Consolidated Financial Statements for the Year Ended March 31, 2017

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

May 12, 2017

CITIZEN WATCH CO., LTD. Listings: First section of Tokyo Stock Exchange
Code No.: 7762 (URL http://www.citizen.co.jp)
Representative: Toshio Tokura, President and CEO
Contact: Toshiyuki Furukawa, Director, In charge of Public & Investor Relations Department
Tel: +81 -42 -468 -4934
Scheduled ordinary general meeting of shareholders: June 28, 2017
Scheduled start of dividend payment: June 29, 2017
Scheduled release of fiscal 2016 Business Report: June 29, 2017

1. Results for the Year ended March 31, 2017

(1) Consolidated operating results

(Millions of yen; Percentages represent changes over the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
March 31, 2017	312,559	△10.3%	21,501	△29.4%	21,985	△28.2%	16,573	25.5%
March 31, 2016	348,267	6.0%	30,467	9.2%	30,619	△ 2.5%	13,201	△24.9%

Note: Comprehensive income:
As of March 31, 2017: ¥ 17,517million (-) As of March 31, 2016: △¥21million (-)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
March 31, 2017	52.07	-	7.1%	5.5%	6.9%
March 31, 2016	41.32	-	5.7%	7.4%	8.7%

Reference: Equity in earnings of unconsolidated subsidiaries and affiliates:
As of March 31, 2017: ¥ 445 million As of March 31, 2016: ¥ 603million

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
March 31, 2017	395,887	249,215	60.5%	752.21
March 31, 2016	406,462	237,469	56.0%	715.38

Reference: Shareholders' Equity:
As of March 31, 2017: ¥ 239,420million As of March 31, 2016: ¥ 227,700million

(3) Consolidated cash flows

(Millions of yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of term
March 31, 2017	32,781	△27,861	△20,626	77,887
March 31, 2016	29,980	△24,637	△12,205	95,042

2. Dividends

	Dividends per share(Yen)					Total dividends paid (annual) (Millions of yen)	Pay-out ratio (Consolidated)	Dividends to consolidated net assets
	First quarter	Second quarter	Third quarter	Year-end	Full year			
March 31, 2016	-	8.50	-	8.50	17.00	5,411	41.1%	2.3%
March 31, 2017	-	8.50	-	8.50	17.00	5,410	32.6%	2.3%
March 31,2018 (E)	-	8.50	-	8.50	17.00		33.8%	

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

(Millions of yen)

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

	Net sales		Operating income		Ordinary income		Net income		Earnings per share (Yen)
Interim term	156,000	0.8%	11,000	2.5%	11,500	38.4%	7,500	42.3%	23.56
Full term	320,000	2.4%	23,500	9.3%	24,500	11.4%	16,000	△3.5%	50.27

4. Others

(1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): Yes

New - company (company name), excluding two companies (company name) Citizen Watch Co., Ltd., Citizen Business Expert Co., Ltd.

(2) Changes in principles, procedures and classifications of accounting standards associated with the preparation of consolidated financial statements.

(i) Changes associated with revised accounting standards: None

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

(iii) Changes in accounting estimate: Yes

(iv) Restatements: None

(Note) For details, please refer to the Attached Documents “5. Consolidated Financial Statements (5) Notes to the Consolidated Financial Statements (Changes in accounting policies)” on page 21.

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

(shares)	March 2017	March 2016
Number of shares issued and outstanding at the end of term (including treasury stock)	320,353,809	330,353,809
Number of treasury stock at the end of term	2,064,808	12,060,890
Average number of common stocks	318,291,364	319,480,814

(Reference) Overview of Nonconsolidated Financial Results

1. Nonconsolidated Results for the Year ended March 31, 2017

(1) Nonconsolidated operating results

(Millions of yen; the percentages represent year-on-year changes.)

	Net sales		Operating revenue		Operating income		Ordinary income		Net income	
March 31, 2017	50,252	-	7,363	△52.9 %	5,249	△43.9%	8,191	△17.7%	28,810	344.5%
March 31, 2016	-	-	15,622	21.0%	9,362	35.1%	9,956	37.1%	6,482	△50.6%

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
March 31, 2017	90.51	-
March 31, 2016	20.29	-

(2) Nonconsolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share(Yen)
March 31, 2017	222,714	144,718	65.0%	454.68
March 31, 2016	193,612	117,871	60.9%	370.33

Reference: Shareholders' Equity: As of March 31, 2017: ¥ 144,718million As of March 31, 2016: ¥ 117,871million

2. Projected Nonconsolidated Results for the Year ending March 31, 2018

(Millions of yen)

	Net sales		Ordinary income		Net income		Earnings per share(Yen)
March 31, 2018	110,000	118.9%	11,000	34.3%	10,000	△65.3%	31.42

※ The consolidated financial statements are not included in the scope of the audit.

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

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

Please refer to the attached "Analysis of Operating Results" on page 4 for assumptions underlying the above forecasts and precautions regarding their use.

(Attached Documents)

〇INDEX

1. ANALYSIS OF OPERATIONG RESULTS/FINANCIAL POSITION 6
(1) Analysis of Operating Results 6
(2) Analysis of Financial Position 11
(3) Fundamental Policy Regarding the Distribution of Profits and Dividends for the Fiscal Year Under Review and the Fiscal Year Ending March 2017 12
(4) Risks 13
2. CORPORATE GROUP 16
3. FUNDAMENTAL VIEWS ON SELECTING ACCOUNTING STANDARDS 17
4. CONSOLIDATED FINANCIAL STATEMENTS 18
(1) Consolidated Balance Sheet 18
(2) Consolidated Statement of Income and Consolidated Statements of Comprehensive Income 20
Consolidated Statement of Income 20
Consolidated Statements of Comprehensive Income 21
(3) Consolidated Statements of Changes in Equity 22
(4) Consolidated Statement of Cash Flow 24
(5) Notes to the Consolidated Financial Statements 25
(**Notes related to of going concern assumptions)** 25
(**Basis of Presenting the Consolidated Financial Statements)** 26
(**Changes in accounting policies)** 31
(Change of the indication method) 31
(Additional Information) 31
(Consolidated balance sheet) 32
(Consolidated statement of income) 33
(Consolidated statement of retained earnings) 34
(Consolidated statement of cash flow) 36
(Business Combination, Etc.) 36
(Segment information) 40
(Per Share Information) 42
(Disclosure omitted) 42
5. OTHERS 43
(1) Changes in the Board of Directors of the Company 43
(2) Others 43

1. ANALYSIS OF OPERATIONG RESULTS/FINANCIAL POSITION

(1) Analysis of Operating Results

(i) Fiscal Year End Operating Results

Millions of yen	Year ended March 31, 2016	2017	Year-on-year change	%
Net sales	348,267	312,559	△35,707	△10.3%
Operating income	30,467	21,501	△8,965	△29.4%
Ordinary income	30,619	21,985	△8,633	△28.2%
Profit attributable to owners of parent	13,201	16,573	3,371	25.5%

During the consolidated fiscal year under review, the Japanese economy experienced a trend toward moderate recovery in the recent market conditions. Consumption did not increase, however, affected by low demand from tourists to Japan in addition to the strong appreciation of the yen and low stock prices in the first half of the year. In the U.S. economy, the market conditions were sluggish during the presidential election campaign, and the uncertainty surrounding policy increased from the start of the new administration. On the other hand, expectations of economic recovery grew due to the improved employment and income environment. The situation in the European economy was generally stable, partly due to limited confusion caused by the issue of Britain’s exit from the EU. The environment of the Asian economy generally remained severe. However, there were signs of recovery, mainly in China.

Under these circumstances, 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 watch business, to become a true global company. Despite these efforts, results were poor due to the impact of the strong yen and sluggish global market conditions.

