



CITIZEN WATCH

**Consolidated Financial Statements**  
for the Three Months Ended June 30, 2018

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)

August 9, 2018

**CITIZEN WATCH CO., LTD.**

Code No.: 7762

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Scheduled start of dividend payment: -

Scheduled release of fiscal 2018 Quarterly Business Report: August 13, 2018

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)****(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	
Three months ended June 30, 2018	74,505	2.5	4,525	18.5	5,948	30.8	3,923	47.9
Three months ended June 30, 2017	72,666	(5.2)	3,820	(17.0)	4,546	64.1	2,651	14.7

Note: Comprehensive income:

As of June 30, 2018: ¥ 4,809 million ( $\Delta 21.7\%$ ) As of June 30, 2017: ¥ 6,142 million ( $-$ )

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Three months ended June 30, 2018	12.33	-
Three months ended June 30, 2017	8.33	-

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Three months ended June 30, 2018	416,458	264,071	61.1%	798.88
March 31, 2018	409,909	263,713	61.9%	797.75

Reference: Shareholders' Equity:

As of June 30, 2018: ¥ 254,272 million As of March 31, 2018: ¥ 253,912million

**2. Dividends**

	Dividends per share(Yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
March 31, 2018	-	8.50	-	13.50	22.00
March 31, 2019	-				
March 31,2019(E)		10.00	-	10.00	20.00

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

**3. Projected Consolidated Results for the Year ending March 31, 2019**

(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)
Interim term	158,700	3.5	12,000	2.0	12,500	(1.0)	7,900	(3.9)	24.82
Full term	330,000	3.1	25,000	0.3	26,500	(0.6)	17,000	(11.9)	53.41

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)	June 30, 2018	320,353,809	March 31, 2018	320,353,809
(ii) Number of treasury stock at the end of term	June 30, 2018	2,068,985	March 31, 2018	2,068,553
(iii) Average number of common stocks	June 30, 2018	318,285,067	June 30, 2017	318,288,788

*\* 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" on page 7 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 Three Months Ended June 30, 2018

### (1) Qualitative data on the consolidated financial results

During the first quarter of the consolidated fiscal year under review, the Japanese economy experienced a trend toward moderate recovery on the back of a relatively stable economic environment, although consumer spending continued to be weak. In the United States, capital expenditures and consumer spending remained firm despite concern over trends in conjunction with trade with other countries. Meanwhile, there was a significant slowdown in the European economy due to heightened seriousness in trade issues and political uncertainties. The Asian economy remained on a path toward recovery, reflecting signs of recovery mainly in China.

In this environment, the Citizen Group posted net sales of 74.5 billion yen (up 2.5% year on year) in the first quarter under review, mainly reflecting the continuation of a favorable order situation in the machine tool market, although demand remained sluggish in the watch market. Operating profit came to 4.5 billion yen (up 18.5% year on year) thanks to solid results in the machine tool segment and improved profitability in the devices and components segment. Ordinary profit and profit attributable to owners of parent increased to 5.9 billion yen (up 30.8% year on year) and 3.9 billion yen (up 47.9% year on year), respectively.

### Watches

With respect to sales of CITIZEN brand watches in the domestic market, luxury items such as CAMPANOLA and Eco-Drive One continued to show strong results. In addition, events for the 100th anniversary that the Group celebrated on May 28 were received well and sales of limited editions were also strong. Despite these factors, demand still remained weak in the overall domestic watch market.

In the overseas market, sales rose mainly in China and other Asian regions against the backdrop of moderate recovery in overall market conditions, resulting in increased sales in the overseas market as a whole. The North American market remained steady because there were signs of recovery in sales of department stores and retail jewelry chains, and online distribution services continued to be expanded. In the European market, where growing political uncertainty had a negative impact on a range of matters including consumer spending, sales of watches showed only a limited increase. On the other hand, sales in the Asian market expanded steadily partly due to favorable economic conditions. Sales rose in China, particularly, thanks to stable economic growth and the expansion of consumer spending.

Revenues from other multiple brands increased, mainly reflecting strong sales of BULOVA brand watches in North America.

In sales of movements, revenue declined, reflecting ongoing harsh environments such as sluggish sales of high value-added products against the backdrop of a weak market recovery.

