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

Consolidated Financial Statements for the Nine Months Ended December 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)

February 9, 2018

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Scheduled release of fiscal 2017 Quarterly Business Report: February 14, 2018

1. Results for the Nine months ended December 31, 2017 (April 1, 2017 to December 31, 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	
Nine months ended December 31, 2017	244,259	2.5%	22,288	22.4%	23,613	29.0%	15,959	36.1%
Nine months ended December 31, 2016	238,370	(11.3%)	18,217	(30.3%)	18,307	(32.6%)	11,722	(35.7%)

Note: Comprehensive Income: As of December 31, 2017: ¥24,780million (49.3%) As of December 31, 2016: ¥16,602million (15.4%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Nine months ended December 31, 2017	50.14	-
Nine months ended December 31, 2016	36.83	-

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 nine 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
Nine months ended December 31, 2017	423,339	268,204	61.0%	811.46
March 31, 2017	395,887	249,215	60.5%	752.21

Reference: Shareholders' Equity: As of December 31, 2017: ¥258,275million 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)			-	13.50	22.00

Note: Revision of dividend forecast for quarter in review: Yes

Breakdown of the (forecasted) year-end dividend for the fiscal year ending March 31, 2018: ordinary dividend of ¥8.50 and commemorative dividend of ¥5.00. For details, refer to the "Notice of Revision of Dividend Forecast (Commemorative Dividend) for the Fiscal Year Ending March 2018" announced today (February 9, 2018).

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%	25,000	13.7%	17,000	2.6%	53.41

Note: Revision of consolidated forecasts for quarter in review: Yes

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)	December 31, 2017	320,353,809	March 31, 2017	320,353,809
(ii) Number of treasury stock at the end of term	December 31, 2017	2,068,076	March 31, 2017	2,064,808
(iii) Average number of common stocks	December 31, 2017	318,287,607	December 31, 2016	318,291,924

** 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 Nine Months Ended December 31, 2017

▪(1) Qualitative data on the consolidated financial results

During the nine months ended December 31, 2017, the Japanese economy continued to experience an overall trend toward a moderate recovery, despite uncertainty over consumer spending. The U.S. economy showed signs of recovering, with a sustained improvement in employment, albeit at a modest pace given uncertainty over policy management and other factors. On the other hand, the overall EU European economy was strong, despite the impact of uncertainty associated with Brexit. There were signs of a recovery in the Asian economy, mainly in China, although this trend has already halted in some areas.

In this environment, the Citizen Group posted increases in sales and profit in the nine months ended December 31, 2017. Net sales stood at 244.2 billion yen (up 2.5% year on year) and operating profit was 22.2 billion yen (up 22.4% year on year). Ordinary profit and profit attributable to owners of parent both increased, reaching 23.6 billion yen (up 29.0% year on year) and 15.9 billion yen (up 36.1% year on year), respectively.

Watches

The domestic market for the Citizen brand tended to be strong, supported by the general recovery in demand from inbound tourism, largely in urban areas, as well as strong sales of high-end products such as the limited editions of Eco-Drive One and CAMPANOLA and THE CITIZEN model, in addition to steady sales of mainstay brands such as ATTESA and PROMASTER, which benefited from new merchandise. This, however, was still insufficient to offset the delay at the beginning of the period associated with a lack of recovery of active consumption trend in the domestic watch market, and the overall result was a decrease in revenues.

In the overseas market, demand for watches continued to recover moderately, with the degree of recovery differing across the markets, resulting in revenue increases. In North America, although the impact of major distributors' streamlining of their stores and inventory adjustment continued from the beginning of the period, strong sales of new merchandise for the year-end shopping season contributed to an increase in revenues. In Europe, sales of merchandise for the year-end shopping season were strong in major markets such as Germany, and combined with a good performance in the U.K., where consumer spending declined, and the favorable impact of the yen's depreciation, revenues increased. In Asia, demand for watches has been gradually regaining strength based on 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 had stayed although we secure new sales channels with the recovery trend in demand.

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 given the absence of a strong recovery in demand for watches and weak demand for high value-added products.

Operating profit increased thanks to sales increases and improved profitability due to the product mix.