The Citizen Group’s consolidated results for the fiscal year under review showed net sales of 312.5 billion yen (down 10.3% year on year) and operating income of 21.5 billion yen (down 29.4% year on year). Both sales and profits decreased due to the impact of a slump in the entire watch market in addition to the impact of the yen’s appreciation. Ordinary income came to 21.9 billion yen (down 28.2% year on year) due to a decrease in operation income. However, profit attributable to owners of parent was 16.5 billion yen (up 25.5% year on year) due to the tax burden ratio was lower than projected, reflecting the reversal of a valuation allowance pertaining to deferred tax assets due to the posting of gains on sales of both non-current assets and investment securities.

Watches

Revenues from the CITIZEN brand in the domestic market were strong, aided by the strong reputation of the flagship model "Eco-Drive One” in the current period and “Eco-Drive Bluetooth,” which connects to smartphones, among other new products. In addition, the share of the “SATELLITE WAVE –GPS” watches category expanded. In addition, sales of the Sakura pink model in the “xC” collection for women, a new color created using the Company's unique surface hardening technique, were strong, 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 negative growth of the domestic watch market 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 impact of the yen's appreciation was not resolved by the middle of the fiscal year. Consequently, revenues from overseas markets declined overall. In the North American market, expectations for an economic recovery increased after the U.S. presidential election. However, there was a limited ripple effect on the watch market. Sales did not grow without the results from the year-end sale battle, as expected. In the European market, mainly in Germany with its ongoing stable economic growth and the U.K. with increasing demand from inbound tourists on the back of its weak currency following its decision to withdraw from the EU, overall sales were strong in the year-end sales battle. In the Asian market, sales became stable at the end of the fiscal year. However, this did not compensate for poor sales in the first half of the fiscal year due to the decline in personal consumption. In China, on the other hand, whose economy is slowly recovering, sales increased, especially in online distribution.

Revenues from the "BULOVA" brand fell due to the impact of the stronger yen, despite the contribution of the successful 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 in the overseas market due to sluggish sales mainly in emerging countries in Asia in addition to the impact of the stronger yen, although sales in the domestic market grew steadily due to the development of new customers.

The "FREDERIQUE CONSTANT" brand joined the Citizen Group following the completion of its acquisition in July 2016. It recorded stable sales, mainly in Europe, while many Swiss luxury watch brands saw sales decrease due to a decline in global demand.

In sales of movements, revenues declined reflecting a decrease in sales of high value-added products due to changes in consumer tastes and the expansion of demand for products with low unit prices in addition to the impact of the decline of the watch market and the stronger yen.

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 163.6 billion yen (down 9.7% year on year) and operating income of 14.4 billion yen (down 29.6% 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, revenues in the market declined as a cautious stance on capital expenditures remained following the presidential election, while a close watch was kept on policy trends.

Revenues from the European market remained almost the same as those of the previous fiscal year due to strong sales in Germany and Italy, one of the key markets, despite the impact of the stronger yen.

In the Asian market, revenues increased while the shipment of a large amount of orders for East Asia made a substantial contribution to sales and recent orders for automobile-related products bottomed out in China.

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

As a result, the machine tool segment posted a decline in sales and profits, with net sales of 49.6 billion yen (down 3.5% year on year) and operating income of 6.4 billion yen (down 10.4% year on year).

Devices and Components

New orders from existing customers for automobile components, among other precision machining components, remained stable supported by strong sales of new automobiles in various regions. In addition, due to the development of new customers, revenues increased. 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 in North America and Europe 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 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 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, which are the 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 overall 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 69.4 billion yen (down 13.9% year on year) and operating income of 3.9 billion yen (down 42.1% year on year).

Electronic Products

In the information equipment sector, sales of large printers increased substantially, 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 Europe and the United States. In addition, inventory adjustments of photo printers were undertaken 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 21.7 billion yen (down 6.8% year on year) and operating income of 0.5 billion yen (up 47.9% year on year).

Other Products

Since there were no signs of the recovery of consumers' motivation to buy jewelry products, which are key products, sales were sluggish. The Group withdrew from the pachinko-related products business. 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 8.0 billion yen (down 30.4% year on year) and operating income of 0.3 billion yen (compared with an operating loss of 0.5 billion yen in the previous fiscal year).

(ii) Prospects for the Year ending March 31, 2018

	Year ended March 31,			
Millions of yen	2017	2018	Year-on-year change	%
Net sales	312,559	320,000	7,441	2.4%
Operating income	21,501	23,500	1,999	9.3%
Ordinary income	21,985	24,500	2,515	11.4%
Net income	16,573	16,000	△573	△3.5%

Breakdown of sales by segment

	Year ended March 31,			
Millions of yen	2017	2018	Year-on-year change	%
Watches	163,619	172,000	8,381	5.1%
Machine Tools	49,694	53,000	3,306	6.7%
Devices and components	69,462	66,000	△3,462	△5.0%
Electronic products	21,774	22,000	226	1.0%
Other products	8,008	7,000	△1,008	△12.6%
Total net sales	312,559	320,000	7,441	2.4%

Breakdown of operating income by segment

Millions of yen	Year ended March 31, 2017	2018	Year-on-year change	%
Watches	14,493	16,000	1,507	10.4%
Machine Tools	6,406	7,500	1,094	17.1%
Devices and components	3,983	4,200	217	5.4%
Electronic products	507	800	293	57.8%
Other products	339	300	△39	△11.6%
Eliminations or general corporate	(4,228)	(5,300)	△1,072	-
Total operating income	21,501	23,500	1,998	9.3%

In terms of the economic outlook, the domestic economy shows a trend of moderate recovery but overall consumption appears weak, resulting in stagnation. Overseas, the U.S. economy faces uncertainty regarding the policy of the new administration, but the recent economic environment has been improving. The European economy is maintaining steady growth, mainly in the major countries, but the outlook remains uncertain. In the Asian economy, there are signs of the recovery of the Chinese economy and an expectation of improvement is gradually increasing in the emerging countries of Asia. The demand for capital investment in Japan and overseas has been recovering remarkably, and the conditions that are expected to contribute to sales expansion are being fulfilled.

Under these circumstances, we are forecasting, for the next consolidated fiscal year, net sales of 320.0 billion yen (up 2.4% year-on-year), operating income of 23.5 billion yen (up 9.3%), ordinary income of 24.5 billion yen (up 11.4%) and profit attributable to owners of parent of 16.0 billion yen (down 3.5 %).

These forecasts are based on an exchange rate assumption for the year of 110 yen/US dollar and 120 yen/euro.

The exchange rates for the year ended March 2017 were 109 yen/US dollar and 119 yen/euro.

(2) Analysis of Financial Position

(i) Assets Outstanding at Fiscal Year End

As of the end of the consolidated fiscal year under review, total assets decreased by 10.5 billion yen year on year, to 395.8 billion yen. Current assets decreased by 28.7 billion yen due to factors including a decline of 18.6 billion yen in cash and deposits, a decline of 4.8 billion yen in inventories and a decline of 1.9 billion yen in notes and accounts receivable-trade. Non-current assets increased by 18.1 billion yen as buildings and structures increased by 7.5 billion yen, investment securities increased by 4.1 billion yen and goodwill increased by 3.8 billion yen, in spite of a 2.5 billion yen decrease in construction in progress.

Liabilities decreased by 22.3 billion yen year on year, to 146.6 billion yen, as short-term loans payable decreased by 11.5 billion yen, provision for loss on business restructuring (short term) decreased by 3.0 billion yen and long-term loans payable decreased by 2.8 billion yen.

Net assets increased by 11.7 billion yen year on year, to 249.2 billion yen, mainly as a result of a 16.5 billion yen increase in profit attributable to owners of parent, in spite of 5.4 billion yen decreased by dividend payout.

