

CITIZEN



# CITIZEN GROUP PROFILE 2018

## CITIZEN WATCH CO., LTD.

6-1-12, TANASHI-CHO, NISHI-TOKYO-SHI, TOKYO 188-8511, JAPAN  
TEL 81-42-466-1231 FAX 81-42-466-1280

<http://www.citizen.co.jp/global>

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2018.1.500

# Beginning Another New Century

Gathering all CITIZEN employee's power and dealing with numerous changes of our business for further improvement.



In May 2018, the CITIZEN Group celebrated its centennial anniversary. We are aware that we have now stepped out into another century of even faster changes than we have ever experienced before. Even now, artificial intelligence (AI), robots, automatic driving technology, IoT, and many other technological innovations have rapidly changed our lifestyles. We, CITIZEN as a company, need to keep recognizing those changes in society and technologies, following up them and making growth in our business. In addition, this April was the beginning of the final year of our medium-term management plan, “CITIZEN Global Plan 2018”, which we started in 2013. We have carried out various measures to be a “solid global company”, including structural reform and selection and concentration of businesses, however, even at this very final stage of our plan, we are still facing with changes that we need to deal with in each of our businesses.

First, in the field of watches, in which we place the core of our growth, we are going to shift from a defensive positioning to an offensive positioning, placing our priority on expansion of sales. Starting with the sales integration of CITIZEN and BULOVA brands, we have composed a new structure to promote a multi-brand strategy. From this year, we will heighten our presence in the market and raise our share using an “evolved multi-brand strategy”. Furthermore, now that we are in a revolutionary period in retail and distribution, we will offer products based on a “differentiation strategy that stands close to each distribution channel” and thus deal with the changes in varying customer preferences and buying behaviors. In addition, as one of the leading manufacturers in the world, we always challenge ourselves in proceeding with our innovative methods in manufacturing by reviewing our manufacturing processes and tackling issues to find ways to transform such methods.

The machine tool business, in which we place our second man pillar of business next to the watch business, is the only business field in the group that was able to achieve the target of the mid-term management plan during fiscal year 2017, before the final year of the plan. The business received high acclaim by customers for its detailed attention to the marketplace, and commercialization of its technology called low frequency vibration (LFV) cutting, which is one of our proprietary technologies that no other company has and makes CITIZEN unique company among the industry. However, many changes are being brought about in the industry, for example, the shift to electric vehicles (EV). Thus, we will further need to find ways to increase growth in the future, such as differentiating technology and entering into other fields of business and work out strategies to these ends.

In the device business and electronic equipment business, we will develop our skills more than ever in sensing technological or market trends, thereby assessing which technologies have the better advantage, or can compete better.

As part of the centennial anniversary of the Company’s founding, we have started a “Dispatch Program for Social Contribution Activities”, in which employees are dispatched to various places both in Japan and abroad. In other words, being the Company name is “CITIZEN”, we the employees have a desire to contribute as citizens; and with this desire in our hearts, learning new values will relate to revitalizing the organization, and reforming the climate of the CITIZEN Group as a whole.

As we take on the values built up by our forerunners, we will respond to the speed of change, and at times transform ourselves, to be a “solid global company”. We, the CITIZEN Group, stand united as a whole to challenge the new centennial.

Toshio Tokura  
President and CEO  
CITIZEN WATCH CO., LTD.

## Contents

1	MESSAGE
3	CORPORATE PHILOSOPHY
4	OUR BUSINESS FIELDS
5	WATCHES
13	MACHINE TOOLS
15	DEVICES & COMPONENTS
16	ELECTRONIC PRODUCTS/OTHER PRODUCTS
17	CSR/ECO-ACTIVITY
19	CITIZEN GROUP
21	HISTORY
22	FINANCIAL DATA
23	Five-Year Summary
24	Management’s Discussion and Analysis
27	Consolidated Balance Sheets
29	Consolidated Statements of Income
30	Consolidated Statements of Comprehensive Income
31	Consolidated Statements of Changes in Net Assets
32	Consolidated Statements of Cash Flows
33	Notes to Consolidated Financial Statements
43	Report of Independent Auditors (Translation)
44	Investors Information
44	COMPANY PROFILES



## Corporate Philosophy

# “Loved by citizens, working for citizens.”

The CITIZEN Group made its start with the aspiration of producing watches that would be loved and trusted by all citizens who support society.

We remain convinced that we can continue helping all citizens by providing new value rooted in our superior technologies and expertise.

Loved by citizens, working for citizens, and moving forward together...

This philosophy is the origin of the CITIZEN Group.

It also serves as our guideline for making sustained efforts in the future as a solid global company.

We at the CITIZEN Group will continue taking new steps forward.

## OUR BUSINESS FIELDS

### Create new values with the watch business at the core.

CITIZEN Group is comprised of various corporations that have high-end specialties and technological expertise, all of which work together as one team. Business fields, centering on watches, cover numerous areas ranging from machine tools, devices, electronics and others where each player is developing unique business activities by utilizing its professional technology and area of specialty, thereby pursuing collaboration and integration in the most flexible fashion according to the achievement of projects and the development of products.

Based on the technologies that we have cultivated through our watch business and manufacturing, such as miniaturization, precision work and power consumption minimization, the CITIZEN Group will continue to provide new values required in the global marketplace.



# CITIZEN GROUP



## “To open new doors for the watch industries”— That is CITIZEN’s Mission.

Starting with our new line of watches embodying the future with our foundation technology, the proprietary light-powered Eco-Drive, CITIZEN continues its challenges to open new doors for the watch industries, as well as to improve the value of the Citizen Watch Group brand through global exhibitions and flagship stores.



### March 2018, various new lines of watches were presented at Baselworld, the world’s largest exhibition of watches and jewelry

Baselworld 2018 is the largest global trade fair held from March 22nd to March 27th, 2018 in Basel, Switzerland. This year, the Citizen Watch Group’s theme was “We Celebrate Time.” At “Time Theatre,” a booth open to all visitors at the fair, we aimed at creating a place where each person may have a chance to think freely about the “time” they have passed up to now; or to celebrate “time” that they are going to proceed through in the future. We also displayed our newest lines of watches from each brand in the Citizen Watch Group, born from the desire to create a watch that is revolutionary for the person wearing it.



### CITIZEN FLAGSHIP STORE TOKYO

### The world's first flagship store for the group celebrated its first anniversary with more satisfaction than ever!

“GINZA SIX” is the largest commercial building in the Tokyo Ginza area. On the first floor of the building where the world’s leading brand names stand side by side is where you find the “CITIZEN FLAGSHIP STORE TOKYO,” the Citizen Watch Group’s flagship store. Taking its rightful place as a space for cutting edge products, “CITIZEN” is centered in the world’s largest collection of major brands in its Group. Many people gathered at the store’s first anniversary commemorative party held in April 2018, and the store has obtained quite a favorable reputation.



## Calibre.0100

Movement commemorate the Company’s 100<sup>th</sup> Anniversary with world’s first watch that provides “annual accuracy of  $\pm 1.0$  second”!

Without depending on anything, and not being forgiving with even the tiniest of errors, just to achieve “purest form of 1 second” with maximum sharpness. In 2018, as CITIZEN celebrates its 100<sup>th</sup> anniversary since its founding, CITIZEN announced announced “Calibre. 0100”, an Eco-Drive movement that keeps ticking ultra precise time. Using only its internal mechanism, the watch ticks time autonomously with high accuracy, and has achieved the distinction of being the world’s first watch with “annual accuracy of  $\pm 1.0$  second.” “Calibre 0100” marks the beginning of a new century of watches.

\* As of May 2018, for an analogue quartz light-powered watch, according to research by Citizen Watch Co., Ltd.

## Eco-Drive One

Movement of 1.00 mm thinness and the case that as small as 2.98 mm (design specs).

The world’s thinnest\* Proprietary light-powered Eco-Drive watch created by CITIZEN.

\* As of May 2018, for an analogue quartz light-powered watch, according to research by Citizen Watch Co., Ltd.



## BULOVA

Curved Chronograph Movement

World’s first, revolutionary curved chronograph movement. Designed based on the streamlined shape of human engineering.



## Frederique Constant

Classics Carree Automatic Heart Beat

With the classical feeling created by the square shape, and the heartbeat dial design, you will enjoy everything there is with this high-quality mechanical watch.



BETTER STARTS NOW

The belief that “No matter who you are and what you do, it is always possible to make something better, and now is the time to start doing it.”

Eco-Drive One

A beauty that strips things away to express the very essence of the watch.  
Thinness beyond imagination. A wrist feel that defies gravity and stress.  
The joy of becoming one with your watch the moment you put it on.  
Driven by a movement just 1.00mm thick,  
it is the world’s thinnest light-powered watch.  
Eco-Drive One is a work of art that only CITIZEN could create.  
Because we are a manufacture d’horlogerie,  
performing every stage of manufacturing,  
from the making of individual parts through to final assembly.

ATTESA

The moment you put it on,  
it is surprisingly light and feels good on your skin.  
You can move your arm freely,  
without having to worry about scratching the watch.  
In the end, people find it comfortable.  
Titanium, the material loved by the universe; and the color black,  
which depicts the eternity of titanium and the universe.  
This is the most suitable Satellite Wave GPS watch made with  
Super Titanium(TM) that shines on your arm.



xC


There are times when you may suddenly feel uneasy  
or even be lost,  
but you just want to remember to be optimistic.  
You look up, and you feel the light touch  
of the xC on your hand.  
You start walking into another day  
wearing something that is reliable.  
Everything is going to be OK.  
Spring is waiting in the place  
where you are headed to.


The CITIZEN


To continue to mark accurate time.  
Easy to be seen from everywhere.  
Standard design that cannot be affected by trends.  
So comfortable you will forget it is on your wrist.  
It is the culmination of the unwavering technology  
and craftsmanship of a Japanese brand  
in constant pursuit of the basic function  
of the watch.  
That is The CITIZEN.


Innovative and pioneering history of CITIZEN brand




December	1924	First pocket watch completed.*1	
June	1931	First wrist watch completed.	
March	1952	First Japanese-made watch with a calendar introduced.	
April	1956	First Japanese-made shock resistant movement, "Para-Shock" introduced.*2	
June	1958	First Japanese-made watch which sounds a bell, "Alarm" introduced.	
July	1959	First Japanese-made complete water resistant watch, "Para-Water" introduced.	






August	1962	World's thinnest 3 hands watch, "Diamond Flake" introduced.	
December	1965	"Crystal Seven" introduced.	
March	1966	First Japanese-made electronic watch, "X8" introduced.	
January	1967	World's first quartz crystal watch, "Crystron" introduced.	

May	1970	World's first titanium watch, "X8 Chronometer" introduced.	
October	1971	Tuning fork type digital watch, "Hi-sonic" introduced.	
August	1973	Crystal watch, "Citizen Quartz" introduced.	
August	1976	World's first analog quartz light-powered watch, "Crystron Solar Cell" introduced.*3	
May	1978	World's first quartz watch with a movement thickness of less than 1mm, "Exceed Gold" introduced.	

November		First Japanese-made combination quartz watch, "Digi Ana" introduced.	
December	1986	CITIZEN became No.1 in the world in yearly production of wrist watches (calculated by movement).	
June	1987	Titanium watch, "ATTESA" introduced.	

May	1993	World's first multiband "Radio-Controlled Watch" introduced.*4	
May	1995	Watch with free 10-year warranty and lifetime repairs, "The CITIZEN" introduced.	
November	1996	Watch for sophisticated women, "xC" introduced.	
June	1999	Light-powered & radio-controlled watch, "ATTESA Eco-Drive Radio-Controlled Watch" introduced.	

November	2000	Genuine product oriented watch, "Campanola" introduced.	
November	2000	World's thinnest light-powered watch, "Stiletto" simultaneously introduced worldwide.	
June	2003	World's first built-in antenna type full metal cased radio-controlled watch introduced.*5	
June	2005	World's smallest watch for woman equipped with radio-controlled watch movement introduced.	
June	2006	Eco-Drive radio-controlled watch which is thinnest in the world in analog full metal radio-controlled watches introduced.	
October		Eco-Drive radio-controlled watch which is the first watch in the world equipped with disk-type indication function for days of the week introduced.	
June	2007	Eco-Drive radio-controlled watch, "World Time" which realized high sensitivity reception in Japan, U.S. and Europe introduced.	
May	2008	Eco-Drive radio-controlled watch, "World Time" equipped with a new function to receive standard radio waves in China introduced.	
June	2009	"ATTESA Jetsetter Direct Flight" equipped with the world's first disk-type city selection function introduced.	

March	2011	World's smallest size light-powered Eco-Drive radio-controlled watch, "xC" introduced."Exceed" world's first multiband radio-controlled watch ladies model (hand indication type) introduced.	
September		World's first satellite synchronized watch, "Eco-Drive Satellite Wave" introduced.*6	
October		"ATTESA Double Direct Flight" which displays two-city times simultaneously introduced.	
August	2014	A model equipped with mechanical movement of La Joux-Perret SA introduced from "Campanola."	
October		Light-powered satellite synchronized watch equipped with the world's thinnest case, world's fastest reception, world's first light level indicator, "Eco-Drive SATELLITE WAVE F100" introduced.	
October	2015	"ATTESA SATELLITE WAVE -GPS F900" which receives time signal at the world fastest signal reception speed introduced.*7	
September	2016	New style of Luxury ladies watch "CITIZEN L" introduced.*8	
October		Flagship model commemorating the 40th anniversary of the release of the analog light-powered watch, the world's thinnest light-powered watch, "Eco-Drive One" introduced.*9	
July	2017	The world's first light-powered, 1000 m saturation diving water-resistant watch "CITIZEN PROMASTER Eco-Drive Professional Diver 1000 m" introduced	
March	2018	Announcement of the Eco-Drive Movement with "annual accuracy of ±1.0 second."*10	





### Developed versatile brands respecting each personality and world view.

The watch market has been asked to respond to various tastes of people. CITIZEN is promoting a multi brand strategy to flexibly respond to the needs of such diversified market. The Company is strengthening each brand including high-priced overseas brands and highly-fashionable brands, as well as CITIZEN's mid-tier priced range brands.



#### BULOVA

BULOVA's continued efforts in the development and modernization of watches is expressed in the message "A HISTORY OF FIRSTS." BULOVA has played an important role in the history of watches, including the invention of the world's first electronic watch using a tuning fork mechanism and many unique designs as represented by the Spaceview model and technical support to NASA. In 2016, BULOVA announced the CURV collection. The world's first curved chronograph movement drew much attention. BULOVA will continue its efforts in modernizing technology and design.

#### CAMPANOLA

Since its debut in 2000, CAMPANOLA has released creative models with high-end mechanisms that are attractive under the theme "Enjoy time. Enjoy daily life. Enjoy individuality." CAMPANOLA's design concept is "beauty of the universe" which describes the "universe that ticks time" in a confined space isolated by a multi-layered construction of a three-dimensional clock face and glass. CAMPANOLA comes in 4 collections: The "MECHANICAL" equipped with mechanical movement by La Joux-Perret SA; the super complicated mechanism "COMPLICATION," equipped with various functions such as the minute repeater and perpetual calendar; "COSMOSIGN," that has achieved real-time duplication of the whole sky constellation within 35 degrees N; and the light-powered "ECO-DRIVE."



#### Frederique Constant

Founded in 1988, Frederique Constant welcomes its 30th anniversary this year. The Frederique Constant brand is based on the concept of luxury within reach, and thus has established a system to consistently implement design, development and assembly by the company itself. Since 2004, the company carried out development, manufacturing and assembly of 26 types of its own caliber. To offer creativity and superb value, Frederique Constant continues its innovation. Also, through superior manufacturing of timepieces, Frederique Constant is entrusted with the mission of offering products with reasonable prices to as many watch fans as possible.