As a result, the watches segment posted increases in sales and profit, with net sales of 127.5 billion yen (up 1.5% year on year) and operating profit of 16.0 billion yen (up 25.4% 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 increased due to strong capital expenditures, mainly for the medial business line.

Revenues from the European market increased, which was led by solid sales, primarily of automobile-related products in Germany, and the support of Italy, which 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 46.5 billion yen (up 26.3% year on year) and operating profit of 7.3 billion yen (up 47.3% year on year).

Devices and Components

Automobile components, especially brake parts, among other precision machining components, were driven by solid orders, primarily for Japan, North America, Europe and China. Sales of switches for smartphones declined significantly and overall revenues from precision machining components decreased.

In terms of opt-devices, sales of LED chips increased, 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 sales of lighting unit also increased, and overall revenues from opto-devices rose.

Among other parts, sales of quartz devices were solid, reflecting an increase in demand associated with the expansion of the IoT market and demand for ferroelectric micro LCDs was rather weak. 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 50.3 billion yen (down 4.7% year on year) and an operating profit of 2.4 billion yen (down 17.6% year on year).

Electronic Products

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

Revenues from healthcare products declined due to weak sales of blood-pressure gauges in Japan and a significant drop in sales in Americas and China, despite sales growth in the Middle East.

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 15.2 billion yen (down 8.3% year on year) and operating profit of 0.3 billion yen (down 1.6% year on year).

Other Products

As there were no signs of remarkable recovery in consumer sentiment in japan, sales of jewelry products remained sluggish despite the arrival of new products that had a positive impact. Overall revenues in this segment were adversely affected by the withdrawal from the pachinko-related products business, and declined.

Operating profit fell given the decrease in sales.

As a result, the other products segment recorded decreases in sales and profit, with net sales of 4.5 billion yen (down 28.9% year on year) and operating profit of 0.1 billion yen (down 20.4% year on year).

▪(2) Qualitative data on the consolidated financial position

As of the end of the third quarter under review, total assets increased by 27.4 billion yen from the end of the previous fiscal year, to 423.3 billion yen. Current assets increased 25.2 billion yen, mainly because of increases of 9.3 billion yen in notes and accounts receivable - trade and 8.8 billion yen in inventories. Non-current assets increased by 2.2 billion yen, primarily reflecting an increase of 4.6 billion yen in investment securities, despite decreases of 1.0 billion yen in goodwill and 1.0 billion yen in deferred tax assets.

Liabilities increased by 8.4 billion yen from the end of the previous fiscal year, to 155.1 billion yen. This increase in liabilities mainly reflected increases of 8.0 billion yen in long-term loans payable, 4.2 billion yen in notes and accounts payable - trade, and 2.4 billion yen in electronically recorded obligations - operating, despite a decrease of 10.0 billion yen in bonds payable.

Nets assets increased by 18.9 billion yen from the end of the previous fiscal year, to 268.2 billion yen. This increase was primarily the result of increases of 10.5 billion yen in retained earnings, 4.6 billion yen in foreign currency translation adjustment, and 3.6 billion yen in valuation difference on available-for-sale securities.

▪(3) Qualitative data on the consolidated earnings forecasts

The consolidated earnings forecasts are revised because profit attributable to owners of parent is expected to exceed the previous forecasts upon recording of a gain on the exchange gain and the sale of investment securities for the third quarter under review, among other factors.

The exchange rate for and after the fourth quarter of the fiscal year under review is assumed at 110 yen against the US dollar and 130 yen against the euro.

The impact of "Notification Regarding Receipt of an Investigation Report from the Third Party Committee and our Company's Response thereto, etc." 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.

Revision to the consolidated full-year earnings forecasts for the fiscal year ending March 31, 2018

(April 1, 2017 to March 31, 2018)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share
Forecasts announced before (A)	million yen 320,000	million yen 23,500	million yen 24,500	million yen 16,000	yen 52.27
Revised forecasts (B)	320,000	23,500	25,000	17,000	53.41
Change (B-A)	0	0	+500	+1,000	-
Rate of change (%)	0.0	0.0	2.0	6.3	-
(Reference) Results for the previous fiscal year (Fiscal year ended March 31, 2017)	312,559	21,501	21,985	16,573	52.07