Retained earnings and treasury stock decreased by 8.6 billion yen each year on year, due to the cancellation of treasury stock.

(ii) Cash Flows

Net cash provided by operating activities increased by 2.8 billion yen year on year, to 32.7 billion yen. Major factors contributing to this result included a 22.4 billion yen in income before income taxes, a 12.5 billion yen in depreciation, and a 6.9 billion yen decrease in inventories, in spite of a 4.1 billion yen in income taxes paid and a 3.8 billion yen decrease in notes and accounts payable-trade.

Net cash used in investing activities increased by 3.2 billion yen year on year, to 27.8 billion yen. Major factors contributing to this result included 21.3 billion yen for the purchase of property, plant and equipment and 12.3 billion yen for the purchase of shares of consolidated subsidiaries, in spite of 4.7 billion yen in proceeds from sales of property, plant and equipment and 3.4 billion yen for the proceeds from sales of investment securities.

Net cash used in financing activities increased by 8.4 billion yen year on year, to 20.6 billion yen. Major factors contributing to this result included a 14.7 billion yen decrease in short-term loans payable and 5.4 billion yen in cash dividends paid.

For the consolidated fiscal year under review, cash and cash equivalents (hereinafter “funds”) decreased by 17.1 billion yen year on year, to 77.8 billion yen as of the end of the year.

(3) Fundamental Policy Regarding the Distribution of Profits and Dividends for the Fiscal Year Under Review and the Fiscal Year Ending March 2017

The total amount of dividends and share buyback divided by profit attributable to owners of parent will be stated as “ratio of return to shareholders,” and the Company 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 of its performance and the stability of the dividend.

The Company is planning to set the year-end dividend for the fiscal year under review at 8.50 yen per share. At that level, the dividend for the fiscal year ended March 2017 would come to 17.00 yen per share.

Regarding the dividends for the fiscal year ending March 2018, based on an overall consideration of factors such as our intention to pay a stable dividend amount and the business results we expect to achieve, we are planning to pay a full-year dividend of 17.00 yen per share.

(4) 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, while the markets around the world have been recovering, there may be a delay in the procurement of materials for machine tools.

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. Results for opto-devices are greatly affected by the developments of customers such as mobile phone and lighting manufacturers. Patent licensing agreements are also essential for manufacturing certain products. Our business result could be seriously 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.

2. Corporate Group

The Citizen Group (the Company and its subsidiaries and affiliates) consists of the holding company, 122 subsidiaries and 7 affiliates. Group companies are mainly engaged in production and sales across four business segments; watches, machine tools, devices and components, and electronic products.

The major Group companies in each of these business segments are as follows.

Watches

CITIZEN WATCH CO., LTD.

Major domestic production & marketing companies

- ○ CITIZEN WATCH MANUFACTURING CO., LTD.
- ○ CITIZEN YUBARI CO. LTD.
- ○ CITIZEN WATCH KAGOSHIMA CO., LTD.
- ○ CITIZEN MICRO CO., LTD.
- ○ CITIZEN RETAIL PLANNING CO., LTD.
- ○ ON-TIME CO., LTD.
- ○ CITIZEN T.I.C. CO., LTD

Major overseas production & marketing companies

- ○ SUNCITI MANUFACTURERS LTD.
- ○ CITZIEN WATCHES (H.K.) LTD.
- ○ GOODRINGTON COMPANY LTD..
- ○ ROYAL TIME CITI CO., LTD.
- ○ CITIZEN WATCHES CO., OF AMERICA, INC.
- ○ CITIZEN WATCHES AUSTRALIA PTY LTD.
- ○ CITZIEN WATCHES EUROPE GmbH
- ○ CITIZEN WATCH ITALY S.P.A.
- ○ CITIZEN DEMEXICO, S.A. DEC.V.
- ○ CITIZEN WATCH (CHINA) CO., LTD.
- ○Frederique Constant Holding SA
- ○Prothor Holding S.A.

○ CITIZEN FINANCIAL SERVICE CO., LTD

Indirect Operations, Group Internal Finance and Other

Machine Tools

Major domestic production & marketing companies

- ○ CITIZEN MACHINERY CO., LTD.

Major overseas production & marketing companies

- ○ CITIZEN MACHINERY ASIA CO., LTD.
- ○ CITIZEN CHINA PRECISION MACHINERY CO., LTD.
- ○ CITIZEN MACHINERY EUROPE GmbH
- ○ CITIZEN MACHINERY UK LTD.
- ○ CITIZEN MACHINERY PHILIPPINES INC.
- ○ CITIZEN MASHINERY VIETNAM CO.,LTD.
- ○ CITIZEN MACCHINE ITALIA S.R.L.
- ※MARUBENI CITIZEN-CINCOM INC.

Devices and components

Major domestic production & marketing companies

- ○ CITIZEN ELECTRONICS CO., LTD.
- ○ CITIZEN FINEDEVICE CO., LTD.
- ○ CITIZEN ELECTRONICS FUNEHIKI CO., LTD.
- ○ CITIZEN ELECTRONICS TIMEL CO., LTD.
- ○ CITIZEN CHIBA PRECISION CO.,LTD.

Major overseas production & marketing companies

- ○ FIRSTCOME ELECTRONICS LTD.
- ○ MASTER CROWN ELECTRONICS (WUZHOU) LTD.
- ○ CITIZEN MICRO DEVICES (SUZHOU) CO.,LTD.
- ○ C-E (H.K.) LTD.
- ○ C-E (DEUTSCHLAND) GmbH
- ○ Citizen Electronics (China) Co.,Ltd.
- ○ CITIZEN SEIMITSU (THAILAND)CO., LTD.
- ○ Citizen Finedevice Philippines Corp..

Electronic products

Major domestic production & marketing companies

- ○CITIZEN SYSTEMS JAPAN CO., LTD.

Major overseas production & marketing companies

- ○ CITIZEN SYSTEMS (H.K.) LTD.
- ○ CITIZEN SYSTEMS AMERICA CORPORATION
- ○ CITIZEN SYSTEMS EUROPE GmbH

Other products

Major domestic production & marketing companies

- ○ CITIZEN JEWELRY CO., LTD.
- ○ CITIZEN PLAZA CO., LTD.
- ○ TOKYO BIJUTSU CO., LTD.

○ : consolidated subsidiaries

※ : affiliate not accounted for by the equity method

3. Fundamental Views on Selecting Accounting Standards

The Citizen Group will continue to compile its consolidated financial statements using Japanese standards for the foreseeable future, as they enable comparison of fiscal years in the consolidated financial statements as well as a comparison among companies.