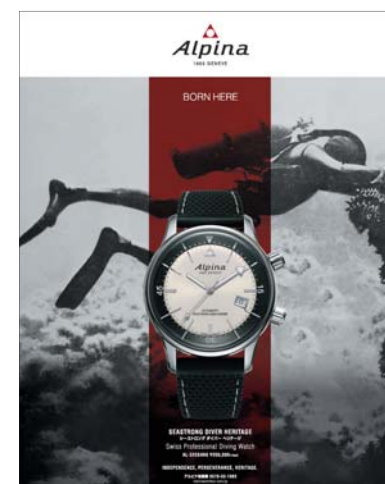


#### Arnold & Son

Arnold & Son is a brand inspired by British-born John Arnold. Just like Abraham-Louis Breguet of France, Arnold was a gifted watchmaker and his craftsmanship was well known. His many inventions gave rise to the evolution of watch technologies. It is said that the person who supported the prosperity of the British Empire which dominated the seas in the 18th century was John Arnold, who developed the high-precision, "spring detent marine chronometer." Now, Arnold & Son is a manufacturer whose studio is based in La Chaux-de-Fonds in Switzerland, and employs a one-model for one-movement system as well as a consistent approach for the hand-making of watches from design to the manufacture of movement.

#### Alpina

Alpina, whose headquarters is in Geneva in Switzerland, is a watchmaker with a history of more than 130 years since its founding in 1883. In 1938, the concept of a "Swiss-made sports watch" now known as "Alpiner 4" was conceived. Alpina is one of the few Swiss watch makers to do everything within the company, from development and manufacturing to assembly. Five types of calibers manufactured by the company itself have been launched. In 2015, the "AL-760 Flyback Chronograph," patented as "direct flyback," was developed. Alpina has indicated as its mission to design and manufacture a high-grade sports watch with high accuracy and reliability even under very extreme sporting environments.



#### INDEPENDENT

Established in 1996, INDEPENDENT is a brand with a name that means "independence." Under the concept of "Freedom with its own will," the brand has consistently suggested unique taste and design that is not influenced by conventional values or appearances, and has continued to provide satisfaction for men who have strong interests in things that are "cool," as in "Art," "Music," "Fashion," and "Style."



## Fashion Brand

#### Q&Q

Since its start in 1976, Q&Q has distributed over 10 million watches every year in about 120 countries around the world. The new series "Q&Q SmileSolar," released under the concept "TIME FOR EVERYONE — A happy time for all people on Earth," has been received by people around the world with its "light-powered, battery exchange-free" functionality. A portion of the proceeds of the series is donated to the non-profit organization "TABLE FOR TWO" to deliver school meals to children in Asia and Africa.



#### wicca

In 1999, another watch brand called "wicca" was established by CITIZEN. The name refers to the "Magic" through which a dream comes true. Girls always want to be cute. Girls always want to have the feeling of being in love. Girls want to have it all. Girls are busy. How about a high performance watch that also has a cute design? With the new-fashioned kawaii watch brand, wicca accentuates girls who strive every day to enjoy life and to be themselves.



### Each technology collaborates with each other. Core technology that upholds the beauty of watches.

Aiming for realizing "Fusion of technology and beauty" in a high perspective, CITIZEN is persistently continuing to pursue technology while demonstrating an incomparable spirit of innovation and uniqueness. By utilizing the DNA of small, precision and electric power saving since its foundation, as well as collaborating highly advanced core technology with other various areas, we have been providing values that cannot be provided by other companies.



#### Light-power technology

"Eco-Drive" is one of the core technologies of CITIZEN. It is technology which CITIZEN dealt with for the first time in the world in 1976 in which light that is passed through a dial is converted to electrical energy by a solar cell to charge a secondary battery to move the hand by conveying to the motor. Eco-Drive reached a high progressive state until now where not only sunlight, but other tiny amounts of light can be used to charge and it can run 6 months or more with a single full charge without carrying out periodic battery replacement. While we are still pursuing further possibilities, we are making various attempts and efforts.

#### [ Three features of Eco-Drive ]

- Even tiny amounts of light can charge battery
- Periodic battery replacement is unnecessary
- Single full charge can run 6 months or more



#### Radio-Controll technology

CITIZEN has developed radio-controlled watches including the world's thinnest full-metal analog models. These models also have the world's smallest (one-yen coin size) movement. Moreover, we have developed the Eco-Drive radio-controlled watch in Japan, North America, Europe and China where it is possible to receive radio waves. CITIZEN is leading the advancement of radio-controlled watches.



#### Satellite Wave GPS

In 2011, we developed the "Eco-Drive Satellite Wave" which is the world's first analog light-powered watch which receives time information from GPS satellites. A new system was installed in which time information from a GPS satellite which is rotating in outer space approximately 20,000 km away from the earth is used to show the correct time. The watch continues to show accurate time wherever you are on this planet if there is open sky and light. In 2015, the Eco-Drive SATELLITE WAVE debuted with a receiving time for time information of just 3 seconds. Location information acquisition function was installed in addition to time information so that the watch automatically identifies the time zone to correct time and calendar information.



#### Technologies for watch exterior

The surface treatment technology which enhances the visibility of dials by a configuration in which thin films that suppress the reflection of light are stacked in the glass surface of a watch in multiple layers of several nm levels\* is anti-reflection coating. Although coating is generally applied to the inside of the glass, CITIZEN made it possible for double coating by developing a thin transparent film that is not easily damaged. By applying "99% clarity coating", high transparency as if the glass does not exist was achieved, which not only enhanced visibility but also contributed to the improvement of the electricity generation of Eco-Drive.



"Duratect" is technology of increasing the hardness of a material by 3 to 5 times by applying special treatment to the material surface of titanium and stainless steel which are used for the case or the belt of a watch as surface hardening technology. This technology also allows for the application of various colors including gold, pink gold, Sakura pink, stainless steel, platinum and black. By implementing "Duratect", it has become possible to maintain the beautiful brightness that you experience when holding a watch for the first time for a long time.



In 1970, CITIZEN introduced a watch with a titanium case for the first time in the world. A solution we reached eventually was "Super titanium™." The company could succeed in implementing a hardness five times more than that of stainless steel by processing pure titanium and then applying CITIZEN's own surface hardening technology (Duratect). We finally created a material which is light, strong against scratches, friendly to skin and difficult to rust.



#### Technique for watch assembly

「CITIZEN meister」 It is a title to be given to the best-ranking craftsman who acquired the highest technological level and passed difficult skill inspection system. That is a CITIZEN meister. CITIZEN meisters are responsible for assembling the high-end product group such as The CITIZEN and high-end radio-controlled watches, etc. and engrave a serial number on the backs of completed watches. This allows you to know who manufactured the watch. In the past, one of the CITIZEN meisters was awarded the Medal with Yellow Ribbon by the Emperor, and two others were selected as "The Contemporary Master Craftsman" by the Ministry of Health, Labour and Welfare. CITIZEN continues to uphold the handing down of the techniques of craftsmen through human hands, which cannot be learned through technical manuals.



#### Technique for mechanical movement

For many years CITIZEN has continued to manufacture mechanical watches with its specialty in utilizing metal processing technology. We have not only developed processing equipment and assembly equipment which are used for dedicated watch manufacturing; but as a real "manufacturer" which can produce parts at our own factory including critical movements, "hair springs" (it is reported that this can only be produced by a few manufacturers in the world), "precious stones" and "gears," we have manufactured over 100 million mechanical watch movements at our own factory. This technology is used in quartz watch and Eco-Drive products.



#### The Seventh Manufacturing Japan Award (Prime Minister's Award)

Ms. Hiroko Arai from the Iida manufacturing plant of CITIZEN was awarded "the 7th Manufacturing Japan Award." Ms. Arai has been engaged in the assembly of time piece movements to completed goods, and she has won the "Contemporary Master Craftsman" award given by the Minister of Health, Labor, and Welfare in 2016.



#### Movement

CITIZEN has the highest level of external sales in the industry for movements, the controller in the heart of a watch. We have earned a high reputation in the world market for their quality and reliability. Quartz movements with high-precision metal parts as well as mechanical movements are produced in Japan under rigorous quality control to be installed in various brands of watches. The long-selling product "Cal.2035," with 30 years of history, has been continuously improved and "Cal.9000" was newly added to the lineup of mechanical movements. As a pioneer of the movement industry, we will continue to create new value.



The photo below is of the CITIZEN Watch Manufacturing Miyota-Saku Plant in Saku, Nagano, that was completed in December 2016. The manufacturing of movements that has been handled at several different companies in the Group will now be concentrated at this plant to reduce lead-time, improve productivity and further enhance quality control. The plant floor space is approximately 20,000m². This gigantic facility is one of the largest movement assembly plants in the world.



Source: Website of the Prime Minister's official residence ([https://www.kantei.go.jp/jp/98\\_abe/actions/201801/22monodukuri.html](https://www.kantei.go.jp/jp/98_abe/actions/201801/22monodukuri.html))

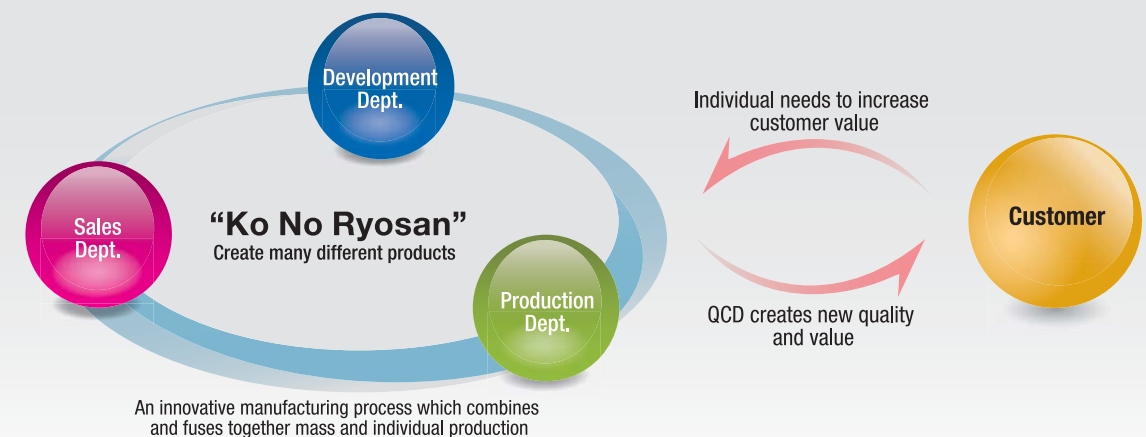


## Entering a new stage of machine tools through mass production focused on individual product customization- “Ko No Ryosan” Creation of the world's cutting-edge production innovation solutions.

CITIZEN MACHINERY has a history of being the first in the world to develop sliding headstock and fixed headstock NC lathes. Currently, the company is proud of having the largest market share in the world and provides high quality and unique machine tools in various areas ranging from automobile, medical and IT related industries. The key word is "Mass production focused on individual product customization." When we thought about the conflicting idea of "mass" and "individual" in terms of production, we concluded that a new idea or value is required. We believe that “Ko No Ryosan” is a new and integral value for production required in the 21st century. Under the new business model of “Ko No Ryosan”, we have contributed to society by providing new valued products.

Citizen Machinery Co., Ltd. URL .....<http://cmj.citizen.co.jp/english/>

### The production development concept of CITIZEN MACHINERY CO., LTD.



## Cincom

### Sliding Headstock Type CNC Automatic Lathes



### Our Advanced Engineering Development Offers Optimal Parts Machining Proposals for Customers

CITIZEN WATCH began its business with a desire “to produce a Japanese-made pocket watch.” In order to fulfill such a desire, the company manufactured its own machine tools to process precision parts and launched the world's first automatic NC lathe, Cincom, in 1970. The product line-up centered on the sliding headstock CNC automatic lathe is strong in high precision and high speed processes and acclaimed for a reputation for its ease-of-use. Based on small diameter, high precision processing technology gained from watch part production, Cincom has continued to develop and commercialize the latest technology including NC control technology, which realizes high productivity of multi-spindle/multi system and superposition control, etc., and network technology for automatic lathes, thereby providing state-of-the-art technology on a global scale. We are able to provide the best application to meet individual parts machining by utilising our extensive machining know-how gained over the years. We help our customers in a wide variety of fields such as the automobile, medical and IT sectors to innovate their manufacturing solutions.

### World renowned "high rigidity"

Through a desire to manufacture industrial files for lighters, Miyano developed an automatic lathe which automates the blanking process. In 1948 the company succeeded in developing the first automatic fixed headstock lathe in Japan. The performance of the lathe obtained popularity in the market and Miyano commercialized the product. After this success the company continued to develop into a well-established brand for automatic lathes and CNC lathes. Centered on high rigidity fixed headstock CNC automatic lathes that are able to perform heavy cutting, global customers highly praise its "strength." Its best selling products include the BNA, BNJ and BNE Series, in addition to the lineup of forging machinery and multiple axis automatic lathes and its total solution including peripheral devices responds to versatile needs of production. Miyano has continued to provide highly reliable and durable machines for the production lines of its customers mainly in the automobile sectors, construction equipment and hydraulic equipment fields.



## Miyano

### Fixed Headstock Type CNC Automatic Lathes



## LFV technology

### “Low Frequency Vibration Cutting” Technology

Low Frequency Vibration cutting technology discharges intermittent chips by oscillating the servo-driven axis in the direction of travel. This technological solution is effective for small diameter machining and for machining small, deep holes.

### 〈 Difference of chips 〉



▲Existing cutting



▲Low frequency vibration cutting



## MultiStationMachiningCell

### Innovative machine construction technology

The machine process has been optimized by re-organizing the machining processes that tended to be spread over several machines, and by combining them into three processing modules.





## Taking up the challenge of further miniaturization, precision, and lower power consumption. Making our proprietary advanced technology the foundation of the information society.

Applying our miniaturization and precision machining technologies that have been developed through watch manufacturing, we provide a wide range of components and products that support the lives of people and society. In the area of automotive components that are used in brake units and engine units, the company is supplying high value-added components on a global level. We are also actively involved in the development of LEDs for lighting, responding to ever-increasing society needs. Based on the experience we have accumulated in the cellular phone market, we are supporting the development and evolution of next-generation LED for lighting, which consumes little power, is long lasting and environmentally friendly. We also contribute to a better life and society by supplying such products as crystal device components, display devices and switches, which are vital components of smartphones and digital cameras.

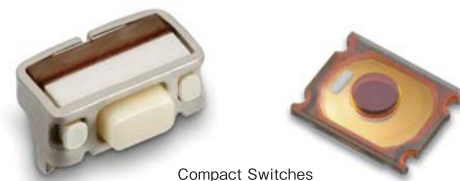
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Automotive Components



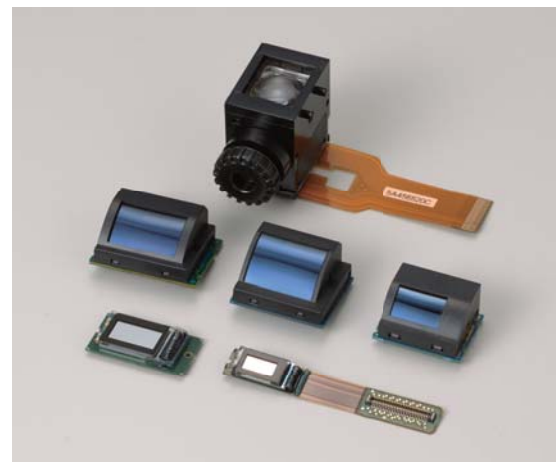
LED for Lighting



Compact Switches



Quartz Oscillators



Ferroelectric Liquid Crystal Micro Displays

## Pursuing new value and convenience by monitoring people's health and lifestyles.

CITIZEN's electronic products are increasing their presence as the business environment requires daily evolution and while people desire continued good health and a rewarding life. When stop into a shop or convenience store or print a photograph to give a friend, you might not realize that the commercial printers and photo printers you see around town utilize miniaturization, precision, and power conserving technologies that originated from wristwatches. Likewise, the health maintenance devices in sports gyms, clinics, and used at home to monitor your health and support daily health management, such as Digital blood pressure meters, Digital thermometers, and Digital pedometers, were developed from these core technologies. We will continue to monitor people's health and lifestyle needs to provide devices and solutions to meet those needs.

