



CITIZEN WATCH

Consolidated Financial Statements for the Nine Months Ended December 31, 2016

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan. All figures in these statements which are less than 1 million yen have been rounded down. (English translation)

February 10, 2017

CITIZEN WATCH CO., LTD.

Code No.: 7762

Representative: Toshio Tokura, President and CEO

Contact: Toshiyuki Furukawa, Director, In charge of Public & Investor Relations Department

Tel: + 81 - 42 - 468 - 4934

Scheduled release of fiscal 2016 Quarterly Business Report: February 13, 2017

Scheduled start of dividend payment: -

Listings: First section of Tokyo Stock Exchange

(URL <http://www.citizen.co.jp>)

1. Results for the Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)

(1) Consolidated operating results (Percentages represent changes over the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Nine months ended December 31, 2016	238,370	(11.3)	18,310	(29.9)	18,401	(32.3)	11,769	(35.4)
Nine months ended December 31, 2015	268,762	9.0	26,130	11.2	27,163	2.9	18,226	3.3

Note: Comprehensive Income: As of December 31, 2016: ¥16,651million (15.7%) As of December 31, 2015: ¥14,386million (-58.2%)

	Earnings per share	Fully diluted earnings per share
	(Yen)	(Yen)
Nine months ended December 31, 2016	36.98	-
Nine months ended December 31, 2015	56.98	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	(%)	(Yen)
Nine months ended December 31, 2016	407,055	248,388	58.6	749.80
March 31, 2016	406,462	237,469	56.0	715.38

Reference: Shareholders' Equity: As of December 31, 2016: ¥238,654million As of March 31, 2016: ¥227,700million

2. Dividends

(Record date)	Dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Full year
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2016	-	8.50	-	8.50	17.00
March 31, 2017	-	8.50	-		
March 31, 2017 (Estimate)				8.50	17.00

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

3. Projected Consolidated Results for the Year ending March 31, 2017

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(yen)
Full Year	319,000	(8.4)	21,500	(29.4)	19,500	(36.3)	12,500	(5.3)	39.27

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

C I T I Z E N W A T C H

4. Others

(1) Change in significant subsidiaries during this period: Yes

New: None

Excluded: two companies (company names) Citizen Watch Co., Ltd., Citizen Business Expert Co., Ltd.

Note: For details, please refer to Attached Documents “2. Other Information (1) Important changes of subsidiaries during the term” on page 5.

(2) Adoption of simplified accounting method and special accounting methods: None

(3) Changes of accounting policies applied, procedures and disclosures

(i) Changes associated with revised accounting standards: None

(ii) Changes other than those in (i)above: Yes

(iii) Changes in accounting estimate:Yes

(iv) Restatements: None

Note: For details, please refer to Attached Documents “2. Other Information (3) Changes in accounting policies, changes in accounting estimates, and restatements” on page 5.

(4) Number of shares issued and outstanding (common stock)

	shares		shares	
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	December 31, 2016	320,353,809	March 31, 2016	330,353,809
(ii) Number of treasury stock at the end of term	December 31, 2016	2,063,458	March 31, 2016	12,060,890
(iii) Average number of common stocks	December 31, 2016	318,291,924	December 31, 2015	319,868,093

** Information regarding the implementation of quarterly review procedures*

These quarterly financial results are not subject to quarterly review procedures. Thus, at the time of disclosure of these financial results, the quarterly financial statement review procedures based on the Financial Instruments and Exchange Law, have not been completed.

** Explanation about the proper use of financial forecasts and other important notes*

Statements above relating to financial forecasts are based on information available to the Company and certain assumptions the Company considers reasonable as of the date of the announcement of these statements. Actual results may differ materially from these forecasts, depending on a variety of factors.

Please refer to the attached “Qualitative data on the consolidated earnings forecasts” on page 4 for assumptions underlying the above forecasts and precautions regarding their use.