The Group has the policy of appropriately dealing with the application of IFRS, by taking into consideration circumstances in Japan and overseas.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

Millions of yen	March 31, 2016	March 31, 2017
Current assets		
Cash and deposits	99,371	80,746
Notes and accounts receivable - trade	63,061	61,142
Electronically recorded monetary claims – operating	855	1,156
Merchandise and finished goods	53,328	49,121
Work in process	18,736	18,511
Raw materials and supplies	17,099	16,695
Consumption taxes receivable	2,755	2,606
Deferred tax assets	8,609	6,787
Other	8,034	6,114
Allowance for doubtful accounts	△1,301	△1,037
Total current assets	270,551	241,844
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,113	41,687
Machinery, equipment and vehicles, net	21,023	21,765
Tools, furniture and fixtures, net	5,657	6,634
Land	10,904	11,109
Leased assets, net	1,175	1,380
Construction in progress	5,570	2,977
Total property, plant and equipment	※1 78,443	※1 85,554
Intangible assets		
Goodwill	2,097	5,958
Software	2,462	3,208
Leased assets	14	6
Other	1,953	4,420
Total intangible assets	6,529	13,594
Investments and other assets		
Investment securities	40,366	44,519
Long-term loans receivable	1,130	1,030
Deferred tax assets	5,886	6,029
Other	5,594	3,663
Allowance for doubtful accounts	△1,901	△211
Allowance for investment loss	△138	△138
Total investments and other assets	50,938	54,893
Total non-current assets	135,911	154,042
Total assets	406,462	395,887

Millions of yen	March 31, 2016	March 31, 2017
Current liabilities		
Notes and accounts payable - trade	19,589	19,836
Electronically recorded obligations - operating	13,564	13,140
Notes payable - facilities	376	1,389
Electronically recorded obligations - non-operating	885	378
Short-term loans payable	17,444	5,849
Bonds payable within one year	-	10,000
Income taxes payable	3,679	2,657
Deferred tax liabilities	120	102
Accrued expenses	14,655	12,727
Provision for bonuses	6,335	5,458
Provision for directors' bonuses	162	135
Provision for product warranties	1,011	928
Provision for environmental measures	11	24
Provision for loss on business restructuring	4,369	1,294
Other	9,697	6,600
Total current liabilities	91,901	80,523
Non-current liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	30,000	27,182
Deferred tax liabilities	2,067	3,392
Provision for loss on guarantees	28	-
Provision for environmental measures	65	54
Provision for loss on business restructuring	1,663	1,330
Net defined benefit liability	21,139	22,003
Asset retirement obligations	97	66
Other	2,031	2,118
Total non-current liabilities	77,091	66,148
Total liabilities	168,993	146,671
Net assets		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	33,969	34,074
Retained earnings	159,684	162,224
Treasury stocks	△10,400	△1,780
Total shareholders' equity	215,903	227,168
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,413	10,332
Foreign currency translation adjustment	5,756	3,088
Remeasurements of defined benefit plans	△1,372	△1,168
Total accumulated other comprehensive income	11,797	12,252
Non-controlling interests	9,768	9,795
Total net assets	237,469	249,215
Total liabilities and net assets	406,462	395,887

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

Consolidated Statement of Income

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Net sales	348,267	312,559
Cost of sales	213,508	192,322
Gross profit	134,759	120,236
Selling, general and administrative expenses	※1 104,291	※1 98,734
Operating income	30,467	21,501
Non-operating income		
Interest income	396	286
Dividend income	1,414	1,449
Rent income	283	212
Share of profit of entities accounted for using equity method	603	445
Other	569	590
Total non-operating income	3,268	2,985
Non-operating expenses		
Interest expenses	482	399
Loss on sales of notes receivable - trade	66	76
Depreciation of assets for rent	57	39
Foreign exchange losses	2,013	1,168
Other	495	817
Total non-operating expenses	3,115	2,500
Ordinary income	30,619	21,985
Extraordinary income		
Gain on sales of investment securities	194	2,211
Gain on sales of non-current assets	1,028	2,497
Other	12	184
Total extraordinary income	1,236	4,894
Extraordinary losses		
Loss on sales of non-current assets	19	59
Loss on retirement of non-current assets	303	320
Impairment loss	※2 3,051	※2 1,039
Loss on business restructuring	4,936	2,557
Loss on valuation of investment securities	0	-
Provision of allowance for doubtful accounts	313	-
Settlement package	37	-
Other	641	436
Total extraordinary losses	9,304	4,412
Income before income taxes	22,550	22,467
Income taxes - current	7,938	4,817
Income taxes - deferred	581	622
Total income taxes	8,519	5,439
Net income	14,031	17,028
Profit attributable to non-controlling interests	829	454
Profit attributable to owners of parent	13,201	16,573

Consolidated Statements of Comprehensive Income

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Net income	14,031	17,028
Other comprehensive income		
Valuation difference on available-for-sale securities	△3,778	2,918
Foreign currency translation adjustment	△9,078	△2,684
Remeasurements of defined benefit plans	△1,028	227
Share of other comprehensive income of entities accounted for using equity method	△167	28
Total other comprehensive income	△14,053	489
Comprehensive income	△21	17,517
(Breakdown)		
Comprehensive income attributable to owners of parent	△675	17,028
Comprehensive income attributable to non-controlling interests	653	489

(3) Consolidated Statements of Changes in Equity

Millions of yen	March 31, 2016	March 31, 2017
Shareholders' equity		
Capital stock		
Balance at beginning of year	32,648	32,648
Balance at end of year	32,648	32,648
Capital surplus		
Balance at beginning of year	33,890	33,969
Changes of items during period		
Capital increase from acquisition of consolidated subsidiaries	79	104
Disposal of treasury stocks	△0	△0
Retirement of treasury stocks		△8,622
Transfer of loss on disposal of treasury stocks	0	0
Transfer to capital surplus from retained earnings		8,622
Total changes of items during period	79	104
Balance at end of year	33,969	34,074
Retained earnings		
Balance at beginning of year	151,689	159,684
Changes of items during period		
Increase by merger	7	
Increase by corporate division	5	
Change of scope of consolidation	79	
Dividends of surplus	△5,297	△5,410
Profit attributable to owners of parent	13,201	16,573
Transfer of loss on disposal of treasury stocks	△0	△0
Retirement of treasury stocks		△8,622
Total changes of items during period	7,995	2,539
Balance at end of year	159,684	162,224
Treasury stocks		
Balance at beginning of year	△5,394	△10,400
Changes of items during period		
Purchase of treasury stocks	△5,006	△2
Disposal of treasury stocks	0	0
Retirement of treasury stocks		8,622
Total changes of items during period	△5,006	8,620
Balance at end of year	△10,400	△1,780
Total shareholders' equity		
Balance at beginning of year	212,834	215,903
Changes of items during period		
Capital increase from acquisition of consolidated subsidiaries	79	104
Capital increase of consolidated subsidiaries	-	
Increase by merger	7	-
Increase by corporate division	5	-
Change of scope of consolidation	79	-
Dividends of surplus	△5,297	△5,410
Profit attributable to owners of parent	13,201	16,573
Purchase of treasury stocks	△5,006	△2
Disposal of treasury stocks	0	0
Total changes of items during period	3,069	11,264
Balance at end of year	215,903	227,168

Millions of yen	March 31, 2016	March 31, 2017
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at beginning of year	11,190	7,413
Changes of items during period		
Net changes of items other than shareholders' equity	△3,777	2,918
Total changes of items during period	△3,777	2,918
Balance at end of year	7,413	10,332
Foreign currency translation adjustment		
Balance at beginning of year	14,843	5,756
Changes of items during period		
Net changes of items other than shareholders' equity	△9,087	△2,667
Total changes of items during period	△9,087	△2,667
Balance at end of year	5,756	3,088
Remeasurements of defined benefit plans		
Balance at beginning of year	△362	△1,372
Changes of items during period		
Net changes of items other than shareholders' equity	△1,009	203
Total changes of items during period	△1,009	203
Balance at end of year	△1,372	△1,168
Total accumulated other comprehensive income		
Balance at beginning of year	25,671	11,797
Changes of items during period		
Net changes of items other than shareholders' equity	△13,873	454
Total changes of items during period	△13,873	454
Balance at end of year	11,797	12,252
Non-controlling interests		
Balance at beginning of year	9,466	9,768
Changes of items during period		
Net changes of items other than shareholders' equity	302	26
Total changes of items during period	302	26
Balance at end of year	9,768	9,795
Net assets		
Balance at beginning of year	247,972	237,469
Changes of items during period		
Capital increase from acquisition of consolidated subsidiaries	79	104
Capital increase of consolidated subsidiaries	-	
Increase by merger	7	-
Increase by corporate division	5	-
Change of scope of consolidation	79	-
Dividends of surplus	△5,297	△5,410
Profit attributable to owners of parent	13,201	16,573
Purchase of treasury stocks	△5,006	△2
Disposal of treasury stocks	0	0
Net changes of items other than shareholders' equity	△13,571	481
Total changes of items during period	△10,502	11,746
Balance at end of year	237,469	249,215