Citizen Systems Japan Co., Ltd. URL ..... <http://www.citizen-systems.co.jp/english/>



POS Printer



Photo Printer



Digital Blood Pressure Monitor



Digital Thermometer

## Expanding into a wide range of new fields from jewelry to leisure. Expanding time keeping technology to joy providing services.

CITIZEN Group is also engaged in a variety of other types of businesses, such as development of jewelry such as wedding rings, and in leisure services such as ice skating and bowling. We will continue to provide products and services that satisfy our customers by precisely responding to the needs of society and the needs of the times.

Citizen Jewelry Co. Ltd. URL ..... <http://jewelry.citizen.co.jp/>  
Citizen Plaza Co., Ltd. URL ..... <http://www.citizen-plaza.co.jp/>



Jewelry



Citizen Plaza Ice Skating Rink



Citizen Plaza Bowling Center



## We practice what we hoped in the company name through CSR activity.

### The name, CITIZEN, has our feelings for people & society.

It was in 1918 (the 7th year of the Taisho era) that Shokosha Watch Research Institute, predecessor of CITIZEN Watch Co., Ltd., was founded. In those days, the mainstream of pocketable timepieces was imported pocket watches. Kamekichi Yamazaki, the founder of the Company, who had a strong will for domestic production of watches, completed his first originally designed pocket watch in 1924 (the 13th year of the Taisho era). Yamazaki asked Mr. Shinpei Goto, then the mayor of Tokyo to name the pocket watch. Mr. Goto named it "CITIZEN," which means a member of a state, in hopes of "being widely and forever loved by citizens in the world." This name later became the origin of the Company name.

### Efforts to CSR Activities

Today, every business must achieve "CSR (Corporate Social Responsibility)" which includes not only seeking for sales or profits, but also considering products' influence to safety and environment, concerning human rights and employment, and involving together with stakeholders around the companies. CITIZEN Group has prioritized social responsibility as we managed the company while we have practiced the organizational philosophy ever since we started. We established "CITIZEN Code of Conduct" which defines codes for operation in the CITIZEN Group, and the officers and all the employees of the CITIZEN Group take part in the business activities according to the code of conduct. Also, in April 2005, CITIZEN declared to participate in the Global Compact proposed by the United Nations, and have issued CSR report annually since 2005. CITIZEN will continue to fulfill our social responsibility as a company in the name of "CITIZEN."



For details of our CSR activities, please visit the website below.  
<http://www.citizen.co.jp/global/csr/>

## CITIZEN GROUP CODE OF CONDUCT

1. Act responsibly towards society and strive to raise the corporate value of the Citizen Group.
2. Create and promote products and services that demonstrate our commitment to safety, quality, and the environment.
3. Engage in business practices that are fair, transparent, open to competition, and responsible.
4. Respect human rights and diversity, and provide a safe and pleasant working environment.
5. Recognize the importance of environmental conservation, and take voluntary and proactive measures.
6. Manage and protect company assets in an appropriate manner.
7. Abstain from actions that would harm the company's long-lasting values.
8. Strive to contribute to regional communities in which we operate.

Revised on October 1, 2016



### Social Contribution Activities

#### Corporate Centennial Anniversary Commemorative Project "CITIZEN Social Contribution Activity Dispatch System"

The year 2018 marks the 100th anniversary since the Company's founding, and to make the year a beginning of further development for the CITIZEN Group, the "CITIZEN Social Contribution Activity Dispatch System" was started. Under the project, employees of the CITIZEN Group go out to various places both inside and outside the country and conduct support activities by tackling the social issues of that region.

◀ Community support activities in a depopulated, aging district in Nagano Prefecture

▼ Support for children in the Philippines



### Table Tennis Gatherings Hosted by the Works Team

The CITIZEN Watch Table Tennis Club holds table tennis gatherings in regions with group company locations. Table tennis is a great way to show kids that will lead the future the fun and satisfaction they can get out of playing sports.



For details of the table tennis club, please visit the website below.  
<http://www.citizen-tabletennisclub.jp/>

### CITIZEN OF THE YEAR

CITIZEN OF THE YEAR is an annual award bestowed on citizens for their activities to contribute to the development, happiness, and attractiveness of their local community. This award was established in 1990 to fill the void for an award for citizens in a wide range of fields who actions are worth of the name "CITIZEN." Three recipients of the award are determined by a Selection Committee, which is comprised of city news editors of major newspaper publishers and other experts, that chooses an article that they believe to be worthy of the award from a major daily newspaper that was issued between January and December of that year. This award has been bestowed on both Japanese and foreigners who have contributed to their local communities in Japan.



For details on the CITIZEN OF THE YEAR, please visit the website below.  
<http://www.citizen.co.jp/global/coy/>

### Participation in the "Because I am a Girl" campaign

Supporting the "Because I am a Girl" campaign by Plan, an international NGO helping women in developing countries stand on their own feet, CITIZEN introduces the efforts in the ad of its xC brand. It also donates part of its profits to Plan as a project operation fund.



Girls in developing countries suffer many hardships because of their sex. This global campaign aims to pose the problems they face, help them stand on their own feet and alleviate poverty in these countries.

<http://www.plan-japan.org/girl/>



### Environmental management activities

#### Eco-Drive

Eco-Drive is CITIZEN's unique light-power technology which does not require periodic battery change. In addition to the unnecessary of battery change, the secondary battery does not contain hazardous metals. On top of that, hazardous materials are not used in manufacturing process. These advantages made it possible to obtain an extremely high evaluation from an ecological viewpoint, as the name suggests.



Eco-Drive

### Global environmental response of products

In an attempt to respond to environmental laws and regulations such as RoHS and REACH, the company is collecting detailed information regarding chemical substances in materials and parts from all suppliers in Japan and overseas by incorporating management target criteria which is being promoted by JAMP.

JAMP: Joint Article Management Promotion-consortium Association beyond the industry which promotes the sharing of contained chemical substance information through the supply chain

### Responding to RoHS at Citizen Watch Manufacturing (Thailand) Co., Ltd.

We have examined the restricted parts of the newly added RoHS directive. Using coating materials that do not include the restricted materials, we mixed the solution again, and did the switchover.



### Improving the Recycling Rate at Citizen Machinery Vietnam Co., Ltd.

Sand that has been reclaimed for disposal is now being recycled as building blocks and bricks for construction use. As a result, recycling rate of waste materials has improved a great deal.





**We create the values required in the global market. Get them wherever you need them, through our broad network of business operations.**

## Europe

- 1 CITIZEN WATCH ESPAÑA S.A.
- 2 CITIZEN WATCH EUROPE GmbH.
- 3 CITIZEN WATCH ITALY S.P.A.
- 4 CITIZEN WATCH UNITED KINGDOM, LTD.
- 5 FREDERIQUE CONSTANT HOLDING S.A.
- 6 PROTHOR HOLDING S.A.
- 7 CITIZEN MACHINERY EUROPE GmbH.
- 8 CITIZEN MACHINERY UK LTD.
- 9 CITIZEN MACCHINE ITALIA s.r.l
- 10 C-E(DEUTSCHLAND) GmbH.
- 11 CITIZEN SYSTEMS EUROPE GmbH.

## Asia, Oceania

- 1 CITIZEN WATCHES (H.K.) LTD.  
星辰表(香港)有限公司
- 2 CITIZEN WATCH (CHINA) CO., LTD.  
西鉄城(中国)鐘表有限公司
- 3 CITIZEN (SHANGHAI) TRADING CO., LTD.
- 4 CITIZEN WATCHES (INDIA) PVT. LTD. CIN
- 5 CITIZEN WATCHES (MALAYSIA) SDN.BHD.
- 6 SUNCITI MANUFACTURERS LTD.  
新星工業有限公司
- 7 SUNCITI PVD (JIANGMEN) LTD.  
新星真空鍍膜(江門)有限公司
- 8 CITIZEN WATCH GOODRINGTON (CHINA) LTD.  
西鉄城冠利鐘表(中国)有限公司
- 9 GUANGZHOU MOST CROWN ELECTRONICS LTD.  
広州務冠電子有限公司
- 10 ROYAL TIME CITI CO., LTD.
- 11 CITIZEN WATCH MANUFACTURING (THAILAND) CO., LTD.
- 12 CITIZEN (CHINA) PRECISION MACHINERY CO.,LTD.  
西鉄城(中国)精密機械有限公司
- 13 CINCOM MIYANO TAIWAN CO., LTD.  
台灣星宮美亞諾股份有限公司
- 14 CITIZEN MACHINERY ASIA CO.,LTD.
- 15 CITIZEN MACHINERY VIETNAM CO.,LTD.
- 16 CITIZEN MACHINERY PHILIPPINES INC.
- 17 CITIZEN ELECTRONICS (CHINA) Co, LTD.  
西鉄城電子貿易(上海)有限公司
- 18 C-E (HONG KONG) LTD.  
西鉄城電子(香港)有限公司
- 19 JIANGXING ELECTRONICS LTD.  
江門市江星電子有限公司
- 20 FIRSTCOME ELECTRONICS LTD.  
首軒電子有限公司
- 21 MOST CROWN INDUSTRIES LTD.  
務冠實業有限公司
- 22 MASTER CROWN ELECTRONICS (WUZHOU) LTD.  
領冠電子(梧州)有限公司
- 23 CITIZEN SEIMITSU (THAILAND) CO., LTD.
- 24 CITIZEN FINEDEVICE PHILIPPINES CORP.
- 25 CITIZEN SYSTEMS (H.K.) LTD.
- 26 CITIZEN SYSTEMS (JIANGMEN) Co., LTD.
- 27 CITIZEN SYSTEMS (DONGGUAN) CO., LTD.
- 28 CITIZEN WATCHES AUSTRALIA PTY LTD.

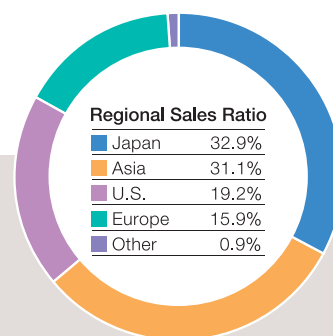
## Japan

- 1 CITIZEN WATCH CO., LTD.
- 2 CITIZEN MACHINERY CO., LTD.
- 3 CITIZEN ELECTRONICS CO., LTD.
- 4 CITIZEN SYSTEMS JAPAN CO., LTD.
- 5 CITIZEN FINEDEVICE CO., LTD.
- 6 CITIZEN WATCH MANUFACTURING CO., LTD.
- 7 CITIZEN JEWELRY CO., LTD.
- 8 TOKYO BIJUTSU CO., LTD.
- 9 CITIZEN PLAZA CO., LTD.
- 10 CITIZEN T.I.C. CO., LTD.
- 11 CITIZEN CHIBA PRECISION CO., LTD.
- 12 CITIZEN WATCH KAGOSHIMA CO., LTD.
- 13 CITIZEN YUBARI CO., LTD.
- 14 CITIZEN MICRO CO., LTD.
- 15 CITIZEN RETAIL PLANNING., LTD.
- 16 CITIZEN ELECTRONICS FUNEHKI CO., LTD.
- 17 CITIZEN ELECTRONICS TIMEL CO., LTD.
- 18 FUJIMI CO., LTD.
- 19 CITIZEN WATCH MYOKO CO., LTD.
- 20 CITIZEN CUSTOMER SERVICES CO., LTD.

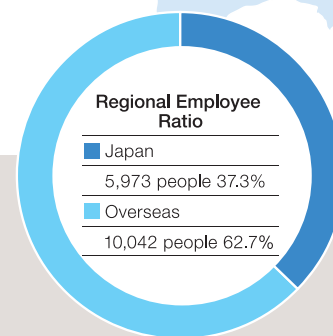
## North America, South America

- 1 CITIZEN WATCH CO. OF AMERICA, INC.
- 2 CITIZEN DE MEXICO, S.A. DE C.V.
- 3 CITIZEN LATINAMERICA CORP.
- 4 CITIZEN WATCH CO. OF CANADA, LTD.
- 5 CECOL, INC.
- 6 MIYOTA DEVELOPMENT CENTER OF AMERICA, INC.,
- 7 CITIZEN SYSTEMS AMERICA CORP.

Overseas sales in group consolidated financial statements accounted for 67.1%, which was two times that in Japan. In addition, overseas employees account for over 60% of our workforce.



Net sales: 320 billion yen (FY2017)



Number of employees: 16,015 people (as of March 31, 2018)





# HISTORY

	1918	Inauguration (Establishment of Shokosha Watch Research Institute, forerunner of CITIZEN Watch Co., Ltd.)
December	1924	First pocket watch completed.
May	1930	Citizen Watch Co., Ltd. established. Yosaburo Nakajima appointed president.
June	1931	First wrist watch completed.
May	1936	Tanashi Factory constructed.

July	1941	Production of machine tools begins.
October	1945	Shinji Nakajima appointed president.
March	1946	Eiichi Yamada appointed president.
June	1949	Citizen Trading Co., Ltd. established.

March	1952	First Japanese-made watch with a calendar introduced.
December	1955	Export of wrist watches begun.

March	1960	Import-export agreement concluded with the U.S. Bulova Watch Co. Technical assistance agreement with India.
August	1964	Technology research laboratory established.
December		Citizen Business Machines established.
March	1965	Production of business machines begun. (Adding machines, camera shutters)
October		Office opened in former West Germany, start of full-fledged exports to Europe.
March	1966	First Japanese-made electronic watch "X-8" introduced.

March	1970	CNC automated lathe "Cincom" developed.
March	1976	Production of quartz oscillators begun.
August	1976	World's first analog quartz light-powered watch, "Crystron Solar Cell" introduced.
February	1978	Head Office moved to Shinjuku Mitsui Bldg. in Tokyo.

June	1980	Industry's first microcomputer controlled line impact printer introduced.
June	1981	Rokuya Yamazaki appointed president.
March	1983	Chip LED lamp CL Series developed.
May		IC sensor electronic thermometer introduced.
June	1987	Michio Nakajima appointed president.

January	1990	Citizen of the Year annual award established.
February	1992	Acquired German machine tool company, Boley GmbH.
May	1993	World's first multizone "Radio-Controlled Watch" introduced.
April	1996	Light-powered Eco-Drive received the Eco Mark the first for a watch.
June	1997	Hiroshi Haruta appointed president.

March	2001	Head Office moved to Nishi-Tokyo.
March	2002	Sales of white LED as a backlight for color LCDs started.
June		Makoto Umehara appointed president.
June	2003	World's first full metal case radio-controlled watch with built-in antenna introduced.
January	2004	Implemented Citizen Code of Conduct.
October		Merged with Citizen Trading Co., Ltd.
April	2005	Citizen Systems Japan Co., Ltd. established.
October		Five consolidated companies ( Citizen Electronics, Miyota, Cimeo Precision, Sayama Precision Industries, Kawaguchiko Precision ) become wholly owned subsidiaries.
October		Names of Citizen Group companies changed.
April	2007	Company name changed to Citizen Holdings Co., Ltd.
January	2008	Acquired shares of Bulova Corporation.
April		Mitsuyuki Kanamori appointed president.
July		Citizen Miyota Co., Ltd. and Citizen Finetech Co., Ltd. merge. Citizen Finetech Miyota Co.,Ltd. established.
October		Miyano Machinery Inc. becomes a consolidated subsidiary.

