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

Consolidated Financial Statements

for the Six Months Ended September 30, 2017

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

November 10, 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

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Scheduled start of dividend payment: December 4, 2017

Scheduled release of fiscal 2017 Quarterly Business Report: November 14, 2017

1. Results for the Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)

(1) Consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended September 30, 2017	153,379	(0.9%)	11,763	10.1%	12,626	52.8%	8,220	56.6%
Six months ended September 30, 2016	154,832	(11.2%)	10,682	(28.7%)	8,261	(47.4%)	5,248	(48.7%)

Note: Comprehensive income:
As of September 30, 2017: ¥ 14,692 million (-) As of September 30, 2016: - ¥ 7,140 million (-)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Six months ended September 30, 2017	25.83	-
Six months ended September 30, 2016	16.49	-

Note: At the end of the fiscal year ended March 31, 2017, the Citizen Group finalized provisional accounting treatment related to the business combination. The consolidated financial statements for the first six months of the fiscal year ended March 31, 2017 reflect the finalized provisional accounting treatment.

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
Six months ended September 30, 2017	417,596	260,821	60.1%	788.77
March 31, 2017	395,887	249,215	60.5%	752.21

Reference: Shareholders' Equity:
As of September 30, 2017: ¥ 251,055million As of March 31, 2017: ¥ 239,420million

2. Dividends

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

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

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

(Millions of yen)

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

	Net sales		Operating profit		Ordinary profit		Net income		Earnings per share (Yen)
Full term	320,000	2.4%	23,500	9.3%	24,500	11.4%	16,000	(3.5%)	50.27

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

4. Others

(1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): None

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

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

- (i) Changes associated with revised accounting standards: None
- (ii) Changes other than those in (i)above: None
- (iii) Changes in accounting estimate: None
- (iv) Restatements: None

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

		shares		shares
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	September 30, 2017	320,353,809	March 31, 2017	320,353,809
(ii) Number of treasury stock at the end of term	September 30, 2017	2,066,829	March 31, 2017	2,064,808
(iii) Average number of common stocks	September 30, 2017	318,288,242	September 30, 2016	318,292,337

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

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

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

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

(Attached Documents)

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1. Qualitative Information on the Consolidated Financial Results for the Six Months Ended September 30, 2017

(1) Qualitative data on the consolidated financial results

During the first six months of the consolidated fiscal year under review, the Japanese economy experienced an overall trend toward moderate recovery despite the ongoing weakness in consumer spending. The U.S. economy remained sluggish due to uncertainty over policy management and a rise in geopolitical risks, despite continuous improvement in employment. Despite uncertainties, including uncertainty caused by Britain's exit from the EU, the European economy continued to recover steadily. There were signs of a recovery in the Asian economy, mainly in China, following a slowdown.

In this environment, the Citizen Group posted a decrease in sales and an increase in profit in the six months ended September 30, 2017. Net sales stood at 153.3 billion yen (down 0.9% year on year) and operating profit was 11.7 billion yen (up 10.1% year on year). Ordinary profit and profit attributable to owners of parent both increased, reaching 12.6 billion yen (up 52.8% year on year) and 8.2 billion yen (up 56.6% year on year), respectively.

Watches

The domestic market for the Citizen brand tended to be strong, which was supported by the general recovery of demand from inbound tourists, largely in urban areas, and the popularity of GINZA SIX, a commercial complex that was opened in April in Ginza, Tokyo, where various events have been held. Since July, in particular, demand from the wealthy for luxury items increased noticeably and resulted in strong sales of high-end products such as the limited editions of Eco-Drive One and CAMPANOLA and THE CITIZEN model with a Japanese paper dial, in addition to steady sales of mainstay brands such as ATTESA and xC. This, however, was still insufficient to offset the delay at the beginning of the period, and the result was a decrease in revenues.