(4) Consolidated Statement of Cash Flow

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from operating activities		
Income before income taxes	22,550	22,467
Depreciation	14,934	12,509
Increase (decrease) in provision for loss on business restructuring	1,166	△3,423
increase (decrease) in allowance for doubtful accounts	180	△2,267
Increase (decrease) in other provision	△128	△971
Increase (decrease) in net defined benefit liability	1,409	844
Amortization of goodwill	1,100	1,642
Interest and dividend income	△1,811	△1,735
Interest expenses	482	399
Loss (gain) on sales of investment securities	△194	△2,211
Loss (gain) on valuation of investment securities	0	-
Loss (gain) on sales of non-current assets	△1,009	△2,438
Loss on retirement of non-current assets	303	297
Decrease (increase) in notes and accounts receivable - trade	△1,459	3,308
Decrease (increase) in inventories	△2,496	6,941
Increase (decrease) in notes and accounts payable - trade	4,240	△3,871
Impairment loss	3,051	1,039
Other, net	△297	3,093
Sub total	42,024	35,623
Interest and dividend income received	1,807	1,749
Interest expenses paid	△465	△408
Income taxes paid	△13,385	△4,182
Net cash provided by (used in) operating activities	29,980	32,781
Cash flows from investing activities		
Purchase of investment securities	△5,018	△1,508
Proceeds from sales of investment securities	485	3,496
Purchase of property, plant and equipment	△21,527	△21,346
Proceeds from sales of property, plant and equipment	2,416	4,710
Purchase of intangible assets	△1,275	△1,460
Payments of loans receivable	△39	△12
Collection of loans receivable	116	107
Purchase of shares of consolidated subsidiaries	-	△12,377
Other, net	206	529
Net cash provided by (used in) investing activities	△24,637	△27,861

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△1,646	△14,730
Repayments of long-term loans payable	-	△15
Cash dividends paid	△5,297	△5,410
Dividends paid to non-controlling interests	△209	△348
Purchase of treasury stocks	△5,006	△2
Proceeds from sales of treasury stocks	0	0
Purchase of shares of subsidiaries not associated with change in scope of consolidation	△1	△1
Other, net	△43	△117
Net cash provided by (used in) financing activities	△12,205	△20,626
Effect of exchange rate change on cash and cash equivalents	△3,398	△1,448
Net increase (decrease) in cash and cash equivalents	△10,260	△17,155
Cash and cash equivalents at beginning of term	105,276	95,042
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	20	-
Increase (decrease) in cash and cash equivalents resulting from merger of subsidiaries	6	-
Cash and cash equivalents at end of term	※ 95,042	※ 77,887

(5) Notes to the Consolidated Financial Statements

(**Notes related to of going concern assumptions)**

Not applicable

(Basis of Presenting the Consolidated Financial Statements)

1. Scope of consolidation	(1) Consolidated subsidiaries (105companies) Major consolidated subsidiaries Citizen Machinery Co., Ltd., Citizen Electronics Co., Ltd., Citizen Finedevice Co., Ltd., and Citizen Systems Japan Co., Ltd. Newly added (12companies) Starting the consolidated fiscal year under review, Frederique Constant Holding SA and its 11 subsidiaries are included in the scope of consolidation due to the new acquisition of shares of Frederique Constant Holding SA. Excluded (6 companies). Starting the consolidated fiscal year under review, XUNKE ELECTRONICS LTD. was excluded from consolidation because it was merged by JIANG XING ELECTRONICS LTD., a consolidated subsidiary of the Company. Citizen Watch Co., Ltd. and Citizen Business Expert Co., Ltd. were excluded from consolidation because they were merged by the Company (former trade name: Citizen Holdings Co., Ltd.). Miyano Machinery Philippines Inc. was excluded from consolidation because it was merged with Citizen Machinery Philippines Inc., a consolidated subsidiary of the Company. Bulova Corporation was excluded from consolidation because it was merged with CITIZEN WATCH COMPANY OF AMERICA, INC., a consolidated subsidiary of the Company. Sunciti Trading Dong Guan Ltd. was excluded from consolidation due to liquidation. (2) Nonconsolidated subsidiaries (17companies) Major nonconsolidated subsidiaries HESTIKA FRANCE S.A.S. (Reasons for Exclusion from the Scope of Consolidation) Total assets, net sales, net income or loss (equivalent portion for equity holdings), and retained earnings (equivalent portion for equity holdings) of the non-consolidated subsidiaries were excluded from the scope of consolidation because they are individually immaterial in comparison to total assets, net sales, net income, and retained earnings, as reported on the consolidated financial statements, and also would not materially impact the consolidated financial statements taken together.
2. Application of the equity method	(1) Equity method affiliate company: 2 companies. Marubeni Citizen -Cincom Inc., First Cainta Resources Corporation (2) Non-consolidated subsidiaries to which the equity method is not applied (HESTIKA FRANCE S.A.S. and others) and affiliated companies (Aikawa Seimitsu Co., Ltd. and others) have been excluded from equity method

	application. This decision was based on the immateriality of the individual impacts of their net income or loss, retained earnings, and other financial measures (equivalent portions for equity holdings) on the consolidated financial statements, and based on the overall lack of importance of each of these companies to the consolidated group.
3. Fiscal year-end of consolidated subsidiaries	(1) The fiscal year-ends of consolidated subsidiaries are as follows. July 4: 1 company December 31: 80 companies (2) These consolidated subsidiaries perform account closings as of the consolidated financial statement closing date for financial statements used in preparing the consolidated financial statements so that the latter can be prepared.
4. Accounting policies	The accounting standards applicable to consolidated subsidiaries are, in principle, consistent with those applied by the Company, with no notable differences. Key accounting standards applied by the Company and its subsidiaries are outlined below.
(1) Valuation standards and methods for major assets	(i) Marketable and investment securities Available-for-sale securities Available-for-sale securities with market value Valued based on market value as of the closing date for consolidated financial statements Available-for-sale securities without market value Valued via the cost method using the moving average method (ii) Derivatives Valued based on market value (iii) Inventory assets Primarily valued via the cost method, based on the gross average method (with balance sheet values reflecting write downs for decreased profitability)
(2) Depreciation of fixed assets	(i) Property, plant and equipment (excluding leased assets) Mainly calculated on a declining balance basis Primary useful life figures are as follows Buildings and structures 2 to 60 years. Machinery, equipment and vehicles 2 to 10 years. (ii) Intangible assets (excluding leased assets) Calculated on a straight line basis (iii) Leased assets Leased assets relating to finance lease transactions that do not involve transferring ownership of the leased assets to the lessee are depreciated using the straight-line method, with useful lives equal to lease terms and zero residual values.
(3) Deferred assets	Bond issuance expenses One-time depreciation in the year of issuance