April	2011	Citizen Machinery Co.,Ltd. and Miyano machinery Inc. merge. Citizen Machinery Miyano Co., Ltd. established.
September		World's first light-powered watch which receives time information from a satellite, "Eco-Drive Satellite Wave" introduced.
April	2012	Toshio Tokura appointed president. Acquired shares of Prothor Holding SA.
July	2013	Citizen Watch Manufacturing Co., Ltd. established.
April	2014	Achieved total shipment of 100,000 automatic NC lathes.
April	2015	Changed the company name of Citizen Machinery Miyano to Citizen Machinery Co., Ltd.
April		Merged Citizen Finetech Miyota Co., Ltd. and Citizen Seimitsu Co., Ltd. to establish Citizen Finedevice Co., Ltd.
July	2016	Acquired shares of Frederique Constant Holding SA.
October		Changed its trade name to Citizen Watch Co., Ltd.
October		The world's thinnest light-powered watch, "Eco-Drive One" introduced.
May	2018	100 <sup>th</sup> Anniversary since the Company was established.



Headquarters ( Nishi-Tokyo City )

# FINANCIAL DATA 2018

Financial Section For the Year Ended March 31, 2018

23	Five-Year Summary
24	Management's Discussion and Analysis
27	Consolidated Balance Sheets
29	Consolidated Statements of Income
30	Consolidated Statements of Comprehensive Income
31	Consolidated Statements of Changes in Net Assets
32	Consolidated Statements of Cash Flows
33	Notes to Consolidated Financial Statements
43	Report of Independent Auditors (Translation)
44	Investors Information



## Five-Year Summary

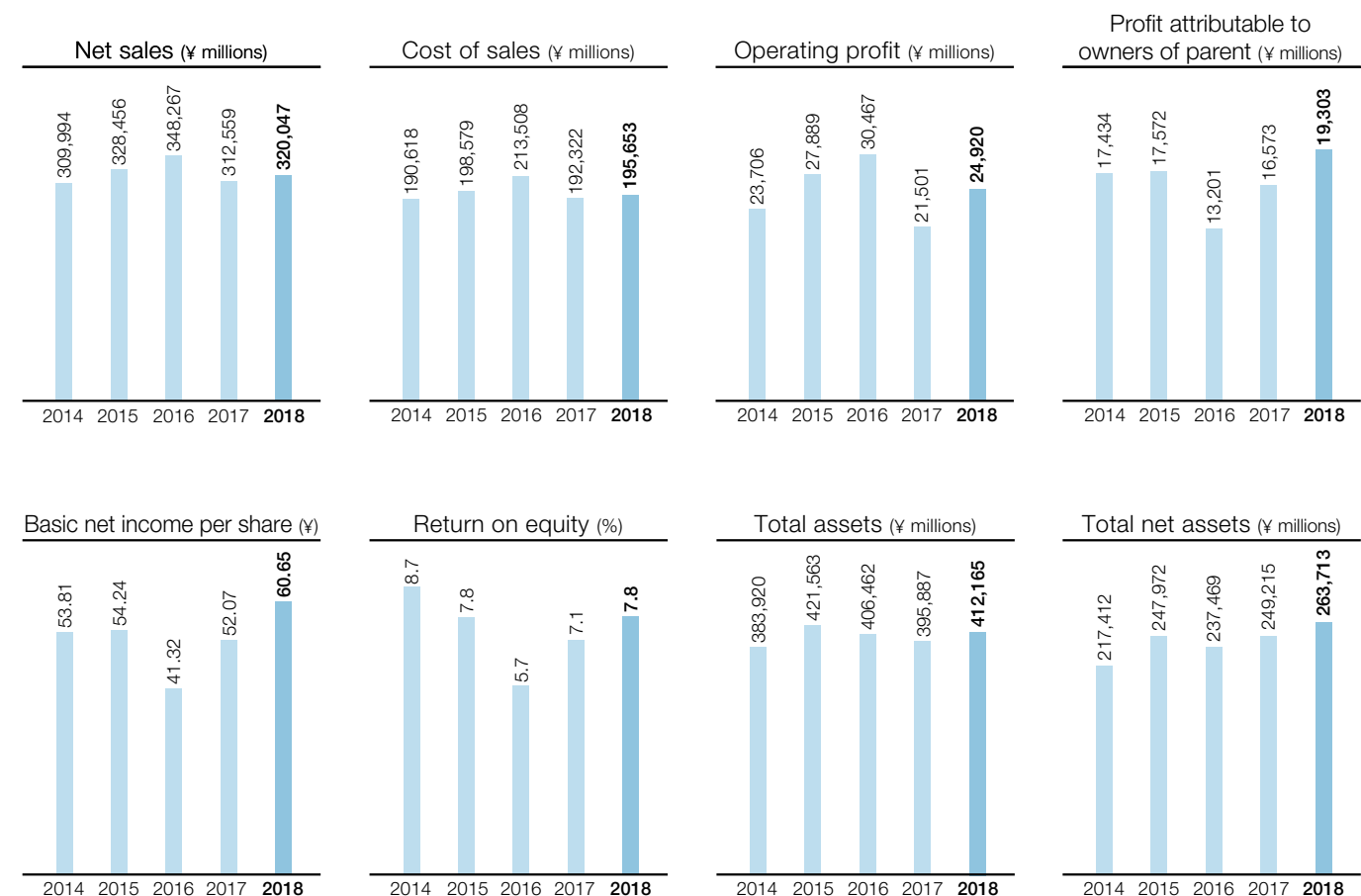
Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
March 31, 2018

		Millions of yen (except per share amounts)				Thousands of U.S. dollars (except per share amounts)
	2018	2017	2016	2015	2014	2018
<b>For the year:</b>						
<b>Net sales</b> -----	<b>¥ 320,047</b>	¥ 312,559	¥ 348,267	¥ 328,456	¥ 309,994	<b>\$ 3,019,315</b>
Watches -----	<b>163,718</b>	163,619	181,241	172,280	162,061	<b>1,544,518</b>
Machine tools -----	<b>64,049</b>	49,694	51,517	51,702	41,728	<b>604,239</b>
Devices and Components -----	<b>65,596</b>	69,462	80,632	67,536	66,784	<b>618,835</b>
Electronic Products -----	<b>20,580</b>	21,774	23,371	24,717	24,349	<b>194,156</b>
Other Products -----	<b>6,102</b>	8,008	11,504	12,218	15,071	<b>57,567</b>
<b>Operating profit</b> -----	<b>24,920</b>	21,501	30,467	27,889	23,706	<b>235,096</b>
<b>Income before income taxes and non-controlling interests</b> -----	<b>27,442</b>	22,467	22,550	31,890	25,881	<b>258,892</b>
<b>Income taxes</b> -----	<b>7,741</b>	5,439	8,519	14,056	8,210	<b>73,035</b>
Current -----	<b>7,633</b>	4,817	7,938	11,000	4,044	<b>72,015</b>
Deferred -----	<b>108</b>	622	581	3,055	4,166	<b>1,020</b>
<b>Profit attributable to owners of parent</b> ----	<b>19,303</b>	16,573	13,201	17,572	17,434	<b>182,110</b>
<b>Other Information</b>						
<b>Depreciation</b> -----	<b>¥ 13,795</b>	¥ 12,509	¥ 14,934	¥ 14,386	¥ 14,282	<b>\$ 130,144</b>
<b>Capital expenditures</b> -----	<b>16,854</b>	23,621	22,882	18,913	14,003	<b>158,999</b>
<b>R&amp;D expenditures</b> -----	<b>7,161</b>	7,113	7,500	8,169	7,440	<b>67,565</b>
<b>Per Share data (yen and U.S.dollars):</b>						
<b>Net income</b>						
Basic -----	<b>¥ 60.65</b>	¥ 52.07	¥ 41.32	¥ 54.24	¥ 53.81	<b>\$ 0.57</b>
Diluted -----	<b>—</b>	—	—	—	—	<b>—</b>
<b>Cash dividends</b> -----	<b>22.00</b>	17.00	17.00	16.00	13.00	<b>0.21</b>
<b>At Year-End:</b>						
<b>Total assets</b> -----	<b>¥ 412,165</b>	¥ 395,887	¥ 406,462	¥ 421,563	¥ 383,920	<b>\$ 3,888,358</b>
<b>Total net assets</b> -----	<b>263,713</b>	249,215	237,469	247,972	217,412	<b>2,487,860</b>
<b>Number of share issued (thousands)</b> -----	<b>320,353</b>	320,353	330,353	330,353	330,353	<b>—</b>

Note:Yen amounts have been translated, for convenience only, at the rate of ¥106 to the US\$1, the approximate exchange rate on March 31, 2018.

## Management's Discussion and Analysis

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
March 31, 2018



### I. OVERVIEW OF FINANCIAL RESULTS

During the consolidated fiscal year under review, the Japanese economy experienced an overall trend toward moderate recovery but remained in a situation lacking strength. On the other hand, the U.S. economy showed signs of recovery in its economic indicators, including a sustained improvement in employment. The European economy was slowing due to uncertainties associated with Brexit. In the Asian economy, there were signs of recovery, particularly in China, although this trend has already halted in some areas.

In this environment, the Citizen Group pushed forward with manufacturing reform to strengthen its earning capacity according to "Citizen Global Plan 2018," its medium-term management plan formulated in February 2013. At the same time, the Group implemented a new growth strategy, mainly in the watches business, to be a "solid global company".

The Citizen Group's consolidated results for the fiscal year under review showed net sales of 320.0 billion yen (up 2.4% year on year), operating profit of 24.9 billion yen (up 15.9% year on year) and profit attributable to owners of parent of 19.3 billion yen (up 16.5% year on year).

### II. FINANCIAL POSITION

#### Assets Outstanding at Fiscal Year End

As of the end of the consolidated fiscal year under review, total assets increased by 16.2 billion yen year on year, to 412.1 billion yen. Current assets increased by 17.8 billion yen due to factors such as an increase of 11.3 billion yen in cash and deposits and an increase of 6.2 billion yen in inventories. Non-current assets decreased by 1.5 billion yen as goodwill declined by 1.6 billion yen, deferred tax assets decreased by 0.8 billion yen and land was down by 0.8 billion yen, in spite of 1.5 billion yen increase in investment securities and 0.9 billion yen increase in construction in progress.

Liabilities increased by 1.7 billion yen year on year, to 148.4 billion yen, as long-term loans payable rose by 4.9 billion yen, income taxes payable increased by 2.2 billion yen, notes and accounts payable-trade increased by 1.4 billion yen, short-term loans payable increased by 1.0 billion yen, and electronically recorded obligations-operating was up by 1.0 billion yen, in spite of 10.0 billion yen decrease in unsecured bonds.

Net assets increased by 14.4 billion yen year on year, to 263.7 billion yen, mainly as a result of 13.8 billion yen rise in retained earnings and a 1.5 billion yen increase in unrealized gain on available-for-sale securities, in spite of 1.0 billion yen decrease in foreign currency translation adjustments.



III. CASH FLOWS

Net cash provided by operating activities decreased by 0.2 billion yen year on year, to 32.5 billion yen. Major factors contributing to this result included 27.4 billion yen in income before income taxes, 13.7 billion yen in depreciation, and 2.6 billion yen increase in payables–trade, in spite of 6.7 billion yen increase in inventories and 5.2 billion yen in income taxes paid.

Net cash used in investing activities decreased by 19.9 billion yen year on year, to 7.8 billion yen. Major factors contributing to this result included 15.5 billion yen in payments for purchases of property, plant and equipment, in spite of 5.2 billion yen in proceeds from sales of property, plant and equipment and 2.1 billion yen in proceeds from sales of investment securities.

Net cash used in financing activities decreased by 8.9 billion yen year on year, to 11.7 billion yen. Major factors contributing to this result included 10.0 billion yen in repayments for redemption of bonds and 5.4 billion yen in dividends paid, in spite of factors for an increase such 8.6 billion yen in proceeds from long-term loans payable.

For the consolidated fiscal year under review, cash and cash equivalents (hereinafter “funds”) increased by 12.7 billion yen year on year, to 90.6 billion yen as of the end of the year.

IV. DIVIDENDS

	Dividends per share (Yen)					U.S. dollars	Total dividends paid (annual) (Millions of yen)	Thousands of U.S. dollars	Pay-out ratio (Consolidated)	Dividends to consolidated net assets
	First quarter	Second quarter	Third quarter	Year-end	Full year					
March 31, 2017	—	8.50	—	8.50	17.00	\$0.16	5,410	\$51,047	32.6%	2.3%
March 31, 2018	—	8.50	—	13.50	22.00	\$0.21	7,002	\$66,059	36.3%	2.8%
March 31, 2019 (E)	—	10.00	—	10.00	20.00	\$0.19			37.4%	

Note:  
The special dividend of 5.00 yen per share for the company’s 100th anniversary is included in the year-end dividends per share for the fiscal year 2017.

Fundamental Policy Regarding the Distribution of Profits

The Company regards the ratio of the total amount of dividends and share buybacks to profit attributable to owners of parent as the “ratio of return to shareholders,” and has decided to ensure that the average ratio of the three-year period exceeds 30%. The dividend will be decided by taking into consideration the balance with the Company’s business performance and the stability of dividends.

V. RISKS

The following factors may affect the Citizen Group’s operating results, financial position, stock price and other figures.

(i) Risks regarding our businesses

The Citizen Group’s main business is to manufacture and sell watches, machine tools, devices and components, and electronic products. The Group operates its business all over the world, and our customers include both individuals and a wide range of manufacturers. Our operating results are therefore influenced by a variety of factors, some of which are listed below.

●Watches

Competition in the watch market is intensifying, not only from Japanese brands, but also from high-end Swiss brands, low-end

Chinese manufacturers, and smart watch manufacturers, along with alternative products such as mobile phones with watch functions. Although we are facing the environment of a decline in prices for increasing competition due to the rise of Chinese manufacturers in the movement sector, the Company employs a strategy to keep distance from price competition, so this may result in the declines of the number of our product sales and market share.

●Machine tools

The machine tools business is susceptible to the effects of economic cycles and fluctuations in capital investment activities amongst companies. Competition is also intensifying, not only with domestic manufacturers, but also with manufacturers in other parts of Asia. In addition, as markets around the world are regaining momentum, there is a risk that the procurement of components may become difficult as a result of the imbalance of the supply and demand of materials for machine tools. There is also a risk that manufacturing and services may face a labor shortage.

●Devices and components

The devices and components business is characterized by rapid technological innovation and fierce competition between companies, meaning that declining sales prices or delays in development, for example, can have a significant impact on business results. Precision machining components are susceptible to customer trends, including automotive and mobile phone manufacturers. The results for opto-devices could be affected by the occurrence of losses in lighting LED components that are subject to the inappropriate activities of Citizen Electronics. Patent licensing agreements are also essential for manufacturing certain products. Our business results could be affected should a cooperative relationship underpinning a patent agreement break down and access to the patent be lost.

●Electronic products

The electronic products business is susceptible to declining capital expenditure and personal spending as a result of changing economic conditions. With intense competition, not only from domestic manufacturers but also from electronics manufacturers in China and other countries, and rapid technological innovation, business results could also be impacted by declining sales prices or development delays, for example.

(ii) Overseas sales

Overseas sales account for a high percentage of the Group’s overall product sales. As our products are sold worldwide, our operating results may be affected by economic and consumer trends in each area, as well as by political and socioeconomic factors.