(Attached Documents)

○INDEX

1. Qualitative Information on the Consolidated Financial Results for the Nine Months Ended December 31, 2016	2
(1) Qualitative data on the consolidated financial results.....	2
(2) Qualitative data on the consolidated financial position	4
(3) Qualitative data on the consolidated earnings forecasts.....	4
2. Other Information	5
(1) Important changes of subsidiaries during the term.....	5
(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements	5
(3) Changes in accounting policies, changes in accounting estimates, and restatements	5
(4) Additional information	5
3. Consolidated Financial Statements	6
(1) Consolidated Balance Sheet.....	6
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Income	8
Consolidated Statement of Comprehensive Income.....	9
(4) Notes to the Consolidated Financial Statements.....	10
(Notes regarding going concern assumptions).....	10
(Notes regarding significant changes in shareholders' equity accounts)	10
(Segment information).....	10

1. Qualitative Information on the Consolidated Financial Results for the Nine Months Ended December 31, 2016

(1) Qualitative data on the consolidated financial results

During the nine months ended December 31, 2016, the Japanese economy saw a delay in the recovery of personal consumption and capital investment and a sharp decline in demand from inbound tourists, resulting in the economy coming to a standstill. Recently, uncertainty about the future outlook has intensified due to the impact of overseas politics and economies, while the foreign exchange rate and the stock markets have fluctuated substantially. The U.S. economy experienced an economic slump during the presidential election due to uncertainty about the results of election, but conditions have recently settled down. In the European market, confusion arising from the Brexit issue has calmed down and the recent economic situation has been stable, with continued uncertainty about the future outlook. In Asia, economic conditions generally remain challenging with no signs of economic recovery.

In this environment, the Citizen Group posted decreases in sales and profits in the nine months. Net sales stood at 238.3 billion yen (down 11.3% year on year), and operating income was 18.3 billion yen (down 29.9% year on year). Ordinary income came to 18.4 billion yen (down 32.3% year on year) due to a decrease in operating income. Profit attributable to owners of parent was 11.7 billion yen (down 35.4% year on year).

Watches

Revenues from the CITIZEN brand, the sales in the domestic market aided by the strong reputation of the flagship model "Eco-Drive One" in the current period, which began to be sold in October, and "Eco-Drive Bluetooth", which connects to smartphones, among other new products. Also the share of "SATELLITE WAVE –GPS" watches category expanded. In addition, the newly introduced "Citizen L" collection for women showed good performance, and sales of the Sakura pink model of the "xC," a new color created using the Company's unique surface hardening technique, increased, securing the top position among the women's brands. However, the entire domestic watch market declined, resulting in a decrease in revenues due to the influence of personal spending, which remains weak, and shrinking demand from inbound tourists, among other causes.

In the overseas market, although there was a little improvement in economic activity in some regions, sales were sluggish overall. In addition, the recent trend of the yen's depreciation did not lead to the resolution of the impact of the yen's appreciation. Consequently, revenues from overseas markets overall declined. In the North American market, the U.S. presidential election was over and the situation calmed down, which stimulated the year-end sales battle. Sales remained weak, however, because of sluggish market conditions and poor sales of some leading distributors. In the European market, mainly in Germany with its ongoing stable sales against the background of the firm economic environment and the U.K. with increasing demand from inbound tourists on the back of its weak currency following the decision to withdraw from the EU, overall sales were strong in the year-end sales battle, with a major impact from the weaker euro and pound. In the Asian market, sales declined in Hong Kong due to weak personal consumption and in Thailand because of its stagnant economy. In China, on the other hand, whose economy is slowly recovering, sales increased, especially online distribution.

Revenues from the "BULOVA" brand fell due to the impact of the stronger yen in addition to weak sales due to poor sales of leading distribution channels, despite the contribution of the development of new distribution channels to sales as well as good sales of "CURV", which is equipped with the world's first curve-chrono movement.

Revenues from the "Q&Q" brand declined due to sluggish domestic demand and a decline in sales in some regions due to the stronger yen and the weaker currencies of Asia's emerging countries, which led to a decrease in buying power, and political instability in the Middle East, among other causes.

The "FREDERIQUE CONSTANT" brand contributed to the Company's sales expansion, mainly in Europe, following the completion of its acquisition in July 2016.

In sales of movements, revenues declined due to the influence of a slowdown in watch consumption and a decrease in sales of high value-added products due to changes in consumer tastes.

Operating income dropped significantly due to a decrease in sales and the stronger yen.

As a result of these developments, the watches segment posted a decrease in both sales and profits, with net sales of 125.6 billion yen (down 11.8% year on year) and operating income of 12.9 billion yen (down 30.7% year on year).

Machine Tools

Revenues from the domestic market decreased due to restraints on capital expenditures by certain customers, despite solid sales of automobile-related products and semiconductor-related products.

In the Americas, sales in medical services were relatively strong, but orders slowed ahead of the U.S. presidential election due to uncertainty about the future outlook, and revenues in the market declined. In addition, a cautious stance on capital expenditures remains following the presidential election, while a close watch is being kept on policy trends.

