due to sluggish growth in demand overall despite signs of a recovery in certain regions.

Revenues from the "Frederique Constant" brand were firm, particularly in Europe and the Middle East.

In sales of movements, sales declined year on year, but profitability increased mainly due to the improvement of the product mix driven by higher demand for high value-added products.

Despite the decrease in sales, operating profit increased due to a reduction in fixed costs.

As a result of these developments, the watches segment posted a decrease in sales and an increase in profits, with net sales of 36.3 billion yen (down 2.4% year on year) and operating profit of 2.6 billion yen (up 16.5% year

on year).

Machine Tools

Revenues from the domestic market increased due to solid sales of products in a wide range of lines of business, primarily automobile-related products and semiconductor-related products.

In the Americas, revenues in the market declined as the stance on capital expenditures remained cautious, while a close watch was kept on policy trends, notwithstanding firm sales in major industries overall.

Revenues from the European market increased, reflecting solid sales primarily of automobile-related products in Germany and Italy, key markets.

In the Asian market, revenues declined. Although the Chinese market appeared to bottom out, sales fell short of the level in the first quarter of the previous fiscal year, when there were large-scale orders for East Asia.

Operating profit declined, reflecting a change in sales mix from the same period of the previous fiscal year.

As a result, the machine tools segment posted an increase in sales and a decline in profits, with net sales of 13.2 billion yen (up 2.5% year on year) and operating profit of 1.6 billion yen (down 16.0% year on year).

Devices and Components

In terms of automobile components, among other precision machining components, were driven by solid orders, primarily for Europe and China as the North American market slowed noticeably, and by new orders received in Japan. Sales of switches in new markets, especially in the automobile market, were promoted, while sales of smartphone switches declined significantly. Overall revenues from precision machining components decreased.

In terms of opto-devices, sales of LED chips increased, primarily in Asia, as competition intensified, especially for LED chips for lighting. Of LED chips other than those for lighting, sales of automobile LED chips and LED chips for game machines were steady. Sales of backlight products for vehicles increased. Overall revenues from opto-devices rose.

Among other parts, sales of quartz crystals were solid, reflecting an increase in demand associated with the expansion of the IoT market, and sales of ferroelectric micro LCDs increased as the impact of the Kumamoto earthquakes on the demand cameras ended. Overall revenues for other parts increased.

Operating profit in this segment declined chiefly due to a decrease in sales and intensifying competition.

As a result of these developments, the devices and components segment recorded a decrease in both sales and profits, with net sales of 16.6 billion yen (down 9.6% year on year) and an operating profit of 0.6 billion yen (down 48.9% year on year).

Electronic Products

In the printers, sales of photo printers increased significantly, but sales of POS printers and label printers grew at a sluggish pace. In addition, sales of large dot printers declined significantly due to the backlash of special demand in the previous year. As a result, revenues declined in the information equipment sector overall.

Revenues from healthcare products declined due to a significant drop in the Americas and the Middle East, despite strong sales of thermometers in the domestic market.

Operating profit fell given the decrease in sales.

As a result of these developments, the electronic products segment on the whole recorded a decrease in both sales and profits, with net sales of 4.9 billion yen (down 10.7% year on year) and operating profit of 0.0 billion yen

(down 46.8% year on year).

Other Products

As there were no signs of recovery in consumer sentiment in Japan, sales of our mainstay jewelry products remained sluggish. Overall revenues in this segment were adversely affected by withdrawal from the pachinko-related products business and declined.

Despite the decrease in sales, operating profit was steady.

As a result of these developments, the other products segment recorded a decrease in sales and an increase in profits, with net sales of 1.4 billion yen (down 42.5% year on year) and operating profit of 0.0 billion yen (up 42.9% year on year).

(2) Qualitative data on the consolidated financial position

As of the end of the first quarter under review, total assets increased by 12.1 billion yen from the end of the previous fiscal year, to 408.0 billion yen. Current assets increased 11.5 billion yen, mainly because of increases of 8.9 billion yen in cash and deposits and 6.2 billion yen in inventories, despite a decrease of 3.3 billion yen in notes and accounts receivable-trade. Non-current assets rose by 0.6 billion yen, primarily reflecting an increase of 1.9 billion yen in investment securities, despite a decrease of 0.5 billion yen in deferred tax assets.

Liabilities increased by 8.9 billion yen from the end of the previous fiscal year, to 155.6 billion yen. This increase in liabilities mainly reflected increases of 3.7 billion yen in notes and accounts payable-trade, 2.9 billion yen in the provision for bonuses, and 2.0 billion yen in electronically recorded obligations-operating.

Net assets increased by 3.1 billion yen from the end of the previous fiscal year, to 252.3 billion yen. This increase was primarily the result of increases of 1.8 billion yen in foreign currency translation adjustment and 1.5 billion yen in valuation difference on available-for-sale securities.

(3) Qualitative data on the consolidated earnings forecasts

No changes have been made to the six-month and full-year forecasts for the consolidated fiscal results in the fiscal year ending March 31, 2018 announced on May 12, 2017 in the Consolidated Financial Statements for the Year Ended March 31, 2017.