(iii) Foreign currency fluctuation risk

As overseas sales account for a high percentage of the Group’s product sales, as mentioned above (ii), we enter into foreign currency contracts, currency options and other such transactions to hedge against risks. Although we are expanding and strengthening our overseas production, currency fluctuations may still affect the Group’s operating results.

(iv) Manufacturing in China

About 40% of the Group’s products are manufactured overseas, with China being our main production base. It is therefore possible for our operating results to be affected by factors in China, such as the suspension of production due to problems, the enactment of new regulations that could affect production, or the sharp appreciation of the Chinese yuan.

(v) Impairment loss

An impairment loss would be applicable if the market value of the Group’s assets were to decline significantly or the profitability of our business were to deteriorate. This may affect the Group’s operating results and financial position.

(vi) Patent and intangible property

As part of the Group’s R&D and production activities, we make use of a variety of technologies covered by intellectual property rights. These include intellectual property rights that are owned by the Citizen Group, and others for which we believe we have legitimately received licenses to use. Nevertheless, should a third party claim, based on grounds of which we are unaware, that its intellectual property rights have been violated, a dispute could arise that could affect the Group’s business results.

For some products in particular, manufacturing is based on patent licensing agreements. If a cooperative relationship underpinning such an agreement were to break down, or access to the relevant patent were to be lost, it may affect our business results.

(vii) Risk related to natural disaster such as earthquakes

We have established a Group risk management system to avoid any injury or damage to facilities in the event of a fire, an earthquake or other disaster through drills and other safety activities at our headquarters and works. In the event of a particularly serious earthquake or other such disaster, however, our production activities and product supplies may be affected. There may also be a significant impact on our operating results and financial position due to reconstruction costs, for example.

(viii) Risks related to M&As and business alliances

We are committed to strengthening the Group’s business foundations through M&A and business alliances. When undertaking such activities, we carry out comprehensive research into and examinations of the companies involved. Nevertheless, there may be risks that we discover later, such as unrealized liabilities or obstacles in implementing projects, which may materially affect the Group’s operating results and financial position.

(ix) Risk related to borrowings

The Group’s borrowings include syndicated loans and commitment line agreements with financial institutions. Any violation of financial restrictions under such agreements could result in demands for the accelerated repayment of the relevant borrowings, which may affect the Group’s financial position.

(x) Other risks

The Group’s operating results may be affected by a variety of factors in addition to the above, including changes in social infrastructure and market competition as a result of rapid advances in technology, changes in the Group’s financial or managerial situation as a result of ongoing restructuring initiatives, trading restrictions in major markets in Japan or overseas, or substantial changes in stock or bond markets.

VI. Compensation Details for Directors and Audit & Supervisory Board Members

A. Compensations for Corporate Directors of this company are as follows:

	Number of officers to receive compensation	Amount of compensation, etc. (millions of yen)	Thousands of U.S. dollars	Amount of bonus out of all compensation, etc. (millions of yen)	Thousands of U.S. dollars
Directors (Out of which, Outside Directors)	12 (3)	236 (19)	\$ 2,233 (\$ 181)	81 (—)	\$ 764 (—)
Auditors (Out of which, Outside Audit & Supervisory Board Members)	4 (2)	42 (25)	\$ 400 (\$ 244)	— (—)	— (—)
Total (Out of which, outside officers)	16 (5)	279 (45)	\$ 2,633 (\$ 425)	81 (—)	\$ 764 (—)

(Note)  
1. The above amount of the bonuses (81 million yen) (\$764 thousand) for Directors (excluding Outside Directors) is the amount to be paid after the conclusion of the 133rd Ordinary General Meeting of Shareholders scheduled to be held on June 27, 2018.  
2. The maximum allowance for the total amount of compensation, etc. for Directors (excluding Outside Directors) was set at 270 million yen (\$2,547 thousand) per year (inclusive of bonuses, etc.) at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007.  
Prior to the resolution, employee salaries (including bonuses) for employees who also serve as Directors used to be paid in addition to the compensation, etc. for Directors. However, after the resolution, compensation for the performance of the duties of Directors is consolidated into the above compensation, etc. for Directors, and will be paid within the above maximum allowance. In addition, the total amount of compensation, etc. (including bonuses (excluding share-based compensation)) for the Directors (excluding Outside Directors) has been decided, at the 133rd ordinary general meeting of shareholders on June 27, 2018, as less than 370 million yen (\$3,490 thousand) annually, and that employee portion of the compensation for the Director who is employee shall not be paid.  
3. The maximum allowance for the total amount of compensation, etc. for Outside Directors was set at 30 million yen (\$283 thousand) per year at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. No bonuses will be paid to Outside Directors.  
4. The maximum allowance for the total amount of compensation, etc. for Audit & Supervisory Board Members was set at 80 million yen (\$754 thousand) per year at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. No bonuses will be paid to Audit & Supervisory Board Members.  
5. At the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, the introduction of the performance-linked and share-based compensation system for Directors (other than Outside Directors and those who do not reside in Japan) was approved. Under this plan, a trust will be created for a period of three consecutive fiscal years (the initial period starting from the fiscal year ending March 31, 2019 shall be 1 fiscal year), and the shares of the Company will be issued to the Directors (other than Outside Directors and those who do not reside in Japan) through the said trust. The limit of the maximum amount to be contributed to the trust is set at 300 million yen (\$2,830 thousand) for a period of three fiscal years (and 100 million yen (\$943 thousand) for the initial period starting from the fiscal year ending March 31, 2019 (for 1 fiscal year)).

B. The total amount of the consolidated compensation etc., by each officer of reporting company  
Because there is no one who receives total amount of consolidated compensation etc., over 100 million yen (\$943 thousand), it is not listed.  
C. Important matter regarding employee compensation of the Director who is also a employee  
Because the employee portion of the compensation is not paid, it is not listed.  
D. Policy regarding the determination of amount of Directors’ compensation, etc.  
The Company’s policy regarding the amount of remuneration, etc. for officers is to apply the criteria to ensure the recruitment of human resources who are eager to improve business performance and who have outstanding abilities, and to consider changes in the business environment, external data, the general remuneration level and the business situations in determining it. The policy for determining the amount of the bonus for officers is to consider the items of financial assessment (sales, operating profit, etc.) and the items of non-financial assessment (improvement of strength and systems, preparations for the future, etc.) in addition to the application of the policy above.



# Consolidated Balance Sheets

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
March 31, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars(Note 1)
	2018	2017	2018
<b>Current assets:</b>			
Cash and time deposits (Note 2 and 13) -----	¥ 92,079	¥ 80,746	\$ 868,674
Notes and accounts receivable-trade (Note 13) -----	62,013	61,142	585,036
Electronically recorded monetary claims (Note 13) -----	914	1,156	8,631
Inventories (Note 4) -----	90,541	84,328	854,166
Deferred tax assets (Note 5) -----	6,673	6,787	62,954
Other current assets -----	8,405	8,720	79,295
Less: Allowance for doubtful accounts -----	(957)	(1,037)	(9,031)
Total current assets -----	259,670	241,844	2,449,725
<b>Property, plant and equipment (note 11 and 16):</b>			
Buildings and structures -----	110,398	112,251	1,041,498
Machinery and equipment -----	125,640	126,184	1,185,287
Tools, furniture and fixtures -----	44,478	43,744	419,613
Leased assets (Note 10) -----	2,600	2,427	24,535
	283,118	284,606	2,670,933
Less: accumulated depreciation -----	(212,404)	(213,138)	(2,003,813)
	70,714	71,468	667,120
Land -----	10,293	11,109	97,106
Construction in progress -----	3,971	2,977	37,464
Property, plant and equipment, net -----	84,979	85,554	801,690
<b>Investments and other assets:</b>			
Investment securities (Note 3 and 13) -----	46,043	44,519	434,372
Long-term loans (Note 13) -----	931	1,030	8,791
Goodwill (Note 16) -----	4,356	5,958	41,101
Software -----	3,940	3,208	37,175
Other intangible assets -----	3,744	4,420	35,330
Deferred tax assets (Note 5) -----	5,167	6,029	48,750
Leased assets (Note 10) -----	9	6	90
Others (Note 13) -----	3,546	3,663	33,461
Less: Allowance for doubtful accounts -----	(199)	(211)	(1,882)
Less: Allowance for loss on investments -----	(26)	(138)	(245)
Total investments and other assets -----	67,516	68,484	636,943
Total assets (Note 16) -----	¥ 412,165	¥ 395,887	\$ 3,888,358

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars(Note 1)
	2018	2017	2018
<b>Current liabilities:</b>			
Short-term loans payable and current portion of long-term loans payable (Note 6 and 13) -----	¥ 6,880	¥ 5,849	\$ 64,913
Current portion of unsecured bonds (Note 6 and 13 ) -----	10,000	10,000	94,339
Notes and accounts payable-trade (Note 13) -----	21,267	19,836	200,632
Electronically recorded obligations-operating (Note 13) -----	14,164	13,140	133,626
Income taxes payable (Note 5) -----	4,884	2,657	46,082
Deferred tax liabilities (Note 5) -----	197	102	1,864
Accrued expenses -----	13,509	12,727	127,450
Accrued bonuses -----	5,936	5,458	56,009
Provision for reorganization costs (Note 14) -----	822	1,294	7,757
Other current liabilities -----	9,353	9,455	88,237
Total current liabilities -----	87,016	80,523	820,909
<b>Long-term liabilities:</b>			
Long-term loans payable (Note 6 and 13) -----	32,146	27,182	303,267
Unsecured bonds (Note 6) -----	—	10,000	—
Deferred tax liabilities (Note 5) -----	3,647	3,392	34,406
Liability for retirement benefits (Note 7) -----	22,721	22,003	214,352
Provision for reorganization costs (Note 14) -----	913	1,330	8,616
Other long-term liabilities -----	2,008	2,238	18,948
Total long-term liabilities -----	61,436	66,148	579,589
Total liabilities -----	148,452	146,671	1,400,498
<b>Net assets:</b>			
Common stock			
Authorized — 959,752,000 shares in 2018 and 2017			
Issued — 320,353,809 shares in 2018 and 2017	32,648	32,648	308,008
Capital surplus -----	34,000	34,074	320,756
Retained earnings -----	176,117	162,224	1,661,485
Less: treasury stock, at cost			
(2,068,500 shares in 2018 and 2,064,808 shares in 2017) -----	(1,783)	(1,780)	(16,821)
Total shareholders' equity -----	240,983	227,168	2,273,428
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities -----	11,909	10,332	112,354
Foreign currency translation adjustments -----	2,067	3,088	19,500
Accumulated adjustments for retirement benefits -----	(1,047)	(1,168)	(9,886)
Total accumulated other comprehensive income -----	12,928	12,252	121,968
Non-controlling interests -----	9,801	9,795	92,464
Total net assets -----	263,713	249,215	2,487,860
Total liabilities and net assets -----	¥ 412,165	¥ 395,887	\$ 3,888,358



## Consolidated Statements of Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars(Note 1) (except per share amounts)
	2018	2017	2018
<b>Net sales (Note 16)</b> -----	<b>¥ 320,047</b>	¥ 312,559	<b>\$ 3,019,315</b>
<b>Cost of sales</b> -----	<b>195,653</b>	192,322	<b>1,845,792</b>
Gross profit -----	<b>124,393</b>	120,236	<b>1,173,523</b>
<b>Selling, general and administrative expenses (Note 7 and 9)</b> -----	<b>99,473</b>	98,734	<b>938,427</b>
Operating profit (Note 16) -----	<b>24,920</b>	21,501	<b>235,096</b>
<b>Other income (expenses):</b>			
Interest income -----	<b>401</b>	286	<b>3,789</b>
Dividends income -----	<b>1,348</b>	1,449	<b>12,723</b>
Interest expense -----	<b>(470)</b>	(399)	<b>(4,441)</b>
Foreign currency exchange loss -----	<b>(343)</b>	(1,168)	<b>(3,240)</b>
Subsidy income (Note 2) -----	<b>766</b>	243	<b>7,229</b>
Loss on disposal of property, plant and equipment -----	<b>(528)</b>	(320)	<b>(4,987)</b>
Gain on sales of property, plant and equipment -----	<b>2,368</b>	2,438	<b>22,344</b>
Gain on sales of investment securities -----	<b>1,480</b>	2,211	<b>13,968</b>
Gain on sales of shares of subsidiaries -----	<b>14</b>	—	<b>136</b>
Impairment loss (Note 11 and 16) -----	<b>(378)</b>	(1,039)	<b>(3,571)</b>
Reorganization costs (Note 14) -----	<b>(1,532)</b>	(2,557)	<b>(14,457)</b>
Special compliance expenses, etc. (Note 15) -----	<b>(312)</b>	—	<b>(2,944)</b>
Others, net (Note 2) -----	<b>(291)</b>	(180)	<b>(2,753)</b>
Other income (expenses), net -----	<b>2,522</b>	964	<b>23,796</b>
<b>Income before income taxes and non-controlling interests</b> -----	<b>27,442</b>	22,467	<b>258,892</b>
<b>Income taxes (Note 5):</b>			
Current -----	<b>7,633</b>	4,817	<b>72,015</b>
Deferred -----	<b>108</b>	622	<b>1,020</b>
Total income taxes -----	<b>7,741</b>	5,439	<b>73,035</b>
<b>Net income</b> -----	<b>19,700</b>	17,028	<b>185,857</b>
Attributable to:			
<b>Owners of parent</b> -----	<b>¥ 19,303</b>	¥ 16,573	<b>\$ 182,110</b>
<b>Non-controlling interests</b> -----	<b>397</b>	454	<b>3,747</b>
	Yen		U.S. dollars (Note 1)
<b>Per share of common stock:</b>			
<b>Net income</b>			
Basic -----	<b>¥ 60.65</b>	¥ 52.07	<b>\$ 0.57</b>
<b>Cash dividends applicable to the year</b> -----	<b>22.00</b>	17.00	<b>0.21</b>

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2018	2017	2018
<b>Net income</b> -----	<b>¥ 19,700</b>	¥ 17,028	<b>\$ 185,857</b>
Other comprehensive income			
Unrealized gain on available-for-sale securities -----	<b>1,577</b>	2,918	<b>14,879</b>
Foreign currency translation adjustments -----	<b>(990)</b>	(2,684)	<b>(9,345)</b>
Adjustments for retirement benefits -----	<b>122</b>	227	<b>1,155</b>
Share of other comprehensive income of associates			
accounted for using equity method -----	<b>(151)</b>	28	<b>(1,427)</b>
Total other comprehensive income -----	<b>557</b>	489	<b>5,262</b>
Total comprehensive income -----	<b>¥ 20,258</b>	¥ 17,517	<b>\$ 191,119</b>
Total comprehensive income attributable to:			
Owners of parent -----	<b>¥ 19,979</b>	¥ 17,028	<b>\$ 188,488</b>
Non-controlling interests -----	<b>278</b>	489	<b>2,631</b>

See notes to consolidated financial statements.