As a result of these developments, the watches segment posted a decline in sales with net sales of 35.8 billion yen (down 1.5% year on year), reflecting slower-than-expected recoveries in the domestic market of finished products and the movement market, although some effects were produced by the multiple brand strategy, one of the measures taken under the medium-term management plan. Operating profit decreased to 2.3 billion yen (down 10.1% year on year) due to poor sales of movements, although high-end products, which were promoted as one of priority measures, expanded.

**Machine Tools**

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

In the Americas, revenues increased as positive capital expenditures continued mainly in medical-related areas.

Revenues from the European market increased, reflecting solid sales primarily of automobile-related products in Germany, as well as strong market conditions in Italy because it became clear that tax incentives for capital spending would be continued.

In the Asian market, revenues increased, reflecting steady demand mainly in automobile-related products in ASEAN as well as overall solid results of main industries in China.

As a result, the machine tools segment posted a significant increase in sales with net sales of 17.1 billion yen (up 29.0% year on year), supported by favorable market conditions in both Japan and abroad and increased sales of machines equipped with the low frequency vibration cutting, one of the unique technologies owned by the Group. Operating profit increase to 3.1 billion yen (up 94.1% year on year), reflecting a considerable increase in net sales and growth in products with high unit prices against the background of strong market conditions.

**Devices and Components**

With respect to automobile products, among other precision machining components, brake parts remained solid mainly in terms of sales in Japan, reflecting increased demand in the automobile market, and switches for smartphones, which declined significantly in the previous year, recovered. Consequently, revenues from precision machining components increased overall.

In terms of opto-devices, sales of LED chips for automobiles continued to be solid. However sales for lighting equipment remained sluggish as a result of efforts focused on proposing differentiating products instead of making compromise in pricing despite intensifying price competition for lighting products. This resulted in a decrease in overall revenues from opto-devices.

Among other products, sales of quartz devices were slow, mainly reflecting a decline in the smartphone market, and sales of ferroelectric micro LCDs were affected due to a stagnant condition of their main market, or the digital camera market. As a result, overall revenues for other parts decreased.

As a result of these developments, the devices and components segment recorded a decrease in sales, with net sales of 15.5 billion yen (down 6.2% year on year) due to a fall in other products, despite an increase in net sales of precision machining components. Operating profit increased to 0.7 billion yen (up 15.3% year on year), reflecting sales strategies with a focus on profitability.

**Electronic Products**

In terms of information equipment, sales of media and main bodies of photo printers fell significantly although sales of new bar code printers remained strong. Consequently, revenues in the information equipment sector declined overall.

Revenues from healthcare products increased, chiefly reflecting a significant increase in overseas sales, in particular, for the Middle East and Asia.

As a result, the electronics products segment overall recorded decreases in sales and profits, with net sales of 4.5 billion yen (down 7.6% year on year) and operating loss of 0 billion yen (compared with operating profit of 0

billion yen in the previous year)

### **Other Products**

Revenues from jewelry products declined due to a significant drop in sales of bridal items, despite an increase in orders through exhibitions sponsored by the Company and business negotiations with retailers.

As a result, the other products segment posted decreases in sales and profits with net sales of 1.3 billion yen (down 3.2% year on year) and operating profit of 0 billion yen (down 47.7% year on year), mainly reflecting a sluggish sales of jewelry products.

#### (2) Qualitative data on the consolidated financial position

At the end of the first quarter under review, total assets increased by 6.5 billion yen from the end of the previous fiscal year, to 416.4 billion yen. Current assets increased by 5.5 billion yen, mainly due to an increase of 7.3 billion yen in inventories, offsetting a decrease of 1.1 billion yen in notes and accounts receivable – trade. Non-current assets increased by 0.9 billion yen, primarily reflecting increases of 0.7 billion yen in deferred tax assets and 0.5 billion yen in construction in progress, despite a decrease of 0.4 billion yen in investment securities.

Liabilities increased by 6.1 billion yen from the end of the previous fiscal year, to 152.3 billion yen. This was mainly attributable to increases of 2.3 billion yen in notes and accounts payable – trade, 3.1 billion yen in provision for bonuses and 1.2 billion yen in electronically recorded obligations – operating, despite a decrease of 2.6 billion yen in income taxes payable.