(4) Standards for posting provisions and reserves	(i) Allowance for doubtful accounts In setting aside allowances for possible losses relating to trade receivables, loans, etc., for the Company and its domestic consolidated subsidiaries, individual ordinary receivables regarded as doubtful are evaluated for collectability, and an amount equivalent to the portion judged to be uncollectible is recoded based on the loan loss ratio. For overseas consolidated subsidiaries, individual receivables are evaluated for collectability and required loss estimates are recorded. (ii) Allowance for investment losses To provide for possible losses due to the extreme devaluation of stocks in non-consolidated subsidiaries (excluding stocks subject to impairment accounting), an allowance for valuation losses on investments is provided for an amount that takes into account actual stock prices at the end of the consolidated accounting year. (iii) Provision for bonuses To provide for the payment of bonuses to employees, the Company and selected consolidated subsidiaries record an allowance based on estimated forthcoming payments. (iv) Provision for directors' bonuses To provide for the payment of bonuses to directors, the Company and selected consolidated subsidiaries record an allowance based on estimated forthcoming payments. (v) Provision for product warranties At selected overseas subsidiaries, certain net sales rates are provided as an allowance for possible expenses required for after-sales services for products sold. (vi) Provision for loss on business restructuring To provide for expenses and losses relating to business restructuring, an allowance is set aside for an amount equal to estimated forthcoming payments.
4. Accounting policies	The accounting standards applicable to consolidated subsidiaries are, in principle, consistent with those applied by the Company, with no notable differences. Key accounting standards applied by the Company and its subsidiaries are outlined below.
(1) Valuation standards and methods for major assets	(iv) Marketable and investment securities Available-for-sale securities Available-for-sale securities with market value Valued based on market value as of the closing date for consolidated financial statements Available-for-sale securities without market value Valued via the cost method using the moving average method (v) Derivatives Valued based on market value (vi) Inventory assets Primarily valued via the cost method, based on the gross average method (with balance sheet values reflecting write downs for decreased profitability)

(2) Depreciation of fixed assets	(iv) Property, plant and equipment (excluding leased assets) Mainly calculated on a declining balance basis Primary useful life figures are as follows Buildings and structures 2 to 60 years. Machinery, equipment and vehicles 2 to 10 years. (v) Intangible assets (excluding leased assets) Calculated on a straight line basis (vi) Leased assets Leased assets relating to finance lease transactions that do not involve transferring ownership of the leased assets to the lessee are depreciated using the straight-line method, with useful lives equal to lease terms and zero residual values.
(3) Deferred assets	Bond issuance expenses One-time depreciation in the year of issuance
(4) Standards for posting provisions and reserves	(vii) Allowance for doubtful accounts In setting aside allowances for possible losses relating to trade receivables, loans, etc., for the Company and its domestic consolidated subsidiaries, individual ordinary receivables regarded as doubtful are evaluated for collectability, and an amount equivalent to the portion judged to be uncollectible is recoded based on the loan loss ratio. For overseas consolidated subsidiaries, individual receivables are evaluated for collectability and required loss estimates are recorded. (viii) Allowance for investment losses To provide for possible losses due to the extreme devaluation of stocks in non-consolidated subsidiaries (excluding stocks subject to impairment accounting), an allowance for valuation losses on investments is provided for an amount that takes into account actual stock prices at the end of the consolidated accounting year. (ix) Provision for bonuses To provide for the payment of bonuses to employees, the Company and selected consolidated subsidiaries record an allowance based on estimated forthcoming payments. (x) Provision for directors' bonuses To provide for the payment of bonuses to directors, the Company and selected consolidated subsidiaries record an allowance based on estimated forthcoming payments. (xi) Provision for product warranties At selected overseas subsidiaries, certain net sales rates are provided as an allowance for possible expenses required for after-sales services for products sold. (xii) Provision for loss on business restructuring To provide for expenses and losses relating to business restructuring, an allowance is set aside for an amount equal to estimated forthcoming payments. (xiii) Provision for environmental measures To provide for expenses relating to future environmental measures, an allowance is set aside for an amount based on a reasonable estimate. (xiv) Provision for loss on guarantees A provision for loss on guarantees is provided to cover the estimated amount of payments for such losses, taking into account the Company's financial position and other relevant factors

(5) Accounting procedure for retirement benefits	(i) Method of attributing expected benefits to dates When calculating retirement benefit obligations, expected benefits are attributed to dates up until the end of the consolidated fiscal year under review on a straight-line attribution basis. (ii) Actuarial differences on obligations and prior service costs Prior service costs are recognized as an expense and amortized over an average remaining service period for employees at the time of accrual (five years based on the declining-balance method in principle). Actuarial differences are recognized as an expense starting from the consolidated fiscal year following the year in which they occur, and amortized over an average remaining service period for employees at the time of accrual (five years based on the declining-balance method in principle).
(6) Translation of foreign currency assets or liabilities	Foreign currency amounts are converted into Japanese yen at the prevailing rate on the balance sheet date for accounts receivable and accounts payable. Translation adjustments are stated as profit/loss. Assets and liabilities for overseas subsidiaries are converted into Japanese yen using the spot rate on the balance sheet date, whereas revenues and expenses are converted into Japanese yen using a weighted-average rate. Translation adjustments are included in foreign currency translation adjustment and non-controlling interests in net assets.
(7) Hedge accounting method	(i) Hedge accounting method Special procedures are applied to interest rate swaps, providing that the necessary conditions for special procedure have been met. (ii) Hedging instruments and hedged items Hedging instruments and hedged items subject to hedge accounting are as follows. Hedging instruments: Interest rate swaps Hedged items: interest payments on borrowings (iii) Hedge policy Selected loans payable are hedged against the risk of interest rate fluctuations. (iv) Method for evaluating hedge effectiveness As interest rate swaps are subject to special procedures, no assessment is carried out to determine their effectiveness.
(8) Amortization method and period for goodwill	Goodwill is amortized evenly over the period in which its effects are expected to materialize (up to 20 years from the time of recording). If the difference from elimination is immaterial, it is recorded as a gain or loss for the period in which it arises.
(9) Scope of funds covered by the consolidated statement of cash flow	The scope of funds covered by the consolidated statement of cash flow includes cash on hand, demand deposits, and short-term investments that mature within three months of acquisition, as well as being easily convertible to cash and bearing very little value fluctuation risk.
(10) Other important matters regarding the preparation of consolidated financial statements	(i) Accounting method for consumption tax Consumption tax is calculated using the tax exclusion method. (ii) Application of the consolidated taxation system The consolidated taxation system is applied.

(Changes in accounting policies)

(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 primarily employed the declining-balance method, and its overseas consolidated subsidiaries employed the straight-line method. Starting 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 in the long term and have determined that the straight-line method will enable us to reflect our actual position more accurately in the depreciation of property, plant and equipment.

Because of this change, operating income in the consolidated fiscal year under review has increased 2,651 million yen, and ordinary income and income before income taxes have increased 2,768 million yen, respectively.

(Change of the indication method)

(Consolidated statement of cash flow)

"Increase (decrease) in allowance for doubtful accounts" included in "increase (decrease) in other provision" under "cash flows from operating activities" for the previous consolidated fiscal year are accounted for as an independent item from 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, the "increase (decrease) in other provision" of 52 million yen under "cash flows from operating activities" indicated under the consolidated statement of cash flow for the previous consolidated fiscal year is reclassified as the "increase (decrease) in allowance for doubtful accounts" of 180 million yen and the "increase (decrease) in other provision" of 128 million yen.

(Additional Information)

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

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

(Consolidated balance sheet)

※1. Accumulated depreciation on property, plant and equipment is as shown below.

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Accumulated depreciation on property, plant and equipment	215,565	213,138

※2. Guarantees of bank borrowings by companies other than members of the consolidated group are as shown below.

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Guarantees of lease obligations	75	-

※3. Export bill discounts/trade notes receivable transferred by endorsement

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Trade notes receivable transferred by endorsement	-	-

(Consolidated statement of income)

※ Major items in selling, general and administrative expenses are as shown below.

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Depreciation	4,383	3,699
Provision of allowance for doubtful accounts	△58	△55
Provision for bonuses	2,624	2,301
Provision for directors' bonuses	72	88
Retirement benefit expenses	1,404	1,291
Personnel expenses	33,977	32,521
Advertising expenses	21,512	19,760
Provision for product warranties	61	51
Research and development expenses	7,500	7,113

※2 Impairment Loss

The Group, in principle, considers department unit based on management accounting as the minimum unit that generates cash flow. Some of the consolidated subsidiaries are classified based on company unit due to their business size. Assets that are not clearly related to certain business, such as head office, are categorized as common assets.