## Consolidated Statements of Changes in Net Assets

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance as of March 31, 2016	¥ 32,648	¥ 33,969	¥159,684	¥ (10,400)	¥215,903	¥ 7,413	¥ 5,756	¥ (1,372)	¥ 11,797	¥ 9,768	¥237,469
Purchase of shares of consolidated subsidiaries		104			104						104
Cash dividends			(5,410)		(5,410)						(5,410)
Net income			16,573		16,573						16,573
Repurchases of treasury stock				(2)	(2)						(2)
Disposal of treasury stock		(0)		0	0						0
Retirement of treasury stock		(8,622)		8,622	—						—
Transfer of loss on disposal of treasury stock		0	(0)		—						—
Transfer to capital surplus from retained earnings		8,622	(8,622)		—						—
Net changes other than shareholders' equity						2,918	(2,667)	203	454	26	481
Net changes-total	—	104	2,539	8,620	11,264	2,918	(2,667)	203	454	26	11,746
Balance as of March 31, 2017	32,648	34,074	162,224	(1,780)	227,168	10,332	3,088	(1,168)	12,252	9,795	249,215
Purchase of shares of consolidated subsidiaries		(74)			(74)						(74)
Cash dividends			(5,410)		(5,410)						(5,410)
Net income			19,303		19,303						19,303
Repurchases of treasury stock				(3)	(3)						(3)
Disposal of treasury stock		(0)		0	0						0
Transfer of loss on disposal of treasury stock		0	(0)		—						—
Net changes other than shareholders' equity						1,577	(1,021)	120	676	6	682
Net changes-total	—	(74)	13,892	(2)	13,815	1,577	(1,021)	120	676	6	14,497
Balance as of March 31, 2018	¥ 32,648	¥ 34,000	¥176,117	¥ (1,783)	¥240,983	¥ 11,909	¥ 2,067	¥ (1,047)	¥ 12,928	¥ 9,801	¥263,713

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance as of March 31, 2017	\$ 308,008	\$ 321,458	\$1,530,421	\$ (16,793)	\$2,143,094	\$ 97,475	\$ 29,140	\$ (11,025)	\$ 115,590	\$ 92,407	\$2,351,091
Purchase of shares of consolidated subsidiaries		(702)			(702)						(702)
Cash dividends			(51,046)		(51,046)						(51,046)
Net income			182,110		182,110						182,110
Repurchases of treasury stock				(29)	(29)						(29)
Disposal of treasury stock		0		1	1						1
Transfer of loss on disposal of treasury stock		0	(0)		—						—
Net changes other than shareholders' equity						14,879	(9,640)	1,139	6,378	57	6,435
Net changes-total	—	(702)	131,064	(28)	130,334	14,879	(9,640)	1,139	6,378	57	136,769
Balance as of March 31, 2018	\$ 308,008	\$ 320,756	\$1,661,485	\$ (16,821)	\$2,273,428	\$ 112,354	\$ 19,500	\$ (9,886)	\$ 121,968	\$ 92,464	\$2,487,860

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

Millions of yen  
Thousands of U.S. dollars (Note 1)

	2018	2017	2018
<b>Cash flows from operating activities:</b>			
Income before income taxes and non-controlling interests	¥ 27,442	¥ 22,467	\$ 258,892
Depreciation and amortization	13,795	12,509	130,144
Increase (Decrease) in provision for reorganization costs	(882)	(3,423)	(8,325)
Increase (Decrease) in allowance for doubtful accounts	(91)	(2,267)	(861)
Increase (Decrease) in other provisions	683	(971)	6,452
Increase (Decrease) in liability for retirement benefits	840	844	7,931
Amortization of goodwill	1,579	1,642	14,901
Interest and dividends income	(1,750)	(1,735)	(16,512)
Interest expense	470	399	4,441
(Gain) Loss on sales of investment securities, net	(1,480)	(2,211)	(13,968)
(Gain) Loss on sales of consolidated subsidiaries' stocks	(14)	—	(136)
(Gain) Loss on sales of property, plant and equipment, net	(2,368)	(2,438)	(22,344)
Loss on disposal of property, plant and equipment	480	297	4,530
Decrease (Increase) in receivables-trade	(1,480)	3,308	(13,966)
Decrease (Increase) in inventories	(6,705)	6,941	(63,257)
Decrease (Increase) in payables-trade	2,669	(3,871)	25,186
Impairment loss	378	1,039	3,571
Others, net	2,959	3,093	27,919
Subtotal	36,527	35,623	344,598
Interest and dividends received	1,753	1,749	16,543
Interest payments	(480)	(408)	(4,532)
Income taxes paid	(5,260)	(4,182)	(49,632)
<b>Net cash provided by operating activities</b>	<b>32,539</b>	<b>32,781</b>	<b>306,977</b>
<b>Cash flows from investing activities:</b>			
Payments for purchases of investment securities	(1)	(1,508)	(9)
Proceeds from sales of investment securities	2,158	3,496	20,359
Payments for purchases of property, plant and equipment	(15,583)	(21,346)	(147,018)
Proceeds from sales of property, plant and equipment	5,288	4,710	49,887
Payments for purchases of intangible assets	(1,346)	(1,460)	(12,702)
Payments of loans	(4)	(12)	(46)
Proceeds from collection of loans	107	107	1,013
Payments for purchases of consolidated subsidiaries	—	(12,377)	—
Proceeds from sales of stocks of consolidated subsidiaries with changes in scope of consolidation	75	—	707
Others, net	1,445	529	13,634
<b>Net cash used in investing activities</b>	<b>(7,862)</b>	<b>(27,861)</b>	<b>(74,175)</b>
<b>Cash flows from financing activities:</b>			
Increase (Decrease) in short-term loans payable	(152)	(14,730)	(1,438)
Proceeds from long-term loans payable	8,689	—	81,977
Repayments of long-term debt	(3,221)	(15)	(30,391)
Repayments for redemption of bonds	(10,000)	—	(94,339)
Proceeds from sales of treasury stock	0	0	1
Payments for acquisition of subsidiaries' stocks without the changes in scope of consolidation	(199)	(1)	(1,883)
Payments for purchases of treasury stock	(3)	(2)	(29)
Dividends paid	(5,410)	(5,410)	(51,046)
Dividends paid to non-controlling interests	(192)	(348)	(1,820)
Others, net	(1,225)	(117)	(11,564)
<b>Net cash used in financing activities</b>	<b>(11,716)</b>	<b>(20,626)</b>	<b>(110,532)</b>
<b>Foreign currency translation adjustments on cash and cash equivalents</b>	<b>(192)</b>	<b>(1,448)</b>	<b>(1,813)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>12,768</b>	<b>(17,155)</b>	<b>120,457</b>
<b>Increase in cash and cash equivalents due to change in scope of consolidation</b>	<b>—</b>	<b>—</b>	<b>0</b>
<b>Increase (Decrease) in cash and cash equivalents due to merger of subsidiaries</b>	<b>—</b>	<b>—</b>	<b>0</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>77,887</b>	<b>95,042</b>	<b>734,786</b>
<b>Cash and cash equivalents at the end of year (Note 2)</b>	<b>¥ 90,655</b>	<b>¥ 77,887</b>	<b>\$ 855,243</b>

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Citizen Watch Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

### Note 1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Citizen Watch Co., Ltd. (the “Company”) and consolidated subsidiaries (collectively, the “Companies”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form, which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency in which the Company is incorporated and mainly operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥106 to U.S. \$1, the approximate rate of exchange as of March 31, 2018. Such translation should not be construed as a representation that Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

As permitted by the Financial Instruments and Exchange Act, for the years ended March 31, 2018 and 2017, amounts of less than one million yen have been omitted. Consequently, totals shown in the accompanying consolidated financial statements for the years ended March 31, 2018 and 2017 do not necessarily agree with the sums of the individual amounts.

### Note 2 Summary of significant accounting policies

#### a. Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, the “Companies”). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company has 113 subsidiaries at March 31, 2018 (122 for 2017). The consolidated financial statements include the accounts of the Company and 96 (105 for 2017) of its significant consolidated subsidiaries (collectively, the “Group”).

The remaining 17 (17 for 2017) non-consolidated subsidiaries whose combined assets, net sales, net income and retained earnings are not significant in the related consolidated totals, are not consolidated with the Company.

Investments in non-consolidated subsidiaries and affiliates (generally 20% - 50% ownership) over which the Company has the ability to exercise significant influence in operating and financial policies are accounted for by the equity method. Equity method is applied to 2 affiliates for 2018 (2 for 2017).

Investments in non-consolidated subsidiaries and affiliated companies other than the above (companies owned 20% - 50%) which have immaterial effect on the consolidated financial statements are accounted for at cost.

#### b. Cash and cash equivalents

Cash equivalents comprise demand deposits in financial institutions and highly liquid, short-term investments with low risk of fluctuations in value for which the maturity expires within three months.

The balance of cash and cash equivalents as of March 31, 2018 and 2017 are reconciled with the balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance sheet:			
Cash and time deposits-----	¥ 92,079	¥ 80,746	\$ 868,674
Less:			
Time deposits over three months--	1,423	2,858	13,431
Cash and cash equivalents	¥ 90,655	¥ 77,887	\$ 855,243

#### c. Marketable and investment securities

The Companies clarify all of their marketable and investment securities as available-for-sale. Available-for-sale securities are carried at market value with the corresponding recognition of net unrealized gains and losses as a separate component of equity, net of related taxes.

Realized gains and losses are determined on the moving average method and included in the consolidated statements of income.

#### d. Allowance for doubtful accounts

An allowance for doubtful accounts is established based on past credit loss experience and management’s evaluation of potential losses in outstanding receivables and loans.

#### e. Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses, determined by the weighted average method.

#### f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the straight-line basis at the rates based on the estimated useful lives of the respective assets ranging from 2 to 60 years for buildings and from 2 to 10 years for machinery and equipment.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might be unrecoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to undiscounted future cash flows expected to be generated by the assets. When the recoverable amount of assets are estimated to be less than their carrying amount, the carrying amount of the assets are reduced to their recoverable amount, and an impairment loss is recognized.

Maintenance and repairs, including minor renewals and improvements, are expensed in the consolidated statements of income as incurred.

#### g. Goodwill and other intangible assets

Goodwill is amortized on the straight-line basis over reasonable economic life up to 20 years, though immaterial goodwill is charged to expense in the period of acquisition.

Software and other intangible assets are amortized on the straight-line basis over the estimated useful lives of the respective assets.

#### h. Leases

Finance leases that do not transfer ownership of the leased property to the lessees are depreciated on the straight-line basis over the lease terms with no residual value.

#### i. Retirement benefits

(1) Calculation of retirement benefit obligation  
The retirement benefit obligation is calculated based on benefit-formula basis.  
(2) Amortization of actuarial differences and prior service costs  
Actuarial differences are amortized on the declining-balance basis from the next fiscal year over the period (5-year) which is less than the average remaining years of employment.  
Prior service costs are amortized on the declining-balance basis over the period (5-year) which is less than the average remaining years of employment.

#### j. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at the reporting date. The foreign currency exchange gains and losses resulting from the settlement of these items are included in the consolidated statements of income.

Balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the reporting date rates except for equity accounts, which are translated at the historical rates. Income statements of foreign subsidiaries are translated at average rates during the year. Exchange differences arising from the translation are recognized in “Foreign currency translation adjustments” and “non-controlling interests” in net assets.

#### k. Per share information

The computation of net income per common share is based on the weighted average number of shares outstanding during each year.  
The average number of common shares used in the computation was 318,287 thousand shares and 318,291 thousand in 2018 and 2017, respectively.

Diluted net income per common share assumes full conversion of the outstanding convertible bonds at the beginning of the year or at the date of issuance with applicable adjustment for related interest expense, net of tax.

Cash dividends per common share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

#### l. Derivative financial instruments

The Companies have derivative financial instruments, such as foreign currency forward contracts and interest rate swaps to manage its exposure to foreign exchange rate and interest rate risks. The Companies do not enter into or trade derivative financial instruments for trading purposes.

Foreign currency forward contracts are not designated for hedge accounting and stated at fair value; gains and losses are recognized in the consolidated statements of income.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value.

#### m. Change of the indication method

(Consolidated Statements of Income)  
“Subsidy income,” which was included in “Others, net” under “Non-operating profit” in the previous consolidated fiscal year, is accounted for as an independent item in the consolidated fiscal year under review because its significance has increased in terms of amount. To reflect this change in the indication method, the consolidated financial statements for the previous consolidated fiscal year are reclassified.

As a result, 63 million yen presented in “Others, net” under “Other income (expenses)” in the consolidated statement of income for the previous fiscal year is reclassified as “Subsidy income” of 243 million yen (\$2,300 thousand) and “Others, net” of (180) million yen (\$1,691 thousand).



n. New accounting pronouncements

1. Implementation guidance on tax effect accounting, etc.
- “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (“ASBJ”) Guidance No.28, revision on February 16, 2018)
  - “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, final revision on February 16, 2018)

(1) Overview

The “Implementation Guidance on Tax Effect Accounting,” etc. made the following revisions that were deemed necessary on the occasion of transferring the Practical Guidances on Accounting Standards for Tax Effect Accounting of the Japanese Institute of Certified Public Accountants to ASBJ by adhering fundamentally to the content.

(Major revised accounting treatments)

- Accounting treatment of taxable temporary difference pertaining to shares of subsidiaries. in non-consolidated financial statements
- Accounting treatment of recoverability of deferred tax assets in companies classified as Category 1

(2) Planned date of application

To be applied from the beginning of the fiscal year ending March 31, 2019.

(3) Impact of the application of the accounting standards, etc.

The amount of the impact on consolidated financial statements is currently under review.

2. Accounting standard for revenue recognition, etc.

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29 on March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30 on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed comprehensive accounting standards for revenue recognition and published the “Revenue from Contracts with Customers” (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. Given that IFRS 15 will be applied from a fiscal year starting on or after January 1, 2018 and that Topic 606 will be applied from a fiscal year starting after December 15, 2017, ASBJ has developed comprehensive accounting standards for revenue recognition and published them in step with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to be adding alternative accounting treatments without losing comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned date of application

To be applied from the beginning of the fiscal year endind March 31, 2022.

(3) Impact of the application of the accounting standards, etc.

The amount of the impact on consolidated financial statements is currently under review.

Note 3 Investment securities

Investment securities consist of equity securities. Unrealized gain and fair value pertaining to available-for-sale securities as of March 31, 2018 and 2017 are as follows:

Millions of yen					
2018			2017		
Cost	Fair value	Unrealized gain	Cost	Fair value	Unrealized gain
Available-for-sale equity securities --					
¥14,586	¥30,043	¥ 15,456	¥15,279	¥28,565	¥13,285
Thousands of U.S. dollars					
2018			2017		
Cost	Fair value	Unrealized gain			
Available-for-sale equity securities -----					
	\$ 137,607	\$283,427	\$ 145,820		

Major securities with no market value and their amounts on the consolidated balance sheets as of March 31, 2018 and 2017 are as follows:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Subsidiaries and affiliates-----	¥ 3,639	¥ 3,544	\$ 34,331
Unlisted equity securities-----	12,361	12,409	116,614

Allowance for loss on investments of ¥26 million (\$245 thousand) and ¥138 million were recorded in the consolidated balance sheets as of March 31, 2018 and 2017, respectively.