Net assets increased by 0.3 billion yen from the end of the previous fiscal year, to 264.0 billion yen. This increase was primarily the results of increases of 1.1 billion yen in foreign currency transaction adjustment, despite decreases of 0.4 billion yen in valuation difference on available-for-sale securities and 0.3 billion yen in retained earnings.

#### (3) Qualitative data on the consolidated earnings forecasts

No changes have been made to the six-month and full-year forecasts for the consolidated fiscal results in the fiscal year ending March 31, 2019 announced on May 11, 2018 in the Consolidated Financial Statements for the Year Ended March 31, 2018.

**2. Consolidated Financial Statements and Primary Notes****(1) Consolidated Balance Sheet**

Millions of yen	March 31, 2018	June 30, 2018
<b>Current assets</b>		
Cash and deposits	92,079	91,877
Notes and accounts receivable – trade	62,013	60,814
Electronically recorded monetary claims – operating	914	978
Merchandise and finished goods	52,737	56,457
Work in process	20,590	22,525
Raw materials and supplies	17,213	18,947
Consumption taxes receivable	2,413	1,334
Other	5,991	6,583
Allowance for doubtful accounts	(957)	(933)
<b>Total current assets</b>	<b>252,997</b>	<b>258,585</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures, net	41,784	41,941
Machinery, equipment and vehicles, net	21,013	21,293
Tools, furniture and fixtures, net	6,557	6,682
Land	10,293	10,259
Leased assets, net	1,358	1,311
Construction in progress	3,971	4,501
<b>Total property, plant and equipment</b>	<b>84,979</b>	<b>85,989</b>
<b>Intangible assets</b>		
Goodwill	4,356	4,210
Software	3,940	3,887
Leased assets	9	8
Other	3,744	3,627
<b>Total intangible assets</b>	<b>12,051</b>	<b>11,734</b>
<b>Investments and other assets</b>		
Investment securities	46,043	45,630
Long-term loans receivable	931	931
Deferred tax assets	9,583	10,340
Other	3,546	3,470
Allowance for doubtful accounts	(199)	(198)
Allowance for investment loss	(26)	(26)
<b>Total investments and other assets</b>	<b>59,880</b>	<b>60,148</b>
<b>Total non-current assets</b>	<b>156,911</b>	<b>157,872</b>
<b>Total assets</b>	<b>409,909</b>	<b>416,458</b>

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Millions of yen	March 31, 2018	June 30, 2018
<b>Current liabilities</b>		
Notes and accounts payable – trade	21,267	23,581
Electronically recorded obligations – operating	14,164	15,399
Notes payable – facilities	192	635
Electronically recorded obligations - non-operating	755	1,498
Short-term loans payable	6,880	7,212
Bonds payable within one year	10,000	10,000
Income taxes payable	4,884	2,261
Accrued expenses	13,509	13,255
Provision for bonuses	5,936	9,055
Provision for directors' bonuses	279	-
Provision for product warranties	1,159	1,170
Provision for environmental measures	22	16
Provision for loss on business restructuring	822	781
Other	6,943	7,339
<b>Total current liabilities</b>	<b>86,818</b>	<b>92,207</b>
<b>Non-current liabilities</b>		
Long-term loans payable	32,146	33,241
Deferred tax liabilities	1,587	1,102
Provision for environmental measures	4	4
Provision for loss on business restructuring	913	913
Net defined benefit liability	22,721	22,952
Asset retirement obligations	74	74
Other	1,930	1,891
<b>Total non-current liabilities</b>	<b>59,377</b>	<b>60,179</b>
<b>Total liabilities</b>	<b>146,195</b>	<b>152,387</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	32,648	32,648
Capital surplus	34,000	34,000
Retained earnings	176,117	175,744
Treasury stocks	(1,783)	(1,783)
<b>Total shareholders' equity</b>	<b>240,983</b>	<b>240,609</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	11,909	11,490
Foreign currency translation adjustment	2,067	3,187
Remeasurements of defined benefit plans	(1,047)	(1,015)
<b>Total accumulated other comprehensive income</b>	<b>12,928</b>	<b>13,662</b>
<b>Non-controlling interests</b>	<b>9,801</b>	<b>9,798</b>
<b>Total net assets</b>	<b>263,713</b>	<b>264,071</b>
<b>Total liabilities and net assets</b>	<b>409,909</b>	<b>416,458</b>