For the previous consolidated fiscal year, impairment losses were recorded for assets with no foreseeable use and assets used in businesses with diminished profitability. In addition, impairment losses were recorded for goodwill because profitability that was initially assumed was no longer expected in the business plan examined at the time of the acquisition of shares. The book values of these assets and goodwill were written down to recoverable values and the amount by which these assets and goodwill were written down, 3,051 million yen, was recorded as an impairment loss under extraordinary losses. The main impairment losses recorded included 31 million yen for buildings and structures, 17 million yen for tools, furniture and fixtures, and 2,974 million yen for other intangible assets.

For the consolidated fiscal year under review, impairment losses were recorded for assets with no foreseeable use and assets used in businesses with diminished profitability. The book values of these assets were written down to recoverable values and the amount by which these assets were written down, 1,039 million yen, was recorded as an impairment loss under extraordinary losses. The main impairment losses recorded included 280 million yen for buildings and structures, 521 million yen for Machinery and equipment and 93 million yen for land.

Recoverable values were estimated as net realizable values or value in use. Net realizable values were estimated as disposal values and values in use were calculated as future cash flows discounted at 5%.

(Consolidated statement of retained earnings)

The year ended March 31, 2016

1. Type and number of issued stocks and treasury stocks

Shares	Beginning of the period	Increase during this interim period	Decrease during this interim period	End of the period
Issued shares				
Common stock	330,353,809	-	-	330,353,809
Total	330,353,809	-	-	330,353,809
Treasury stock				
Common stock*	6,371,070	5,689,911	91	12,060,890
Total	6,371,070	5,689,911	91	12,060,890

Notes (*)

1. The 5,689,911 share increase in treasury stock resulted from the purchase of 5,682,800 shares on the market and the purchase of 7,111 shares, which were less than one unit, from shareholders.
2. The 91 share decrease in treasury stock resulted from the sale of shares to shareholders originally acquired as shares less than one unit.

2. Cash dividends

(1) Cash dividends

(Resolution)	Type	Total amount of dividends	Dividend per share	Record date	Effective date
Ordinary general meeting of shareholders (June 25, 2015)	Common stock	2,591 million yen	8.50 yen	March 31, 2015	June 26, 2015
Board of Directors (Nov.10, 2015)	Common stock	2,705 million yen	8.50 yen	Sep. 30, 2015	Dec. 4, 2015

(2) Of the cash dividends with record date during this period, those with effective date after this period
Resolution is scheduled as follows.

(Resolution)	Type	Total amount of dividends	Source	Dividend per share	Record date	Effective date
Ordinary general meeting of shareholders (June 28, 2016)	Common stock	2,705 million yen	Earnings reserve	8.50 yen	March 31, 2016	June 29, 2016

The year ended March 31, 2017

1. Type and number of issued stocks and treasury stocks

Shares	Beginning of the period	Increase during this interim period	Decrease during this interim period	End of the period
Issued shares				
Common stock	330,353,809	-	10,000,000	320,353,809
Total	330,353,809	-	10,000,000	320,353,809
Treasury stock				
Common stock*	12,060,890	4,008	10,000,090	2,064,808
Total	12,060,890	4,008	10,000,090	2,064,808

Notes (*)

1. The 10,000,000 share decrease in issued shares resulted from the cancellation of treasury stock.
2. The 4,008 share increase in treasury stock resulted from the purchase of shares of less than one unit from shareholders.
3. The 10,000,090 share decrease in treasury stock resulted from a 10,000,000 share decrease due to the cancellation of treasury stock and a 90 share decrease due to the sale of shares to shareholders originally acquired as shares of less than one unit.

2. Cash dividends

(1) Cash dividends

(Resolution)	Type	Total amount of dividends	Source	Dividend per share	Record date
Ordinary general meeting of shareholders (June 28, 2016)	Common stock	2,705 million yen	8.50 yen	March 31, 2016	June 29, 2016
Board of Directors (Nov. 11, 2016)	Common stock	2,705 million yen	8.50 yen	Sep. 30, 2016	Dec. 2, 2016

(2) Of the cash dividends with record date during this period, those with effective date after this period Resolution is scheduled as follows.

(Resolution)	Type	Total amount of dividends	Source	Dividend per share	Record date	Effective date
Ordinary general meeting of shareholders (June 28, 2017)	Common stock	2,705 million yen	Earnings reserve	8.50 yen	March 31, 2017	June 29, 2017

(Consolidated statement of cash flow)

※1 Relationship between the ending balance of cash and cash equivalents and account items listed in the consolidated balance sheets

Millions of yen	Year ended March 31, 2016	Year ended March 31, 2017
Cash	99,371	80,746
Time deposits with a deposit period greater than three months	△4,328	△2,858
Cash and cash equivalents	95,042	77,887

(Business Combination, Etc.)

Business combination due to acquisition

1. Overview of business combination

(1) Name of acquired company and its business

Name of acquired company: Frederique Constant Holding SA

Business: Manufacture and sale of various watches and their parts

(2) Main reasons for business combination

To realize the growth strategy for the watches segment in the Citizen Global Plan 2018, the first year of which was fiscal 2013, the Group is promoting the multi-brand strategy. The Group will increase its corporate value by enhancing its presence in channels and the high-end market that are unable to be covered by the Group's brands, including the Citizen brand, by making Frederique Constant Holding SA a subsidiary. The Group will also develop the brand portfolio of the watches segment by creating synergies with the Group's brands.

In the future, we will promote the joint development of movement technology and the mutual sharing of infrastructure.

(3) Date of business combination

July 11, 2016

(4) Legal form of business combination

Acquisition of shares

(5) Name of the acquired company after business combination

Frederique Constant Holding SA

(6) Ratio of voting rights acquired

100%

(7) Main reason for deciding on the acquired company

The Company acquired all the shares of Frederique Constant Holding SA for cash.

2. Period of business performance of the acquired company included in the consolidated financial statements

From July 11, 2016 to March 31, 2017

3. Acquisition cost of the acquired company and breakdown of consideration by type

Consideration for acquisition: Cash 13,351 million yen

Acquisition cost: 13,351 million yen

4. Content and amount of major acquisition expenses

Advisory fees, etc. 334 million yen

5. Amount, cause, amortization method and amortization period of goodwill

(1) Amount of goodwill

5,256 million yen

(2) Cause

Because the amount of net assets at market value at the time of the business combination was lower than the acquisition cost, the difference is recognized as goodwill.

(3) Amortization method and amortization period

Even amortization for 10 years

6. Amounts of assets and liabilities accepted on the date of the business combination and their major breakdown

Current assets: 7,269 million yen

Non-current assets: 4,147 million yen

Total assets: 11,417 million yen

Current liabilities: 1,754 million yen

Non-current liabilities: 1,511 million yen

Total liabilities: 3,266 million yen

7. Amount allocated to intangible assets other than goodwill, their breakdown by major category and the weighted average amortization period by major category

Breakdown by major category	Amount	Amortization period
Marketing-related assets	1,293 million yen	7 years
Customer-related assets	2,109 million yen	10 years

8. Estimated amount of impact on consolidated financial statements for the consolidated fiscal year under review on the assumption that the business combination was completed on the first day of the consolidated fiscal year, and calculation method of the estimated amount

Omitted the data from the list due to the low impact on the result.

Transaction under common control, etc.