Note 4 Inventories

Inventories as of March 31, 2018 and 2017 are as follows:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Finished goods-----	¥ 52,737	¥ 49,121	\$ 497,524
Work-in-process-----	20,590	18,511	194,252
Raw materials-----	17,213	16,695	162,390
Total -----	¥ 90,541	¥ 84,328	\$ 854,166

Note 5 Income taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local taxes based on income. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

Major components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Deferred tax assets:			
Depreciation in excess-----	¥ 846	¥ 459	\$ 7,985
Inter-company profits and write down on inventory-----	3,964	3,660	37,398
Liability for retirement benefits--	6,527	6,251	61,578
Net operating loss carry-forward --	2,136	3,080	20,154
Provision for reorganization costs---	512	757	4,833
Others-----	9,148	9,986	86,324
Total deferred tax assets	¥ 23,136	¥ 24,196	\$ 218,272
Less: Valuation allowance	(7,418)	(7,905)	(69,981)
Total deferred tax assets	¥ 15,718	¥ 16,290	\$ 148,291

Deferred tax liabilities:			
Unrealized gain on securities----	¥ (3,609)	¥ (3,016)	\$ (34,051)
Undistributed earnings of foreign subsidiaries-----	(3,444)	(3,201)	(32,495)
Others-----	(667)	(749)	(6,311)
Total deferred tax liabilities	¥ (7,722)	¥ (6,967)	\$ (72,857)
Net deferred tax assets	¥ 7,996	¥ 9,323	\$ 75,434

The net deferred tax assets as of March 31, 2018 and 2017 are presented as follows:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Current assets			
Deferred tax assets-----	¥ 6,673	¥ 6,787	\$ 62,954
Investments and other assets			
Deferred tax assets-----	5,167	6,029	48,750
Current liabilities			
Deferred tax liabilities-----	197	102	1,864
Long-term liabilities			
Deferred tax liabilities-----	3,647	3,392	34,406

Reconciliation between the statutory and the effective tax rate as of March 31, 2018 and 2017 is as follows:

			2018	2017
Statutory tax rate-----			30.9%	30.9%
Expenses not deductible for tax purposes-----			0.3%	0.8%
Non-taxable dividend income-----			-0.7%	-2.5%
Changes in valuation allowance-----			-1.6%	-5.2%
Amortization of goodwill-----			1.8%	1.9%
Difference of statutory tax rate in subsidiaries-----			-3.1%	-1.5%
Changes in tax effect of foreign subsidiaries-----			0.9%	0.3%
Change in tax law-----			-0.1%	0.2%
Others, net -----			-0.1%	-0.7%
Effective tax rate			28.2%	24.2%

Adjustments to the Amounts for Deferred Tax Assets and Deferred Tax Liabilities Due to Changes in Tax Rates for Corporate Tax: Major tax reform was approved by Congress in the Tax Cuts and Jobs Act (TCJA) in the United States on December 22, 2017. The Act went into effect on January 1, 2018. In accordance with this law enforcement, the federal corporate tax rate reduction is applicable for the consolidated financial results of which fiscal year starts on January 1, 2018.

By this reform, the federal corporate tax rate for our subsidiary in the United State dropped from 35% to 21%.

The effect of the reduced rate on our consolidated financial statement is minor.

Note 6 Short-term loans payable, long-term loans payable and unsecured bonds

Short-term loans payable represents loans from banks as of March 31, 2018 and mainly overdrafts from banks as of March 31, 2017, respectively. The weighted average interest rate for each balance is 1.9% for 2018 and 1.4% for 2017.

Short-term bank loans as of March 31, 2018 and 2017 consist of the following:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Unsecured-----	¥ 3,180	¥ 2,649	\$ 30,008

Long-term loans payable represents loans principally from banks and insurance companies due through 2024 with interest rate of 1.0% in 2018 (1.0% in 2017).

Long-term loans payable as of March 31, 2018 and 2017 consists of the following:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Unsecured-----	¥ 35,846	¥ 30,382	\$ 338,172
Less amount due within one year----	3,700	3,200	34,905
	¥ 32,146	¥ 27,182	\$ 303,267

The annual maturities of long-term loans payable as of March 31, 2018 are as follows:

Millions of yen		Thousands of U.S. dollars
Year ending March 31,	Long-term loans payable	Long-term loans payable
2019	¥ 3,700	\$ 34,905
2020	10,017	94,505
2021	13,718	129,424
2022	8,018	75,650
2023	18	178
2024 and thereafter	372	3,510
	¥ 35,846	\$ 338,172

Unsecured bonds as of March 31, 2018 and 2017 consist of the following:

Millions of yen			Thousands of U.S. dollars
2018		2017	2018
Unsecured-----	¥ 10,000	¥ 20,000	\$ 94,339
Less amount due within one year----	10,000	10,000	94,339
	¥ 0	¥ 10,000	\$ 0



The annual maturities of unsecured bonds as of March 31, 2018 are as follows

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2019	¥ 10,000	\$ 94,339
2020	—	—
2021	—	—
2022	—	—
2023	—	—

Note 7 Liability for retirement benefits

1. Summary of retirement benefit plan

The Company and its domestic consolidated subsidiaries adopt retirement lump-sum plan and defined contribution pension plan.

2. Defined benefit plan

(1) Movement of retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year -----	¥ 23,788	¥ 23,266	\$ 224,421
Service costs -----	1,694	1,468	15,989
Interest costs -----	122	108	1,154
Actuarial differences -----	118	68	1,117
Benefits paid -----	(1,582)	(1,118)	(14,924)
Translation adjustments -----	(50)	(99)	(477)
Others -----	115	93	1,086
Balance at end of year -----	¥ 24,206	¥ 23,788	\$ 228,366

(2) Movement of plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year -----	¥ 1,785	¥ 2,127	\$ 16,844
Expected return on plan assets ----	46	48	441
Actuarial differences -----	22	(14)	212
Employer contributions -----	28	70	269
Benefits paid -----	(420)	(429)	(3,963)
Translation adjustments -----	(55)	(60)	(523)
Others -----	77	43	734
Balance at end of year -----	¥ 1,485	¥ 1,785	\$ 14,014

(3) Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 2,864	¥ 5,121	\$ 27,021
Plan assets-----	(1,485)	(1,785)	(14,014)
	¥ 1,378	¥ 3,336	\$ 13,007
Unfunded retirement benefit obligations --	21,342	18,666	201,345
Net liability for retirement benefits --	¥22,721	¥22,003	\$214,352
Liability for retirement benefits -----	22,721	22,003	214,352
Net liability for retirement benefits --	¥22,721	¥22,003	\$214,352

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs -----	¥ 1,694	¥ 1,468	\$ 15,989
Interest costs -----	122	108	1,154
Expected return on plan assets ----	(46)	(48)	(441)
Amortization of actuarial differences --	278	402	2,623
Amortization of prior service costs --	(27)	(47)	(256)
Retirement benefit costs	¥ 2,021	¥ 1,884	\$ 19,069

(5) Adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs -----	¥ 27	¥ 47	\$ 256
Actuarial differences -----	(270)	(392)	(2,554)
Total -----	¥ (243)	¥ (345)	\$ (2,298)

(6) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service costs---	¥ 136	¥ 109	\$ 1,292
Unrecognized actuarial differences--	1,063	1,334	10,032
Total -----	¥ 1,200	¥ 1,444	\$ 11,324

(7) Plan assets

① Breakdown for plan assets

	2018	(%)
	2017	
Equity securities-----	78.6%	79.6%
Bonds -----	5.3	6.1
Cash and deposits-----	4.0	3.1
Others -----	12.1	11.2
Total -----	100.0%	100.0%

② Long-term expected rate of return

In order to determine the long-term expected rate of return, present and expected portfolio of plan assets and estimated long-term rate of various assets have been considered.

(8) Assumptions of actuarial differences

	2018	(%)
	2017	
Discount rate -----	0.32 ~ 3.25	0.32 ~ 3.75
Expected rates of long-term return on plan assets -----	1.50 ~ 5.00	1.50 ~ 6.00

3. Defined contribution plan

Contributions to defined contribution plan for the years ended March 31, 2018 and 2017 are ¥1,166 million (\$11,000 thousand) and ¥1,202 million respectively.

Note 8 Contingent liabilities

It was found that although Citizen Electronics Co. Ltd. (“Citizen Electronics”), a consolidated subsidiary of the Company, made arrangements with its customer companies so that where there was a change in the manufacturing location of the products being supplied, an application for such change was to be made to the customer companies, such application for change had not been made for some of the customer companies, and that thereafter shipment was continued with the products having attached labels that were printed with the lot numbers indicating that the products had been manufactured at the prior manufacturing locations arranged with the customer companies (hereinafter the “Inappropriate Activities”).

The Company takes this matter seriously as a compliance violation, and on November 10, 2017, the Company established a third-party committee that was put in charge of a thorough investigation of the facts and an analysis of the causes.

On February 9, 2018, the Company received the investigation report from the third-party committee, and it was found that the Inappropriate Activities had continued for a period of approximately 7

years and 2 months, from at least April 2010 until June 2017.

In addition to this, the investigation report states that the main issue identified by the third-party committee's investigation is that in connection with Citizen Electronics' lighting LED components, improper activities had been conducted in which test results relating to life-span prediction (deterioration of luminous flux due to aging) written in reports issued by the accredited laboratory established within Citizen Electronics had been partially changed and submitted primarily to customer companies in North America (“Improper Activities regarding the Handling of Test Results”).

Depending on the future progress of this matter, losses and other factors may adversely affect the performance of the Company. The impact is not reflected in the consolidated financial statements as the amount of the impact cannot be reasonably estimated at the moment.

Note 9 Research and development costs

Research and development costs incurred and charged to income for the year ended March 31, 2018 and 2017 were ¥7,161 million (\$67,565 thousand) and ¥7,113 million, respectively.

Note 10 Leases

The amounts of outstanding future lease payments due in respect of operating lease contracts as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Within one year -----	¥ 2	¥ 3	\$ 20
Over one year -----	1	2	16
Total -----	¥ 3	¥ 5	\$ 36

Note 11 Impairment loss

The Company and its subsidiaries classify their fixed assets into groups by the type of respective operations based on the business segment divided by managerial accounting categories, which are regarded as the smallest units independently generating cash flows.

The Group recognized impairment loss of ¥378 million (\$3,571 thousand) and ¥1,039 million for the years ended March 31, 2018 and 2017 respectively. The group mainly recognized impairment loss of ¥65 million (\$614 thousand) for buildings and structures, ¥218 million (\$2,064 thousand) for machinery and equipment and ¥67 million (\$633 thousand) for other intangible assets for the year ended March 31, 2018. The main component of impairment losses for the year ended March 31, 2017 are ¥280 million for buildings and structures, ¥521 million for machinery and equipment, and ¥ 93 million for land.

The main breakdown of impaired assets for the years ended March 31, 2018 and 2017 are as follows:

For the year 2018

Location	Use	Type
Fujikawaguchiko-machi, Yamanashi	Assets for business	Other intangible assets
China	Assets for business	Machinery and equipment
Others	Assets for business	Buildings and structures

For the year 2017

Location	Use	Type
Miyota-machi, Nagano	Assets for business	Buildings and structures
Iida-shi, Nagano	Assets for business	Land
Others	Assets for business	Machinery and equipment

Note 12 Derivative transactions

Fair value of derivative transactions as of March 31, 2018 and 2017 are as follows:

(a) Derivative transactions not designated for hedge accounting

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	
	Amount on contract	Fair value	Amount on contract	Fair value
Foreign currency forward contract:				
To sell -----	¥ 5,891	¥ 7	¥ 6,657	¥ 32
To buy -----	2,016	(27)	1,365	(0)
			\$ 55,584	\$ 75
			19,027	(261)

Note:  
The fair values of foreign currency forward contracts are based on market quotations.

(b) Derivative transactions designated for hedge accounting

	Millions of yen	
	2018	2017
	Amount on contract	Amount on contract
	over 1 year	over 1 year
	Fair value	Fair value
Interest rate swap --	¥ 22,800	¥ 21,100
	Note	Note
	¥ 24,400	¥ 22,800
	Note	Note
	Thousands of U.S. dollars	
	2018	
	Amount on contract	Amount on contract
	over 1 year	over 1 year
	Fair value	Fair value
Interest rate swap -----	\$215,094	\$199,056
	Note	Note

Note:  
Interest rate swap is qualified for hedge accounting and meets specific criteria. The fair value of the interest rate swap is included in fair value of long-term debt.

Note 13 Financial instruments

(a) Status of financial instruments

(1) Policies

Under the Company's policy, the Group is limited to utilize short-term deposits for fund management and obtains fund through financial institutions. Derivatives are made only for hedging purposes, and the Group does not use derivative transactions for trading purposes.

(2) Risk management

The Group performs ongoing credit evaluations of significant customers to avoid credit risks of notes and accounts receivables.



The Group monitors the market price or fair value of the investment securities and continuously reconsiders investment in each company.

Debt and bonds are for refunding of long-term debt and the purpose is to raise funds.

The Group has derivative financial instruments, such as foreign currency exchange forward, foreign currency option and interest rate swap, and all derivative financial instruments are designated for hedging purposes.

(3) Fair value estimation

The fair value of financial instruments is based on market price, if available. The fair value of financial instruments might be reasonably estimated with adequate assumption and factors when market price is not available. Estimated fair value depends on applied assumptions and factors.

(b) Fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets, their fair values and unrealized gains or losses as of March 31, 2018 and 2017.

	Millions of yen		
	2018		
	Carrying amount	Fair value	Unrealized
Cash and time deposits-----	¥ 92,079	¥ 92,079	¥ —
Notes and accounts receivable-trade---	62,013	62,013	(0)
Electronically recorded monetary claims	914	914	—
Investment securities			
Available-for-sale securities-----	30,043	30,043	—
Long-term loans-----	931	932	0
Long-term receivables-----	81	—	—
Allowance for Long-term receivables----	(81)	—	—
Total-----	¥185,983	¥185,983	¥ (0)
Notes and accounts payable-trade-----	¥ 21,267	¥ 21,267	¥ —
Electronically recorded obligations-operating	14,164	14,164	—
Short-term loans payable-----	3,180	3,180	—
Unsecured bonds-----	10,000	10,011	11
Long-term loans payable-----	35,846	36,067	220
Total-----	¥ 84,458	¥ 84,690	¥ 231
Derivatives-----	¥ (19)	¥ (19)	¥ —

Note:  
Long-term receivables are included in "Others" in the consolidated balance sheets.  
Current portion of long-term loans are included in "long-term loans" in the table above.

	Millions of yen		
	2017		
	Carrying amount	Fair value	Unrealized
Cash and time deposits-----	¥ 80,746	¥ 80,746	¥ —
Notes and accounts receivable-trade---	61,142	61,142	(0)
Electronically recorded monetary claims	1,156	1,156	—
Investment securities			
Available-for-sale securities-----	28,565	28,565	—
Long-term loans-----	1,030	1,028	(1)
Long-term receivables-----	85	—	—
Allowance for Long-term receivables----	(85)	—	—
Total-----	¥172,640	¥ 172,639	¥ (1)
Notes and accounts payable-trade-----	¥ 19,836	¥ 19,836	¥ —
Electronically recorded obligations-operating	13,140	13,140	—
Short-term loans payable-----	2,649	2,649	—
Unsecured bonds-----	20,000	20,067	67
Long-term loans payable-----	30,382	30,740	357
Total-----	¥ 86,009	¥ 86,434	¥ 424
Derivatives-----	¥ 32	¥ 32	¥ —

Note:  
Long-term receivables are included in "Others" in the consolidated balance sheets.  
Current portion of long-term loans are included in "long-term loans" in the table above.

	Thousands of U.S.dollars		
	2018		
	Carrying amount	Fair value	Unrealized
Cash and time deposits-----	\$ 868,674	\$ 868,674	\$ —
Notes and accounts receivable-trade---	585,036	585,031	(5)
Electronically recorded monetary claims	8,631	8,631	—
Investment securities			
Available-for-sale securities-----	283,427	283,427	—
Long-term loans-----	8,791	8,795	4
Long-term receivables-----	766	—	—
Allowance for Long-term receivables---	(766)	—	—
Total-----	\$1,754,559	\$1,754,558	(1)
Notes and accounts payable-trade----	\$ 200,632	\$ 200,632	\$ —
Electronically recorded-operating-----	133,626	133,626	—
Short-term loans payable-----	30,008	30,008	—
Unsecured bonds-----	94,339	94,443	104
Long-term loans payable-----	338,172	340,255	2,083
Total-----	\$ 796,777	\$ 798,964	\$ 2,187
Derivatives-----	\$ (186)	\$ (186)	\$ —

Note:  
Long-term receivables are included in "Others" in the consolidated balance sheets.  
Current portion of long-term loans are included in "long-term loans" in the table above.