In the overseas market, demand for watches recovered moderately in some regions. But this was insufficient to offset the fall at the beginning of the period and the resulting decrease in revenues. In North America, the impact of major distributors' streamlining of their stores and inventory adjustment remained significant and caused a decline in revenues despite some distributors purchasing merchandise for the year-end shopping season. In Europe, while sales of merchandise for the year-end shopping season were strong in major markets such as Germany, a slowdown in the U.K., where consumer spending declined due to uncertainty about the future and multiple terrorist attacks, caused a fall in revenues. In Asia, demand for watches has been gradually regaining its strength based on the moderate growth of economic activities. In China, in particular, both online distribution and sales in physical stores remained strong, and sales increased.

Revenues from the BULOVA brand declined due to ongoing weak demand for watches and the impact of leading distributors' streamlining of store networks and inventory adjustment.

Revenues from the Q&Q brand rose thanks to strong sales in the U.S. market, which led the overall performance.

Revenues from the Frederique Constant brand remained strong, particularly in Asia.

Revenues from the sale of movements decreased as a result of weak demand for watches and a fall in demand for high value-added products.

Operating profit increased thanks to product mix.

As a result, the watches segment posted a decrease in sales and an increase in profit, with net sales of 77.4 billion yen (down 0.3% year on year) and operating profit of 8.5 billion yen (up 32.3% year on year).

Machine Tools

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

In the Americas, revenues in the market declined as the stance on capital expenditures remained cautious, notwithstanding firm sales in major industries overall.

Revenues from the European market increased, which was led by solid sales, primarily of automobile-related products in Germany, and the support of Italy that enjoyed tax incentives.

Revenues in the Asian market grew based on the strong performance of major industries as a whole in China and steady sales of products related to automobiles and precision machinery in the ASEAN region.

Operating profit increased thanks to favorable conditions in both the domestic and overseas markets.

As a result, the machine tools segment posted an increase in both sales and profit, with net sales of 28.6 billion yen (up 14.1% year on year) and operating profit of 4.1 billion yen (up 20.2% year on year).

Devices and Components

Automobile components, among other precision machining components, were driven by solid orders, primarily for Europe and China as the North American market slowed noticeably, and by new orders received in Japan. Sales of switches for smartphones declined significantly and overall revenues from precision machining components decreased, despite an increase in switches for earphones and automobiles.

In terms of opto-devices, sales of LED chips increased, primarily in developed and emerging countries, as competition intensified, especially for LED chips for lighting. Of LED chips other than those for lighting, sales of automobile LED chips and LED chips for amusement were steady. Sales of backlight products for vehicles increased, and overall revenues from opto-devices rose.

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

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

As a result, the devices and components segment recorded a decrease in both sales and profit, with net sales of 34.1 billion yen (down 5.9% year on year) and an operating profit of 1.5 billion yen (down 30.0% year on year).

Electronic Products

In printers, sales of photo printers increased significantly and sales of POS printers remained strong; however, label printers grew at a sluggish pace and sales of large dot printers declined significantly following increased demand in the same period of the previous year. As a result, revenues declined in the information equipment sector overall.

Revenues from healthcare products declined due to a significant drop in China, despite strong sales of ultrasonic cleaning systems and thermometers in the domestic market.

Operating profit fell given the decrease in sales.

As a result, the electronic products segment overall recorded a decrease in both sales and profits, with net sales of 10.2 billion yen (down 8.7% year on year) and operating profit of 0.1 billion yen (down 37.7% year on year).

Other Products

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

Despite the decrease in sales, operating profit was steady.

As a result, the other products segment recorded a decrease in sales and an increase in profit, with net sales of 2.8 billion yen (down 36.5% year on year) and operating profit of 0.1 billion yen (up 5.9% year on year).

(2) Qualitative data on the consolidated financial position

As of the end of the second quarter under review, total assets increased by 21.7 billion yen from the end of the previous fiscal year, to 417.5 billion yen. Current assets increased 19.6 billion yen, mainly because of increases of 11.4 billion yen in inventories and 5.5 billion yen in cash and deposits. Non-current assets increased by 2.0 billion yen, primarily reflecting an increase of 3.0 billion yen in investment securities, despite decreases of 0.6 billion yen in goodwill and 0.5 billion yen in deferred tax assets.