Revenues from the European market decreased despite strong sales in Germany, one of the key markets. Uncertainty over the future outlook arising from Brexit caused a more negative mood across Europe's manufacturing industry.

In the Asian market, signs of recovery among some customers of automobile-related products and airplane-related products have appeared, but the overall situation remains sluggish. Shipments of large-scale orders for East Asia contributed substantially to sales, and revenues increased significantly.

Operating income declined as a result of sales falling below those of the previous year due to a decrease in demand for capital investment.

As a result, the machine tool segment posted a decline in sales and profits, with net sales of 36.8 billion yen (down 4.2% year on year) and operating income of 4.9 billion yen (down 6.5% year on year).

Devices and Components

New orders for automobile components, among other precision machining components, increased steadily supported by the strong automobile production market, and their sales expanded. Sales of smartphone switches expanded, mainly among Chinese customers. Sales of application products, which the Group launched last year, declined with the slowdown in demand. Overall revenues from precision machining components decreased.

In terms of opto-devices, sales of LED chips remained weak due to price declines caused by intensifying competition and the impact of the stronger yen, despite the expansion of the LED lighting chips market owing to the increased global awareness of the need for energy saving. Of LED chips other than those for lighting, sales of automobile LED chips and LED chips for game machines were steady. In terms of unit products, sales of new backlight products for vehicles launched in the last year increased, but sales of products for smartphones declined. Overall revenues from opto-devices declined.

Among other parts, sales of quartz crystals and ferroelectric micro LCDs, main products, remained weak. However, overall revenues for other parts increased.

Despite strong sales of key products, operating income in this segment declined significantly due to a decrease in sales and the stronger yen.

As a result of these developments, the devices and components segment recorded a decrease in both sales and profits, with net sales of 52.8 billion yen (down 13.9% year on year) and an operating income of 2.9 billion yen (down 40.9% year on year).

Electronic Products

In the information equipment sector, sales of large printers were strong, reflecting an increase in demand associated with changes to the tax system in China, but sales of POS printers and label printers remained weak in the Americas. In addition, there were inventory adjustments of photo printers by customers. As a result, overall revenues for information equipment declined.

Overall revenues from healthcare equipment declined, reflecting sluggish overseas sales in the Asian and Middle Eastern markets, despite strong sales of blood-pressure monitors and thermometers in the domestic market.

Despite a decrease in sales, operating income increased thanks to cost cutting and efforts to improve profitability.

As a result of these developments, the electronic products segment on the whole recorded a decrease in sales but an increase in profits, with net sales of 16.6 billion yen (down 6.1% year on year) and operating income of 0.3 billion yen (up 27.7% year on year).

Other Products

Consumers' motivation to buy jewelry products, key products, remained weak. The Group withdrew from the pachinko-related products business and reduced sales in this area. As a result, overall revenues in this segment declined.

Thanks to the withdrawal from the pachinko-related products business, which continued to be in the red, operating income in the other products segment moved into the black.

As a result of these developments, the other products segment recorded a decrease in sales and an increase in profits, with net sales of 6.3 billion yen (down 26.5% year on year) and operating income of 0.2 billion yen (compared with an operating loss of 0.3 billion yen in the same period of the previous fiscal year).

(2) Qualitative data on the consolidated financial position

As of the end of the third quarter under review, total assets increased by 0.5 billion yen from the end of the previous fiscal year, to 407.0 billion yen. Current assets decreased by 19.4 billion yen, mainly because cash and deposits decreased by 19.1 billion yen and deferred tax assets decreased by 3.1 billion yen. However, notes and accounts receivable-trade increased by 3.3 billion yen. Non-current assets increased by 20.0 billion yen, primarily reflecting increases of 6.3 billion yen in buildings and structures, 6.3 billion yen in goodwill and 5.6 billion yen in investment securities.

Liabilities declined by 10.3 billion yen from the end of the previous fiscal year, to 158.6 billion yen. This decrease in liabilities mainly reflected declines of 5.3 billion yen in short-term loans payable, 3.1 billion yen in provision for loss on business restructuring (short-term) and 2.8 billion yen in the provision for bonuses.

Net assets increased by 10.9 billion yen, to 248.3 billion yen. This increase was primarily the result of decreases of 2.2 billion yen in retained earnings and 8.6 billion yen in treasury stock and an increase of 3.5 billion yen in valuation difference on available-for-sale securities.