・2. Consolidated Financial Statements

▪(1) Consolidated Balance Sheet

Millions of yen	March 31, 2017	December 31, 2017
Current assets		
Cash and deposits	80,746	89,132
Notes and accounts receivable – trade	61,142	70,516
Electronically recorded monetary claims – operating	1,156	1,024
Merchandise and finished goods	49,121	53,813
Work in process	18,511	21,362
Raw materials and supplies	16,695	18,035
Consumption taxes receivable	2,606	1,795
Deferred tax assets	6,787	6,078
Other	6,114	6,373
Allowance for doubtful accounts	(1,037)	(1,059)
Total current assets	**241,844**	**267,073**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,687	41,742
Machinery, equipment and vehicles, net	21,765	20,915
Tools, furniture and fixtures, net	6,634	6,606
Land	11,109	10,990
Leased assets, net	1,380	1,437
Construction in progress	2,977	3,197
Total property, plant and equipment	**85,554**	**84,890**
Intangible assets		
Goodwill	5,958	4,917
Software	3,208	3,945
Leased assets	6	10
Other	4,420	4,035
Total intangible assets	**13,594**	**12,909**
Investments and other assets		
Investment securities	44,519	49,215
Long-term loans receivable	1,030	971
Deferred tax assets	6,029	5,009
Other	3,663	3,614
Allowance for doubtful accounts	(211)	(206)
Allowance for investment loss	(138)	(138)
Total investments and other assets	**54,893**	**58,465**
Total non-current assets	**154,042**	**156,265**
Total assets	**395,887**	**423,339**

Millions of yen	March 31, 2017	December 31, 2017
Current liabilities		
Notes and accounts payable – trade	19,836	24,049
Electronically recorded obligations – operating	13,140	15,613
Notes payable – facilities	1,389	199
Electronically recorded obligations - non-operating	378	742
Short-term loans payable	5,849	6,634
Bonds payable within one year	10,000	10,000
Income taxes payable	2,657	4,273
Deferred tax liabilities	102	108
Accrued expenses	12,727	14,356
Provision for bonuses	5,458	3,743
Provision for directors' bonuses	135	-
Provision for product warranties	928	986
Provision for environmental measures	24	1
Provision for loss on business restructuring	1,294	700
Other	6,600	7,103
Total current liabilities	**80,523**	**88,514**
Non-current liabilities		
Bonds payable	10,000	-
Long-term loans payable	27,182	35,202
Deferred tax liabilities	3,392	4,868
Provision for environmental measures	54	27
Provision for loss on business restructuring	1,330	1,321
Net defined benefit liability	22,003	22,665
Asset retirement obligations	66	83
Other	2,118	2,451
Total non-current liabilities	**66,148**	**66,620**
Total liabilities	**146,671**	**155,135**
Net assets		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	34,074	33,994
Retained earnings	162,224	172,773
Treasury stocks	(1,780)	(1,782)
Total shareholders' equity	**227,168**	**237,634**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,332	13,996
Foreign currency translation adjustment	3,088	7,716
Remeasurements of defined benefit plans	(1,168)	(1,072)
Total accumulated other comprehensive income	**12,252**	**20,641**
Non-controlling interests	**9,795**	**9,928**
Total net assets	**249,215**	**268,204**
Total liabilities and net assets	**395,887**	**423,339**

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

・Consolidated Statement of Income for Nine months ended December 31, 2017

Millions of yen	Nine months ended December 31,2016 (April 1, 2016 to December 31, 2016)	Nine months ended December 31,2017 (April 1, 2017 to December 31, 2017)
Net sales	**238,370**	**244,259**
Cost of sales	146,006	**147,012**
Gross profit	92,363	**97,247**
Selling, general and administrative expenses	74,146	**74,958**
Operating profit	**18,217**	**22,288**
Non-Operating profit		
Interest income	198	298
Dividend income	749	634
Foreign exchange gains	333	409
Share of profit of entities accounted for using equity method	-	528
Other	642	736
Total non-Operating profit	1,923	**2,607**
Non-operating expenses		
Interest expenses	323	326
Foreign exchange losses	816	-
Compensation expenses	-	331
Other	692	625
Total non-operating expenses	1,833	**1,282**
Ordinary profit	18,307	**23,613**
Extraordinary profit		
Gain on sales of investment securities	983	1,226
Gain on sales of shares of subsidiaries	-	14
Gain on sales of non-current assets	43	552
Other	171	21
Total extraordinary profit	1,198	**1,815**
Extraordinary losses		
Loss on retirement of non-current assets	102	205
Loss on sales of non-current assets	43	19
Impairment loss	67	0
Loss on business restructuring	1,965	1,166
Other	94	280
Total extraordinary losses	2,274	**1,673**
Income before income taxes	17,231	**23,756**
Income taxes	5,191	7,413
Net income	12,040	**16,342**
Profit attributable to non-controlling interests	317	382
Profit attributable to owners of parent	11,722	**15,959**