Liabilities increased by 10.1 billion yen from the end of the previous fiscal year, to 156.7 billion yen. This increase in liabilities mainly reflected increases of 4.8 billion yen in notes and accounts payable-trade, 2.4 billion yen in electronically recorded obligations-operating, and 1.4 billion yen in short-term loans payable.

Net assets increased by 11.6 billion yen from the end of the previous fiscal year, to 260.8 billion yen. This increase was primarily the result of increases of 5.5 billion yen in retained earnings, 3.7 billion yen in foreign currency translation adjustment, and 2.3 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 10, 2017 in the Consolidated Financial Statements for the Three Months Ended June 30, 2017.

The impact of “Notification Regarding the Finding of Improper Activities at the Time of Shipping Products to Customer Companies by the Company’s Consolidated Subsidiaries and the Establishment of a Third Party Committee” that was disclosed today on results is uncertain at present and is not reflected in the earnings forecasts. The impact will be communicated when it is determined.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

Millions of yen	March 31, 2017	September 30, 2017
Current assets		
Cash and deposits	80,746	86,247
Notes and accounts receivable – trade	61,142	65,692
Electronically recorded monetary claims – operating	1,156	941
Merchandise and finished goods	49,121	56,035
Work in process	18,511	21,799
Raw materials and supplies	16,695	17,940
Consumption taxes receivable	2,606	1,697
Deferred tax assets	6,787	6,632
Other	6,114	5,527
Allowance for doubtful accounts	(1,037)	(1,010)
Total current assets	**241,844**	**261,502**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,687	41,917
Machinery, equipment and vehicles, net	21,765	21,433
Tools, furniture and fixtures, net	6,634	6,761
Land	11,109	11,085
Leased assets, net	1,380	1,459
Construction in progress	2,977	2,627
Total property, plant and equipment	**85,554**	**85,284**
Intangible assets		
Goodwill	5,958	5,337
Software	3,208	3,944
Leased assets	6	4
Other	4,420	4,188
Total intangible assets	**13,594**	**13,474**
Investments and other assets		
Investment securities	44,519	47,601
Long-term loans receivable	1,030	971
Deferred tax assets	6,029	5,458
Other	3,663	3,628
Allowance for doubtful accounts	(211)	(187)
Allowance for investment loss	(138)	(138)
Total investments and other assets	**54,893**	**57,334**
Total non-current assets	**154,042**	**156,094**
Total assets	**395,887**	**417,596**

Millions of yen	March 31, 2017	September 30, 2017
Current liabilities		
Notes and accounts payable – trade	19,836	24,660
Electronically recorded obligations – operating	13,140	15,568
Notes payable – facilities	1,389	174
Electronically recorded obligations - non-operating	378	576
Short-term loans payable	5,849	7,340
Bonds payable within one year	10,000	10,000
Income taxes payable	2,657	3,293
Deferred tax liabilities	102	203
Accrued expenses	12,727	13,765
Provision for bonuses	5,458	6,226
Provision for directors' bonuses	135	-
Provision for product warranties	928	999
Provision for environmental measures	24	15
Provision for loss on business restructuring	1,294	882
Other	6,600	5,186
Total current liabilities	**80,523**	**88,892**
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	27,182	27,187
Deferred tax liabilities	3,392	4,445
Provision for environmental measures	54	27
Provision for loss on business restructuring	1,330	1,326
Net defined benefit liability	22,003	22,399
Asset retirement obligations	66	83
Other	2,118	2,414
Total non-current liabilities	**66,148**	**67,883**
Total liabilities	**146,671**	**156,775**
Net assets		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	34,074	33,994
Retained earnings	162,224	167,739
Treasury stocks	(1,780)	(1,781)
Total shareholders' equity	**227,168**	**232,602**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,332	12,647
Foreign currency translation adjustment	3,088	6,881
Remeasurements of defined benefit plans	(1,168)	(1,076)
Total accumulated other comprehensive income	**12,252**	**18,453**
Non-controlling interests	**9,795**	**9,765**
Total net assets	**249,215**	**260,821**
Total liabilities and net assets	**395,887**	**417,596**