(3) Qualitative data on the consolidated earnings forecasts

No changes have been made to the full-year forecasts for the consolidated financial results announced on August 12, 2016 in the Consolidated Financial Statements for the Three Months Ended June 30, 2016.

2. Other Information

(1) Important changes of subsidiaries during the term

The specified subsidiaries of the Company (former trade name: Citizen Holdings Co., Ltd.), Citizen Watch Co., Ltd. and Citizen Business Expert Co., Ltd., were extinguished on October 1, 2016 upon an absorption-type merger in which the Company is the surviving entity. They are therefore excluded from the scope of consolidation from the third quarter under review.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements

Not applicable.

(3) Changes in accounting policies, changes in accounting estimates, and restatements

Change in accounting policy that is difficult to distinguish from change in accounting estimates
(Change in depreciation method for property, plant and equipment)

In the depreciation of property, plant and equipment, the Company and its domestic consolidated subsidiaries employed primarily the declining-balance method, and its overseas consolidated subsidiaries employed straight-line method. Starting the first quarter of the consolidated fiscal year under review, the Company and its domestic consolidated subsidiaries are also employing the straight-line method.

In February 2013, the Company formulated Citizen Global Plan 2018, a medium-term management plan, the final year of which is the fiscal year ending March 31, 2019, and has carried out structural reform to reorganize its plants. We now expect stable operations of facilities for the long term and have determined that the straight-line method will enable us to reflect our actual condition more properly in the depreciation of property, plant and equipment.

Because of this change, operating income in the nine months under review has increased 191.1 million yen, and ordinary income and income before income taxes have increased 195.5 million yen.

(4) Additional Information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Starting the first quarter of the consolidated fiscal year under review, we are applying the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: Millions of yen)

	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	99,371	80,268
Notes and accounts receivable - trade	63,061	66,402
Electronically recorded monetary claims - operating	855	1,096
Merchandise and finished goods	53,328	51,071
Work in process	18,736	19,316
Raw materials and supplies	17,099	17,855
Consumption taxes receivable	2,755	2,704
Deferred tax assets	8,609	5,482
Other	8,034	7,974
Allowance for doubtful accounts	(1,301)	(1,069)
Total current assets	270,551	251,102
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,113	40,473
Machinery, equipment and vehicles, net	21,023	22,523
Tools, furniture and fixtures, net	5,657	6,670
Land	10,904	12,151
Leased assets, net	1,175	1,474
Construction in progress	5,570	3,276
Total property, plant and equipment	78,443	86,569
Intangible assets		
Goodwill	2,097	8,465
Software	2,462	3,075
Leased assets	14	8
Other	1,953	1,535
Total intangible assets	6,529	13,084
Investments and other assets		
Investment securities	40,366	46,065
Long-term loans receivable	1,130	1,080
Deferred tax assets	5,886	5,621
Other	5,594	3,886
Allowance for doubtful accounts	(1,901)	(217)
Allowance for investment loss	(138)	(138)
Total investments and other assets	50,938	56,298
Total non-current assets	135,911	155,953
Total assets	406,462	407,055

(Unit: Millions of yen)

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable – trade	19,589	21,636
Electronically recorded obligations - operating	13,564	12,752
Notes payable - facilities	376	797
Electronically recorded obligations - non-operating	885	2,073
Short-term loans payable	17,444	12,110
Current portion of bonds	-	10,000
Income taxes payable	3,679	1,815
Deferred tax liabilities	120	140
Accrued expenses	14,655	14,591
Provision for bonuses	6,335	3,504
Provision for directors' bonuses	162	-
Provision for product warranties	1,011	1,028
Provision for environmental measures	11	-
Provision for loss on business restructuring	4,369	1,262
Other	9,697	7,542
Total current liabilities	91,901	89,257
Non-current liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	30,000	30,393
Deferred tax liabilities	2,067	2,806
Provision for loss on guarantees	28	28
Provision for environmental measures	65	65
Provision for loss on business restructuring	1,663	1,657
Net defined benefit liability	21,139	21,640
Asset retirement obligations	97	95
Other	2,031	2,721
Total non-current liabilities	77,091	69,409
Total liabilities	168,993	158,666
Net assets		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	33,969	34,074
Retained earnings	159,684	157,420
Treasury shares	(10,400)	(1,779)
Total shareholders' equity	215,903	222,365
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,413	11,012
Foreign currency translation adjustment	5,756	6,355
Remeasurements of defined benefit plans	(1,372)	(1,078)
Total accumulated other comprehensive income	11,797	16,289
Non-controlling interests	9,768	9,734
Total net assets	237,469	248,388
Total liabilities and net assets	406,462	407,055