Consolidated Statement of Comprehensive Income for the Nine months ended December 31, 2017

Millions of yen	Nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)
Net income	**12,040**	**16,342**
Other comprehensive income		
Valuation difference on available-for-sale Securities	3,599	3,664
Foreign currency translation adjustment	533	4,653
Remeasurements of defined benefit plans	299	98
Share of other comprehensive income of entities accounted for using equity method	130	22
Total other comprehensive income	**4,561**	**8,438**
Comprehensive income	**16,602**	**24,780**
(Breakdown)		
Comprehensive income attributable to owners of parent	16,428	24,348
Comprehensive income attributable to non-controlling interests	174	432

(3) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Not applicable

(Notes concerning the consolidated quarterly balance sheet)

Contingent liabilities

According to the group risk management audit by the Citizen Watch Co., Ltd. (hereinafter the "Company"), it was found that, although Citizen Electronics Co., Ltd. ("Citizen Electronics") made arrangements with its customer companies that where there was a change in the manufacturing location of the products being supplied, an application for such change was to be made to the customer companies, such application for change had not been carried out for some of the customer companies, and that thereafter shipment was continued with the products having attached labels which were printed with the lot numbers indicating that the products had been manufactured at the prior manufacturing locations arranged with the customer companies (hereinafter "Inappropriate Activities").

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

At this time, the Company has received the investigation report from the third party committee, and it has been found that Inappropriate Activities continued for a period of approximately 7 years and 2 months, from at least April 2010 until June 2017.

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

According to the investigation report, with regard to the lighting LED components subject to the Improper Activities regarding the Handling of Tests' Results, it has been confirmed that countermeasures related to quality improvement have been implemented in the mass production process. Additionally, with regard to the correction of the situation, it has been confirmed that, in relation to the improper reports issued in the name of the accredited laboratory, corrected reports based on retesting etc. have been issued and testing for the purpose of issuing corrected reports is ongoing, and the majority of the corrective actions will be completed or are expected to be completed within a few months.

Depending on the future progress of this transaction, losses incurred and other factors may affect the consolidated results of the Company. However, the amount of impact cannot be reasonably estimated at the present moment. Therefore, the impact is not reflected in the consolidated quarterly financial statements.

(Segment information)

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

1) Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic Products	Other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales								
Customers	125,688	36,821	52,830	16,656	6,373	238,370	-	238,370
Inter-segment	110	644	1,709	94	642	3,202	(3,202)	-
Total	125,799	37,465	54,540	16,751	7,015	241,572	(3,202)	238,370
Segment profit	12,812	4,987	2,992	329	245	21,367	(3,150)	18,217

(Notes)

1. The 3,150 million yen negative adjustment to segment income (operating income) includes 142 million yen in inter-segment eliminations and 3,007million 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 nine 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) Nine months ended December 31, 2017 (April 1, 2017 to December 31, 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	127,585	46,517	50,357	15,269	4,529	244,259	-	244,259
Inter-segment	62	242	1,696	69	625	2,696	(2,696)	-
Total	127,648	46,760	52,053	15,338	5,155	246,955	(2,696)	244,259
Segment profit	16,063	7,347	2,465	324	195	26,397	(4,108)	22,288

(Notes)

1. The 4,108 million yen negative adjustment to segment profit (operating profit) includes +7 million yen in inter-segment eliminations and -4,115 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 nine 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 nine 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 nine months of the previous fiscal year largely caused a decrease of 93 million yen each in operating profit, ordinary profit and profit before income taxes, and decrease of 46 million yen each in profit and profit attributable to owners of parent, respectively.