(i) Method of fair value measurement of financial instruments:

Assets:

Cash and time deposits

The carrying amount of these accounts approximates their fair value because these accounts are settled in a short period of time.

Notes and accounts receivable

Certain notes and accounts receivable that take time to collect is measured at present value ; it shows amounts discounted at reasonable rate under corresponding terms to maturity.

The carrying amounts of other notes and accounts receivables that are settled in a short period of time, approximate their fair value.

Electronically recorded monetary claims

The carrying amounts of the accounts approximate its fair value because the account is settled in a short period of time.

Investment securities

The fair values of equity securities are based on the prices at exchange market.

Long-term loans

The fair value of long-term loans receivable is measured at present value obtained by discounting the future cash flows classified by certain period at an adequate rate such as market rate with credit-spread taken into account.

However, as the interest rates of long-term loans receivable with floating rate are to be revised by certain prescribed period, their carrying amounts approximate their fair value.

Liabilities:

Notes and accounts payable, short-term loans payable and electronically recorded obligations-operating

The carrying amount of these accounts approximates their fair value because these accounts are settled or repaid in a short period of time.

Unsecured bonds

Since the market price is not available, the fair value of bonds is measured at present value by discounting principles, interests and guarantee fees at a rate with term to maturity and credit risk taken into account.

Long-term loans payable

The fair value of long-term debt is measured at present value by discounting total amount of principles and interests at an assumed rate for new borrowings under similar conditions.

However, as the interest rates of long-term loans payable with floating rate are to be revised by certain prescribed period, their carrying amount approximate their fair value.

(ii) Unmarketable securities of ¥12,361 million (\$116,614 thousand) and ¥12,409 million as of March 31, 2018 and 2017 are not included in "Investment securiteis, Available-for-sale securities", since their market prices are not available and it is not possible to estimate their future cash flows, and therefore it is deemed extremely difficlut to assume their fair value.

(iii) Expected maturities of cash and time deposits, notes and accounts receivable, electronically recorded monetary claims and long-term loans as of March 31, 2018

	Millions of yen			
	Within one year	over one year within five years	over five years within ten years	over ten years
Cash and time deposits-----	¥ 92,079	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	61,670	343	—	—
Electronically recorded monetary claims-----	914	—	—	—
Long-term loans-----	—	931	—	—

	Thousands of U.S. dollars			
	Within one year	over one year within five years	over five years within ten years	over ten years
Cash and time deposits-----	\$ 868,674	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	581,795	3,241	—	—
Electronically recorded monetary claims-----	8,631	—	—	—
Long-term loans-----	—	8,791	—	—

Note 14 Reorganization costs

The total amount of reorganization costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reorganization costs-----	¥ 1,532	¥ 2,557	\$ 14,457

Reorganization costs in the consolidated statements of income for the years ended March 31, 2018 and 2017 are related to expenses for restructuring of the Company and its consolidated subsidiaries.

The major item in the costs for the year ended March 31, 2018 is mainly business combination in the USA.

Allowance for loss for reorganization costs of ¥1,735 million (\$16,373 thousand) and ¥2,624 million were recorded in the consolidated balance sheets as of March 31, 2018 and 2017, respectively.

Note 15 Special compliance expenses, etc.

With regard to the inappropriate activities of a consolidated subsidiary of the Company, special compliance expenses, etc. were incurred for investigation costs by the third-party committee.

Note 16 Segment information

(a) General information about reportable segments:

The Citizen Group's reportable segments are group components for which separate financial information can be obtained. Each segment is subject to periodic examinations to allow the Board of Directors to decide how to allocate management resources and assess performance.

The Citizen Group has adopted an operating holding company structure and comprehensive strategies are proposed and businesses are pursued by individual operating companies.

Consequently, the Citizen Group, starting from a foundation of operating companies manages its businesses through five reportable segments – Watches, Machine tools, Devices and components, Electronic products, and Other products –based on factors like similarity of types and characteristics of products.

(b) Basis of measurement of reportable segment net sales, profit (loss), and other items:

The accounting methods applied to the business segments reported are generally the same as those described under "Basis of Presenting the Consolidated Financial Statements."

Inter-segment earnings and transfers are based on market prices.

March 31, 2018								
Millions of yen								
	Watches	Machine tools	Devices and Components	Electronic Products	Other Products	Segment total	Adjustments	Consolidated
I. Net sales, segment profit (loss) and segment assets								
Net sales								
(1) Sales to outside customers -----	¥163,718	¥ 64,049	¥ 65,596	¥ 20,580	¥ 6,102	¥320,047	¥ —	¥320,047
(2) Inter-segment sales and transfers -----	83	357	2,223	107	826	3,599	(3,599)	—
Total -----	163,801	64,407	67,820	20,687	6,929	323,646	(3,599)	320,047
Segment profit (loss) -----	16,183	10,443	2,782	513	311	30,234	(5,313)	24,920
Segment assets -----	190,870	59,487	81,382	15,822	6,819	354,381	57,784	412,165
II. Other								
Depreciation -----	6,813	1,422	4,421	366	29	13,053	741	13,795
Amortization of goodwill -----	1,566	—	12	—	—	1,579	—	1,579
Investment in affiliates -----	—	2,761	—	—	—	2,761	—	2,761
Capital expenditures -----	7,995	2,378	5,020	254	27	15,677	1,176	16,854

March 31, 2017								
Millions of yen								
	Watches	Machine tools	Devices and Components	Electronic Products	Other Products	Segment total	Adjustments	Consolidated
I. Net sales, segment profit (loss) and segment assets								
Net sales								
(1) Sales to outside customers -----	¥163,619	¥ 49,694	¥ 69,462	¥ 21,774	¥ 8,008	¥312,559	¥ —	¥312,559
(2) Inter-segment sales and transfers -----	128	693	2,190	114	823	3,949	(3,949)	—
Total -----	163,747	50,387	71,653	21,889	8,831	316,509	(3,949)	312,559
Segment profit (loss) -----	14,493	6,406	3,983	507	339	25,729	(4,228)	21,501
Segment assets -----	188,108	49,936	85,795	15,877	9,233	348,951	46,935	395,887
II. Other								
Depreciation -----	5,622	1,497	4,326	269	37	11,754	755	12,509
Amortization of goodwill -----	1,604	—	38	—	—	1,642	—	1,642
Investment in affiliates -----	—	2,667	—	—	—	2,667	—	2,667
Capital expenditures -----	10,861	2,769	7,892	446	37	22,007	1,614	23,621

March 31, 2018								
Thousands of U.S. dollars								
	Watches	Machine tools	Devices and Components	Electronic Products	Other Products	Segment total	Adjustments	Consolidated
I. Net sales, segment profit (loss) and segment assets								
Net sales								
(1) Sales to outside customers -----	\$1,544,518	\$604,239	\$618,835	\$194,156	\$ 57,567	\$3,019,315	\$ —	\$3,019,315
(2) Inter-segment sales and transfers -----	784	3,376	20,981	1,012	7,801	33,954	(33,954)	—
Total -----	1,545,302	607,615	639,816	195,168	65,368	3,053,269	(33,954)	3,019,315
Segment profit (loss) -----	152,671	98,525	26,249	4,841	2,941	285,227	(50,131)	235,096
Segment assets -----	1,800,662	561,202	767,755	149,270	64,332	3,343,221	545,137	3,888,358
II. Other								
Depreciation -----	64,277	13,424	41,715	3,455	274	123,145	6,999	130,144
Amortization of goodwill -----	14,781	—	120	—	—	14,901	—	14,901
Investment in affiliates -----	—	26,052	—	—	—	26,052	—	26,052
Capital expenditures -----	75,429	22,441	47,361	2,404	262	147,897	11,102	158,999

Notes:  
For the year ended March 31, 2018  
1."Adjustments" segment profit (loss) totaling ¥(5,313) million (\$ (50,131) thousand) includes inter-segment elimination of ¥19 million (\$187 thousand) and general corporate expenses of ¥(5,333) million (\$ (50,318) thousand) not allocated to any reportable segments.  
2."Adjustments" segment assets totaling ¥57,784 million (\$545,137 thousand) includes inter-segment elimination of ¥(38,258) million (\$ (360,932) thousand) and general corporate assets of ¥96,043 million (\$906,069 thousand) not allocated to any reportable segments.  
3.Reported segment profit (loss) is reconciled to operating profit in the consolidated statements of income.

For the year ended March 31,2017  
1."Adjustments" segment profit (loss) totaling ¥(4,228) million includes inter-segment elimination of ¥(115) million and general corporate expenses of ¥(4,112) million not allocated to any reportable segments.  
2."Adjustments" segment assets totaling ¥46,935 million includes inter-segment elimination of ¥(39,223) million and general corporate assets of ¥86,159 million not allocated to any reportable segments.  
3.Reported segment profit (loss) is reconciled to operating profit in the consolidated statements of income.

(c) Other information

1) Overseas sales for the years ended March 31, 2018 and 2017

Millions of yen			Thousands of U.S. dollars
	2018	2017	2018
Japan -----	¥ 105,259	¥ 103,243	\$ 993,019
Asia -----	99,565	102,675	939,301
America -----	61,472	59,533	579,927
Europe -----	50,754	44,441	478,813
Others -----	2,995	2,664	28,255
Total	¥ 320,047	¥ 312,559	\$ 3,019,315

Note: Overseas sales are reported based on locations of customers.

2) Property, plant and equipment as of March 31, 2018 and 2017

Millions of yen			Thousands of U.S. dollars
	2018	2017	2018
Japan -----	¥ 60,123	¥ 58,649	\$ 567,202
Asia -----	18,473	19,678	174,279
Others -----	6,382	7,226	60,209
Total	¥ 84,979	¥ 85,554	\$ 801,690

3) Impairment loss for the years ended March 31, 2018 and 2017

Millions of yen			Thousands of U.S. dollars
	2018	2017	2018
Watches -----	¥ 25	¥ 737	\$ 240
Machine tools -----	—	—	—
Devices and Components -----	352	236	3,326
Electronic Products -----	—	61	—
Other Products -----	—	—	—
Eliminations or general corporate -----	0	3	5
Consolidated	¥ 378	¥ 1,039	\$ 3,571

4) Goodwill information as of and for the years ended March 31, 2018 and 2017

Millions of yen			Thousands of U.S. dollars
	2018	2017	2018
Watches -----	¥ 1,566	¥ 1,604	\$ 14,781
Machine tools -----	—	—	—
Devices and Components -----	12	38	120
Electronic Products -----	—	—	—
Other Products -----	—	—	—
Eliminations or general corporate -----	—	—	—
Consolidated	¥ 1,579	¥ 1,642	\$ 14,901

Millions of yen			Thousands of U.S. dollars
	2018	2017	2018
Watches -----	¥ 4,356	¥ 5,945	\$ 41,101
Machine tools -----	—	—	—
Devices and Components -----	—	12	—
Electronic Products -----	—	—	—
Other Products -----	—	—	—
Eliminations or general corporate -----	—	—	—
Consolidated	¥ 4,356	¥ 5,958	\$ 41,101

Note 17 Subsequent event

Cash dividends

The General Meeting of Shareholders of the Company held on June 27, 2018 approved the following appropriations of retained earnings for the year ended on March 31, 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends -----	¥ 4,296	\$ 40,536



NIHOMBASHI CORPORATION

Sansho Building, 3-2-9, Nihonbashi, Chuo-ku, Tokyo, 103-8283, Japan  
Telephone : 81-3-3274-5837    Fax : 81-3-3274-2600

Report of Independent Auditors (Translation)

To the Board of Directors of  
Citizen Watch Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Citizen Watch Co., Ltd. and consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements' responsibility for the consolidated financial statements:

The managements are responsible for the preparation and the true and fair presentation of the consolidated financial statements in conformity with accounting principles generally accepted in Japan. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility:

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgments, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion:

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Citizen Watch Co., Ltd. and consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of matter:

We draw attention to Note 8 of the consolidated financial statements, which describes that the inappropriate activities in Citizen Electronics Co., Ltd., a consolidated subsidiary of the Company, may adversely affect the performance of the Company depending on the future progress of this matter.

The impact is not reflected in the consolidated financial statements as the amount of the impact cannot be reasonably estimated at the moment.

Our opinion is not qualified in respect of this matter.

Nihombashi Corporation

Tokyo, Japan  
June 27, 2018

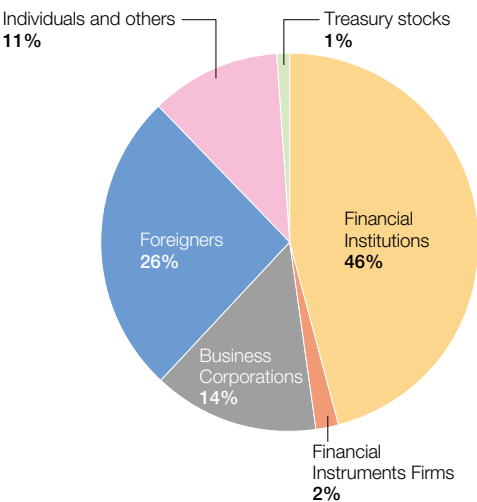
Investors Information

Condition of Stocks

March 31, 2018

Total number of authorized shares	959,752,000
Total number of shares issued	320,353,809
Number of shareholders	28,282

Ownership



Major Shareholders

March 31, 2018

Shareholding ratio

The Master Trust Bank of Japan, Ltd. (trust account)	11.08%
Japan Trustee Services Bank, Ltd. (trust account)	8.95%
Nippon Life Insurance Company	3.75%
Nichia Corporation	3.14%
National Mutual Insurance Federation of Agricultural Cooperatives	2.56%
Japan Trustee Services Bank, Ltd. (trust account 9)	2.09%
Mitsubishi UFJ Trust and Banking Corporation	1.69%
NIKON CORPORATION	1.57%
Trust & Custody Services Bank, Ltd. (securities investment trust account)	1.44%
Japan Trustee Services Bank, Ltd. (trust account 5)	1.43%

Note: Shareholding ratio is calculated after deducting 2,068,553 treasury shares.

Company Profile

Corporate Name: Citizen Watch Co., Ltd.

Established: May 28, 1930

Capital: ¥32,648 million

Employees: 16,015 (consolidated)

Stock Exchange Listings:

Tokyo Stock Exchange (First Section)  
(Ticker Code 7762)

Transfer Agent: Mitsubishi UFJ Trust and Banking Corporation

Head Office: 6-1-12, Tanashi-cho, Nishi Tokyo-shi,  
Tokyo, 188-8511, Japan  
TEL 81-42-466-1231  
FAX 81-42-466-1280

(as of March 31, 2018)

Board Members

President & CEO	Toshio Tokura
Senior Managing Director	Toshihiko Sato
Managing Director	Norio Takeuchi
Director	Toshiyuki Furukawa
Director	Keiichi Nakajima
Director	Shinji Shirai
Director	Yoshitaka Ohji
Director	Yoshiaki Miyamoto
Outside Director	Masaaki Komatsu
Outside Director	Fumiaki Terasaka
Audit & Supervisory Board Member	Yoshio Takada
Audit & Supervisory Board Member	Noboru Akatsuka
Outside Audit & Supervisory Board Member	Toshiko Kuboki

For further financial information, please contact

IR Group, Public & Investor Relations Department.  
Citizen Watch Co., Ltd.  
6-1-12, Tanashi-cho, Nishi Tokyo-shi,  
Tokyo, 188-8511, Japan  
TEL 81-42-468-4934 FAX 81-42-466-1280

URL:<http://www.citizen.co.jp/global/>