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

Consolidated Statement of Income for the six months ended September 30, 2017

Millions of yen	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Net sales	**154,832**	**153,379**
Cost of sales	95,932	**93,486**
Gross profit	58,899	**59,893**
Selling, general and administrative expenses	48,217	**48,129**
Operating profit	**10,682**	**11,763**
Non-Operating profit		
Interest income	141	181
Dividend income	441	424
Foreign exchange gains	-	468
Share of profit of entities accounted for using equity method	184	216
Other	308	521
Total non-Operating profit	1,076	**1,813**
Non-operating expenses		
Interest expenses	222	213
Foreign exchange losses	2,838	-
Compensation expenses	—	331
Other	435	405
Total non-operating expenses	3,496	**950**
Ordinary profit	8,261	**12,626**
Extraordinary profit		
Gain on sales of investment securities	809	36
Gain on sales of shares of subsidiaries	-	14
Gain on sales of non-current assets	53	334
Other	168	4
Total extraordinary profit	1,032	**390**
Extraordinary losses		
Loss on retirement of non-current assets	54	122
Loss on sales of non-current assets	40	13
Impairment loss	15	0
Loss on business restructuring	1,229	117
Other	70	63
Total extraordinary losses	1,410	**317**
Income before income taxes	7,883	**12,699**
Income taxes	2,498	4,236
Net income	5,384	**8,463**
Profit attributable to non-controlling interests	136	242
Profit attributable to owners of parent	5,248	**8,220**

Consolidated Statement of Comprehensive Income for the six months ended September 30, 2017

Millions of yen	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Net income	**5,384**	**8,463**
Other comprehensive income		
Valuation difference on available-for-sale Securities	77	2,315
Deferred gain or loss on hedges		
Foreign currency translation adjustment	(12,525)	3,807
Remeasurements of defined benefit plans	171	93
Share of other comprehensive income of entities accounted for using equity method	(247)	12
Total other comprehensive income	**(12,525)**	**6,228**
Comprehensive income	**(7,140)**	**14,692**
(Breakdown)		
Comprehensive income attributable to owners of parent	(7,440)	14,421
Comprehensive income attributable to non-controlling interests	300	270

(3) Consolidated Statement of Cash Flow

(Unit: Millions of yen)

Millions of yen	Six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Income before income taxes	7,883	12,699
Depreciation	5,954	6,679
Amortization of goodwill	660	795
Increase/decrease in provision	(5,247)	98
Increase/decrease in net defined benefit liability	474	441
Interest and dividends income	(582)	(606)
Interest expenses	222	213
Loss/gain on sales of investment securities	(809)	(36)
Loss (gain) on sales of shares of subsidiaries	-	(14)
Loss/gain on sales of non-current assets	(12)	(321)
Loss on disposal of non-current assets	52	118
Increase/decrease in not and accounts receivables - trade	3,768	(3,013)
Increase/decrease in inventories	(1,340)	(10,077)
Increase/decrease in notes and accounts payables - trade	3,284	6,062
Other	2,251	2,288
Sub total	16,559	15,326
Interest and dividends received	580	607
Interest payments	(233)	(212)
Income taxes	(2,079)	(2,672)
Net cash provided by operating activities	**14,827**	**13,048**
Cash flows from investing activities		
Payments for the purchase of investment securities	(1,501)	(0)
Proceeds from the sale of investment securities	1,360	83
Payments for the purchase of property, plant and equipment	(11,802)	(7,855)
Proceeds from the sale of property, plant and equipment	764	1,315
Payments for the purchases of Intangible assets	(648)	(583)
Payments for loans receivable	(7)	(2)
Collection of loans receivable	52	5
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(12,198)	-

Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	75
Other	2,252	(98)
Net cash used in investing activities	**(21,728)**	**(7,060)**
Cash flows from financing activities		
Net increase/decrease in short-term loan payable	(13,432)	766
Repayments of long-term loans payable	(7)	(9)
Dividends paid	(2,705)	(2,705)
Dividends paid to non-controlling interests	(324)	(227)
Purchase of treasury shares	(0)	(1)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1)	(199)
Other	(42)	(61)
Net cash used in financing activities	**(16,514)**	**(2,437)**
Effect of exchange rate changes on cash and cash equivalents	(4,331)	1,608
Increase/decrease in cash and cash equivalents	**(27,747)**	**5,157**
Cash and cash equivalents at the beginning of the term	95,042	77,887
Cash and cash equivalents at the end of the term	**67,295**	**83,045**

(4) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Not applicable

(Change in presentation)

(Consolidated statement of cash flow)

“Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation,” which was included in “Other” under “Cash flows from financing activities” for the first six months of the previous consolidated fiscal year is stated as an independent item from the first six months of the consolidated fiscal year under review due to an increase in significance in value. To reflect this change in presentation, the consolidated financial statements for the first six months of the previous consolidated fiscal year are replaced.

“Other” of △44 million yen under “Cash flows from financing activities” in the consolidated statement of cash flow for the first six months of the previous consolidated fiscal year is replaced by “Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation” of △1 million yen and “Other” of △42 million yen.

(Segment information)

(i) Six months ended September 30, 2016 (April 1, 2016 to September 30, 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)	Totals on consolidated statement of income (Note 2)
Net sales								
Customers	77,693	25,087	36,272	11,229	4,549	154,832	-	154,832
Inter-segment	86	448	1,174	62	385	2,155	(2,155)	-
Total	77,779	25,535	37,446	11,291	4,934	156,988	(2,155)	154,832
Segment profit	6,482	3,460	2,175	268	144	12,531	(1,849)	10,682

(Notes)

1. The 1,849 million yen negative adjustment to segment income (operating income) includes 39 million yen in inter-segment eliminations and 1,889 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. The segment information for the first six months of the previous fiscal year indicates the amounts after applying the significant revision of the initial allocation amounts of the acquisition cost due to the finalization of provisional accounting treatment stated in “Business combinations, etc.” in “Notes on the Consolidated Financial Statements”.

2) Impairment loss of non-current assets or goodwill, etc. by reporting segment

(Significant changes in the amount of goodwill)

In the business combination of Frederique Constant Holding SA implemented in the second quarter of the previous fiscal year, the amount of goodwill was an amount that was calculated provisionally due to the failure to complete the allocation of acquisition cost. The allocation of acquisition cost was completed at the end of the previous fiscal year and the provisional accounting treatment was finalized, so the amount of goodwill has been revised. Please refer to “Business combinations, etc.” for details.

(ii) Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic Products	Other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales								
Customers	77,484	28,630	34,122	10,253	2,887	153,379	-	153,379
Inter-segment	36	159	1,125	47	410	1,779	(1,779)	-
Total	77,520	28,790	35,248	10,301	3,298	155,159	(1,779)	153,379
Segment profit	8,574	4,157	1,522	167	153	14,575	(2,811)	11,763

(Notes)

1. The 2,811 million yen negative adjustment to segment profit (operating profit) includes 1 million yen in inter-segment eliminations and 2,813 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits are adjusted with operating profit in the consolidated statement of income.

(Business combinations, etc.)
Significant revision of the initial allocation amounts of the acquisition cost in comparative information
Provisional accounting treatment was used in the six months of the previous fiscal year for the acquisition of shares in Frederique Constant Holding SA implemented on July 11, 2016, which was finalized at the end of the previous fiscal year.
Due to this finalization of provisional accounting treatment, the comparative information in the consolidated quarterly financial statements for the first six months of the fiscal year under review reflects a significant revision of the initial allocation amounts of the acquisition cost. Primarily due to the allocation of 3,402 million yen to intangible assets, the provisionally calculated amount of goodwill decreased by 2,050 million yen, from 7,306 million yen to 5,256 million yen.
As a result, a decline in amortization of goodwill and an increase in depreciation of intangible assets in the quarterly consolidated statement of income for the six months of the previous fiscal year largely caused a decrease of 47 million yen each in operating profit, ordinary profit and profit before income taxes, and decrease of 23 million yen each in profit and profit attributable to owners of parent, respectively.