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

Consolidated Statement of Income (Nine months ended December 31, 2016)

(Unit: Millions of yen)

	Nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)	Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)
Net sales	268,762	238,370
Cost of sales	164,488	146,006
Gross profit	104,273	92,363
Selling, general and administrative expenses	78,142	74,052
Operating income	26,130	18,310
Non-operating income		
Interest income	281	198
Dividend income	726	749
Share of profit of entities accounted for using equity method	520	333
Other	720	642
Total non-operating income	2,247	1,923
Non-operating expenses		
Interest expenses	352	323
Foreign exchange losses	482	816
Other	380	692
Total non-operating expenses	1,214	1,833
Ordinary income	27,163	18,401
Extraordinary income		
Gain on sales of investment securities	188	983
Gain on sales of non-current assets	672	43
Other	18	171
Total extraordinary income	880	1,198
Extraordinary losses		
Loss on retirement of non-current assets	238	102
Loss on sales of non-current assets	18	43
Impairment loss	2	67
Settlement package	6	-
Loss on business restructuring and liquidation	-	1,965
Other	262	94
Total extraordinary losses	527	2,274
Income before income taxes	27,516	17,325
Income taxes	8,724	5,238
Net income	18,791	12,087
Profit attributable to non-controlling interests	564	317
Profit attributable to owners of parent	18,226	11,769

CITIZEN WATCH

Consolidated Statement of Comprehensive Income (Nine months ended December 31, 2016)

(Unit: Millions of yen)

	Nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)	Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)
Net income	18,791	12,087
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,358)	3,599
Foreign currency translation adjustment	(2,836)	535
Remeasurement of defined benefit plans	(208)	299
Share of other comprehensive income of entities accounted for using equity method	(1)	130
Total other comprehensive income	(4,404)	4,564
Comprehensive income	14,386	16,651
(Breakdown)		
Comprehensive income attributable to owners of parent	13,834	16,477
Comprehensive income attributable to non-controlling interests	552	174

(3) Notes to the Consolidated Financial Statements

(Notes regarding going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Retirement of treasury shares

The Company cancelled its treasury stock of 10,000,000 shares during the nine months under review according to the resolution passed at the meeting of the Board of Directors held on November 11, 2016. As a result of this cancellation of treasury stock, retained earnings and treasury shares decreased by 8,622 million yen each.

(Segment Information)

(i) Nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)

1. Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic Products	Other products	Segment totals	Eliminations or general corporate (Note 1)	Consolidated totals (Note 2)
Net sales								
Customers	142,539	38,433	61,385	17,735	8,668	268,762	-	268,762
Inter-segment	112	384	2,145	501	569	3,713	(3,713)	-
Total	142,652	38,817	63,530	18,237	9,237	272,475	(3,713)	268,762
Segment profit or loss	18,613	5,332	5,063	258	(316)	28,950	(2,819)	26,130

(Notes)

1. The 2,819 million yen negative adjustment to segment income (operating income) includes 170 million yen in inter-segment eliminations and 2,990 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits and losses are adjusted with operating income on the consolidated financial statements.

(ii) Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)

1. Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic Products	Other products	Segment totals	Eliminations or general corporate (Note 1)	Consolidated totals (Note 2)
Net sales								
Customers	125,688	36,821	52,830	16,656	6,373	238,370	-	238,370
Inter-segment	110	644	1,709	94	642	3,202	(3,202)	-
Total	125,799	37,465	54,540	16,751	7,015	241,572	(3,202)	238,370
Segment profit	12,905	4,987	2,992	329	245	21,461	(3,150)	18,310

(Notes)

1. The 3,150 million yen negative adjustment to segment income (operating income) includes 142 million yen in inter-segment eliminations and 3,007 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits are adjusted with operating income on the consolidated financial statements.
3. Change related to segment information

(Change in depreciation method for property, plant and equipment)

As described in Changes in accounting policies, the Company and its domestic consolidated subsidiaries principally employed the declining-balance method, while its overseas consolidated subsidiaries mainly used the straight-line method in the depreciation of property, plant and equipment. Starting the first quarter of the consolidated fiscal year under review, the Company and its domestic consolidated subsidiaries are also employing the straight-line method.

Because of this change, segment income in the Nine months ended December 31, 2016 rose 1,022 million yen in the watches segment, 597 million yen in the devices and components segment, 57 million yen in the electronic products segment, and 11 million yen in the other products segment.