The Company (former trade name: Citizen Holdings Co., Ltd.) conducted an absorption-type merger (hereinafter the “Merger”), with the Company and its wholly-owned subsidiaries, Citizen Watch Co., Ltd. and Citizen Business Expert Co., Ltd. as the parties concerned on October 1, 2016 based on a resolution made at the meeting of the Board of Directors held on April 27, 2016.

1. Purpose of the Merger

Since April 2007, the Company has been making efforts to strengthen the competitiveness of the Group and promote its growth under the pure holding company structure. In addition, in the Citizen Global Plan 2018, a medium-term management plan that commenced in April 2013, the Company has worked on structural reforms aimed at the full strengthening of its business structure and manufacturing capabilities under the slogan of “aiming to become a true global company” and concentrated its management resources in business fields where the Company is able to make a strong showing by clarifying the business portfolio. As a result, the Company reaped certain benefits, including the expansion and strengthening of the watches segment and other businesses.

At the same time, since April 2014, the Company has been implementing various measures including the operation of the indirect functions of the three companies, the subjects of the Merger, in an integrated manner, with the aim of “accelerating growth strategies for the watches segment” and “improving management efficiency.” However, given that the internal and external environments have changed significantly since shifting to the pure holding company structure, we have reached the conclusion that it is best to make a shift to an operating holding company structure in which the Company directly operates the watches segment in order to promote the further growth of the Group as a whole, with the watches segment at the core, and strengthen the head office function by further promoting the Citizen Global Plan 2018.

After shifting to the operating holding company structure, we will make efforts to enhance the corporate value of the Group and the shareholder value by further strengthening its competitiveness under the new structure, while maintaining the advantages of the Group operation that we have built under the pure holding company structure.

2. Overview of the Merger

(1) Names of the companies involved in the business combination and their business

(i) Combining company

Name: Citizen Holdings Co., Ltd.

Business: Formulation and promotion of management strategies of the Group, audit of Group management, management of technological development and intellectual property of the Group and other business management, etc. as a holding company

(ii) Combined company

Name: Citizen Watch Co., Ltd.

Business: Manufacture, sale, export and import, etc. of various watches and their parts

Name: Citizen Business Expert Co., Ltd.

Business: Management and lease of real estate, maintenance and management of various production facilities, and commissioned services, agency service and consulting, etc. of the development, operation and maintenance of computer systems

(2) Date of business combination

October 1, 2016

(3) Legal form of business combination

Absorption-type merger in which the Company is the surviving entity, and Citizen Watch Co., Ltd. and Citizen Business Expert Co., Ltd. were dissolved.

(4) Name after business combination

Citizen Watch Co., Ltd.

3. Overview of accounting treatment conducted

The Merger is treated as a transaction under common control based on the Accounting Standard for Business Combinations and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

(Segment information)

a. Business segment

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 and clocks, Machine tools, Devices and components, Electronic products, and Other products – based on factors like similarity of types and characteristics of products.

Each segment and its major products are as shown below.

Segment	Major products
Watches	Watches, Movements
Machine Tools	NC automatic lathes
Devices and Components	Auto parts, switches , Chip LEDs, micro LCDs, Quartz crystals
Electronic products	Printers, Health care equipment, Calculators
Other products	Jewelry

b. Method for calculating sales, income/loss, assets, liabilities, and other items for reportable segments

The accounting methods applied to the business segments reported are generally the same as those described under

"Basis of Presenting the Consolidated Financial Statements."

Reportable segment income is based on operating income.

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

c. Net sales, income/loss, assets, liabilities, and other items by segment

Year ended March 31, 2016

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	181,241	51,517	80,632	23,371	11,504	348,267	-	348,267
Inter-segment	142	538	2,867	549	802	4,902	△4,902	-
Total	181,384	52,056	83,500	23,920	12,307	353,169	△4,902	348,267
Operating income	20,582	7,151	6,880	342	△542	34,416	△3,949	30,467
Assets	172,925	51,400	87,051	15,822	10,288	337,487	68,975	406,462

Notes:

1. Adjustments were made as described below.
   (1) The 3,949 million yen negative adjustment to segment income (operating income) includes 85 million yen in inter-segment eliminations and 4,034 million yen in corporate expenses that could not be allocated to a particular segment.
   (2) The 68,975 million yen positive adjustment to segment assets includes 110,370 million yen in corporate assets that could not be allocated to a particular segment and 41,395 million yen to eliminate inter-segment obligations.
2. Segment profits and losses are adjusted with operating income on the consolidated financial statements.

Year ended March 31, 2017

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	163,619	49,694	69,462	21,774	8,008	312,559	-	312,559
Inter-segment	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
Operating income	14,493	6,406	3,983	507	339	25,729	△4,228	21,501
Assets	188,108	49,936	85,795	15,877	9,233	348,951	46,935	395,887

Notes:

1. Adjustments were made as described below.
   (1) The 4,228 million yen negative adjustment to segment income (operating income) includes 115 million yen in inter-segment eliminations and 4,112 million yen in corporate expenses that could not be allocated to a particular segment.
   (2) The 46,935million yen positive adjustment to segment assets includes 86,159 million yen in corporate assets that could not be allocated to a particular segment and 39,223 million yen to eliminate inter-segment obligations.
2. Segment profits and losses 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 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 consolidated fiscal year under review rose 1,357 million yen in the watches segment, 885 million yen in the devices and components segment, 79 million yen in the electronic products segment, and 12 million yen in the other products segment.

(Per Share Information)

	Year ended March 31, 2016	Year ended March 31, 2017
Net assets per share	715.38 yen	752.21 yen
Earnings per share	41.32 yen	52.07 yen

Note: 1. Diluted earnings per share is not reported because there were no dilutive shares.

Note: 2. The basis of calculation of earnings per share information is as follows:

Earnings per share	Year ended March 31, 2016	Year ended March 31, 2017
Profit attributable to owners of parent (millions of yen)	13,201	16,573
Amount not attributed to common stock (millions of yen)	-	-
Profit attributable to owners of parent on common stock (millions of yen)	13,201	16,573
Average number of common stocks (thousand shares)	319,480	318,291
Summary of residual securities not included in diluted earnings per share as they have no dilution effect	-	-

Note: 3. The basis of calculation of net assets per share is as follows:

	Year ended March 31, 2016	Year ended March 31, 2017
Net assets (millions of yen)	237,469	249,215
Amount deducted from total net assets (millions of yen)	9,768	9,795
(Non-controlling interests (millions of yen))	(9,768)	(9,795)
Net assets on common stock at end of term (millions of yen)	227,700	239,420
Number of common shares at end of term used in the calculation of net assets per share (thousand shares)	318,292	318,289

(Disclosure omitted)

Notes to lease transactions, related party transactions, tax-effect accounting, financial instruments, marketable securities, derivative transactions, retirement benefits, business combinations, asset retirement obligations, consolidated statements of comprehensive income are omitted because there is little need to disclose them in financial statements.

5. Others

(1) Changes in the Board of Directors of the Company

i. Change to the Representative Director

Not applicable

ii. Change to the Board of Directors of the Company

・Candidates for newly appointed Board of Directors

Director Shinji Shirai (currently Operating Officer at Citizen Watch Co., Ltd.)

Director Yoshitaka Ohji (currently Operating Officer at Citizen Watch Co., Ltd.)

Outside Director Fumiaki Terasaka

(currently Adviser of Sapporo Breweries Ltd. and Outside Audit & Supervisory Board Member of Daisyo Corporation)

Audit & Supervisory Board Member Yoshio Takada

(currently President and CEO of Citizen T.I.C. Co., Ltd.)

・Board of Directors scheduled for retirement

Director Shigeru Kabata

Director Fusamitsu Natori

Outside Director Kenji Ito

Audit & Supervisory Board Member Kenichiro Hanyu

iii. Scheduled Appointment and Retirement Date

June 28, 2017

(2) Others

Not applicable