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

Millions of yen	March 31, 2017	June 30, 2017
Current assets		
Cash and deposits	80,746	89,670
Notes and accounts receivable – trade	61,142	57,758
Electronically recorded monetary claims – operating	1,156	1,093
Merchandise and finished goods	49,121	51,993
Work in process	18,511	21,348
Raw materials and supplies	16,695	17,196
Consumption taxes receivable	2,606	1,043
Deferred tax assets	6,787	7,472
Other	6,114	6,814
Allowance for doubtful accounts	(1,037)	(1,003)
Total current assets	241,844	253,386
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,687	41,655
Machinery, equipment and vehicles, net	21,765	21,651
Tools, furniture and fixtures, net	6,634	6,590
Land	11,109	11,006
Leased assets, net	1,380	1,482
Construction in progress	2,977	2,705
Total property, plant and equipment	85,554	85,091
Intangible assets		
Goodwill	5,958	5,772
Software	3,208	3,231
Leased assets	6	5
Other	4,420	4,359
Total intangible assets	13,594	13,368
Investments and other assets		
Investment securities	44,519	46,452
Long-term loans receivable	1,030	971
Deferred tax assets	6,029	5,471
Other	3,663	3,631
Allowance for doubtful accounts	(211)	(185)
Allowance for investment loss	(138)	(138)
Total investments and other assets	54,893	56,203
Total non-current assets	154,042	154,663
Total assets	395,887	408,050

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Millions of yen	March 31, 2017	June 30, 2017
Current liabilities		
Notes and accounts payable – trade	19,836	23,549
Electronically recorded obligations – operating	13,140	15,185
Notes payable – facilities	1,389	1,385
Electronically recorded obligations - non-operating	378	395
Short-term loans payable	5,849	6,845
Bonds payable within one year	10,000	10,000
Income taxes payable	2,657	2,311
Deferred tax liabilities	102	107
Accrued expenses	12,727	11,892
Provision for bonuses	5,458	8,393
Provision for directors' bonuses	135	-
Provision for product warranties	928	951
Provision for environmental measures	24	14
Provision for loss on business restructuring	1,294	1,023
Other	6,600	6,625
Total current liabilities	80,523	88,681
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	27,182	27,195
Deferred tax liabilities	3,392	3,700
Provision for environmental measures	54	54
Provision for loss on business restructuring	1,330	1,330
Net defined benefit liability	22,003	22,207
Asset retirement obligations	66	83
Other	2,118	2,410
Total non-current liabilities	66,148	66,982
Total liabilities	146,671	155,663
Net assets		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	34,074	33,947
Retained earnings	162,224	162,171
Treasury stocks	(1,780)	(1,780)
Total shareholders' equity	227,168	226,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,332	11,853
Foreign currency translation adjustment	3,088	4,985
Remeasurements of defined benefit plans	(1,168)	(1,128)
Total accumulated other comprehensive income	12,252	15,710
Non-controlling interests	9,795	9,689
Total net assets	249,215	252,386
Total liabilities and net assets	395,887	408,050

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

Consolidated Statement of Income for the three months ended June 30, 2017

Millions of yen	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)
Net sales	76,659	72,666
Cost of sales	47,874	44,936
Gross profit	28,785	27,730
Selling, general and administrative expenses	24,181	23,909
Operating profit	4,603	3,820
Non-Operating profit		
Interest income	79	77
Dividend income	385	371
Foreign exchange gains	-	158
Share of profit of entities accounted for using equity method	138	120
Other	118	247
Total non-Operating profit	721	976
Non-operating expenses		
Interest expenses	120	91
Foreign exchange losses	2,294	-
Other	139	159
Total non-operating expenses	2,554	250
Ordinary profit	2,770	4,546
Extraordinary profit		
Gain on sales of investment securities	787	20
Gain on sales of shares of subsidiaries	-	14
Gain on sales of non-current assets	4	321
Other	14	3
Total extraordinary profit	806	360
Extraordinary losses		
Loss on retirement of non-current assets	11	47
Loss on sales of non-current assets	3	12
Loss on business restructuring	-	96
Other	45	45
Total extraordinary losses	61	201
Income before income taxes	3,516	4,704
Income taxes	1,169	2,013
Net income	2,346	2,690
Profit attributable to non-controlling interests	35	38
Profit attributable to owners of parent	2,311	2,651

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Consolidated Statement of Comprehensive Income for the three months ended June 30, 2017

Millions of yen	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)
Net income	2,346	2,690
Other comprehensive income		
Valuation difference on available-for-sale Securities	(1,898)	1,521
Deferred gain or loss on hedges	(455)	-
Foreign currency translation adjustment	(9,977)	1,895
Remeasurements of defined benefit plans	98	41
Share of other comprehensive income of entities accounted for using equity method	(254)	(5)
Total other comprehensive income	(12,487)	3,452
Comprehensive income	(10,140)	6,142
(Breakdown)		
Comprehensive income attributable to owners of parent	(9,971)	6,110
Comprehensive income attributable to non-controlling interests	(169)	32

(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

(Segment information)

(i) Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)

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	37,291	12,939	18,368	5,555	2,504	76,659	-	76,659
Inter-segment	44	252	602	23	196	1,120	(1,120)	-
Total	37,335	13,192	18,970	5,579	2,701	77,779	(1,120)	76,659
Segment profit	2,286	1,959	1,188	114	52	5,600	(996)	4,603

(Notes)

1. The 996 million yen negative adjustment to segment income (Operating profit) includes 3 million yen in inter-segment eliminations and 1,000 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) Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)

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	36,388	13,267	16,609	4,962	1,439	72,666	-	72,666
Inter-segment	22	51	565	24	200	865	(865)	-
Total	36,411	13,318	17,174	4,987	1,639	73,531	(865)	72,666
Segment profit	2,663	1,645	607	60	74	5,052	(1,231)	3,820

(Notes)

1. The 1,231 million yen negative adjustment to segment income (Operating profit) includes 0 million yen in inter-segment eliminations and 1,232 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.