## CITIZEN WATCH

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

Consolidated Statement of Income for the three months ended June 30, 2018

Millions of yen	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)
<b>Net sales</b>	<b>72,666</b>	<b>74,505</b>
<b>Cost of sales</b>	<b>44,936</b>	<b>45,530</b>
<b>Gross profit</b>	<b>27,730</b>	<b>28,975</b>
<b>Selling, general and administrative expenses</b>	<b>23,909</b>	<b>24,449</b>
<b>Operating profit</b>	<b>3,820</b>	<b>4,525</b>
<b>Non-Operating profit</b>		
Interest income	77	109
Dividend income	371	513
Share of profit of entities accounted for using equity method	120	271
Foreign exchange gains	158	502
Other	247	162
<b>Total non-Operating profit</b>	<b>976</b>	<b>1,560</b>
<b>Non-operating expenses</b>		
Interest expenses	91	78
Other	159	59
<b>Total non-operating expenses</b>	<b>250</b>	<b>137</b>
<b>Ordinary profit</b>	<b>4,546</b>	<b>5,948</b>
<b>Extraordinary profit</b>		
Gain on sales of investment securities	20	-
Gain on sales of shares of subsidiaries	14	-
Gain on sales of non-current assets	321	6
Other	3	0
<b>Total extraordinary profit</b>	<b>360</b>	<b>7</b>
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	47	47
Loss on sales of non-current assets	12	0
Loss on business restructuring	96	45
Special compliance expense, etc.	-	75
Other	45	80
<b>Total extraordinary losses</b>	<b>201</b>	<b>249</b>
<b>Income before income taxes</b>	<b>4,704</b>	<b>5,705</b>
Income taxes	2,013	1,653
<b>Net income</b>	<b>2,690</b>	<b>4,052</b>
Profit attributable to non-controlling interests	38	128
<b>Profit attributable to owners of parent</b>	<b>2,651</b>	<b>3,923</b>

## CITIZEN WATCH

## Consolidated Statement of Comprehensive Income for the three months ended June 30, 2018

Millions of yen	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)
<b>Net income</b>	<b>2,690</b>	<b>4,052</b>
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale Securities	1,521	(418)
Foreign currency translation adjustment	1,895	1,031
Remeasurements of defined benefit plans	41	33
Share of other comprehensive income of entities accounted for using equity method	(5)	111
<b>Total other comprehensive income</b>	<b>3,452</b>	<b>757</b>
<b>Comprehensive income</b>	<b>6,142</b>	<b>4,809</b>
(Breakdown)		
Comprehensive income attributable to owners of parent	6,110	4,657
Comprehensive income attributable to non-controlling interests	32	151

## (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

**(Additional information)**

(Adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

The company, effective from the beginning of the consolidated first quarter of this fiscal year, adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)," etc. Deferred tax assets are classified as investments and other assets and deferred tax liabilities are classified as non-current liabilities respectively.

**(Segment information)**

(i) Three months ended June 30, 2017 (April 1, 2017 to June 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	36,388	13,267	16,609	4,962	1,439	72,666	-	72,666
Inter-segment	22	51	565	24	200	865	(865)	-
Total	36,411	13,318	17,174	4,987	1,639	73,531	(865)	72,666
Segment profit	2,663	1,645	607	60	74	5,052	(1,231)	3,820

(Notes)

1. The 1,231 million yen negative adjustment to segment income (Operating profit) includes 0 million yen in inter-segment eliminations and 1,232 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits are adjusted with Operating profit on the consolidated financial statements.

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(ii) Three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)

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	35,838	17,115	15,575	4,583	1,393	74,505	-	74,505
Inter-segment	25	391	520	25	232	1,194	(1,194)	-
Total	35,863	17,506	16,095	4,609	1,625	75,700	(1,194)	74,505
Segment profit or loss	2,396	3,193	700	(42)	38	6,286	(1,760)	4,525

(Notes)

1. The 1,760 million yen negative adjustment to segment income (Operating profit) includes 73 million yen in inter-segment eliminations and 1,687 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits are adjusted with Operating profit on the consolidated financial statements.