



CITIZEN WATCH

**Consolidated Financial Statements****for the Six Months Ended September 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)

November 9, 2018

**CITIZEN WATCH CO., LTD.**

Code No.: 7762

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Scheduled start of dividend payment: December 4, 2018

Scheduled release of fiscal 2018 Quarterly Business Report: November 12, 2018

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Six months ended September 30, 2018 (April 1, 2018 to September 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	
Six months ended September 30, 2018	154,406	0.7%	10,959	(6.8%)	13,133	4.0%	8,375	1.9%
Six months ended September 30, 2017	153,379	(0.9%)	11,763	10.1%	12,626	52.8%	8,220	56.6%

Note: Comprehensive income:

Six months ended September 30, 2018: ¥ 15,106 million (2.8%)

Six months ended September 30, 2017: ¥ 14,692 million (-%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Six months ended September 30, 2018	26.32	-
Six months ended September 30, 2017	25.83	-

**(2) Consolidated financial position**

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
As of September 30, 2018	436,242	274,355	60.6%	830.76
As of March 31, 2018	409,909	263,713	61.9%	797.75

Reference: Shareholders' Equity:

As of September 30, 2018: ¥ 264,416 million As of March 31, 2018: ¥ 253,912 million

**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	-	10.00			
March 31,2019 (E)			-	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)
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)	September 30, 2018	320,353,809	March 31, 2018 320,353,809
(ii) Number of treasury stock at the end of term	September 30, 2018	2,069,722	March 31, 2018 2,068,553
(iii) Average number of common stocks	September 30, 2018	318,284,751	September 30, 2017 318,288,242

*\* 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 Six Months Ended September 30, 2018

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

During the first six months of the consolidated fiscal year under review, the Japanese economy maintained a trend toward moderate recovery despite the ongoing weakness of consumer spending. In the United States, capital expenditure and consumer spending remained steady despite concern over developments in conjunction with trade with other countries. Meanwhile, the recovery of the European economy slowed due to the growing seriousness of trade issues and political uncertainties. The Asian economy maintained a trend of overall strength and recovery, despite some weakness indicated in the Chinese market.

In this environment, the Citizen Group posted an increase in sales and a decrease in profit in the six months ended September 30, 2018. Net sales stood at 154.4 billion yen (up 0.7% year on year) and operating profit was 10.9 billion yen (down 6.8% year on year). Ordinary profit and profit attributable to owners of parent both increased, reaching 13.1 billion yen (up 4.0% year on year) and 8.3 billion yen (up 1.9% 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 well received, and sales of limited editions were also strong. Despite these factors, demand still remained weak in the overall domestic watch market mainly for low-end products.

In the overseas market, while sales rose mainly in China and other Asian regions, the North American and European markets weakened somewhat, resulting in an overall decrease in overseas sales. Sales in the North American market declined primarily due to a difference in the timing of new product sales, despite signs of recovery in sales at department stores and retail jewelry chains and the continuous growth of online sales. In the European market, growing political uncertainty had a negative impact on consumer spending, and growth in sales of watches was also limited. On the other hand, sales in the Asian market expanded steadily, partly due to favorable economic conditions, and sales in China, in particular, rose thanks to stable economic growth and an increase in consumer spending.

In the multiple brand segment, sales fell overall as a result of a slowdown in the sales of the Frederique Constant brand, despite the stability of the BULOVA brand in North America.

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

As a result, the watch segment posted a decline in sales with net sales of 74.9 billion yen (down 3.3% year on year), reflecting a slower-than-expected recovery of demand in the domestic market of finished products and the movement market despite some measures such as launching new products aggressively and spending advertising expenses. Operating profit decreased to 5.5 billion yen (down 35.8% year on year) due to poor sales of movements, which was unable to be offset by the growth of high-end products that was promoted as one of the priority measures.

#### Machine Tools

Revenues from the domestic market increased thanks to solid capital expenditures in a wide range of industries, including products related to automobiles, medical equipment, construction equipment, and housing facilities. In the Americas, revenues climbed as growth in capital expenditures continued, mainly in medical-related industries.

Revenues from the European market rose owing to its strength maintained by solid sales primarily of automobile-related products in Germany and the expected continuation of tax incentives for capital spending in Italy.

In the Asian market, revenues grew as a result of the strong overall performance of major industries in China and steady demand mainly for automobile-related products in the ASEAN region.

As a result, the machine tool segment as a whole posted a significant increase in sales with net sales of 35.3 billion yen (up 23.3% year on year), which was supported by favorable market conditions both in Japan and abroad and increased sales of machines equipped with low frequency vibration (LFV) cutting, one of the Group's unique technologies. Operating profit increased to 6.8 billion yen (up 64.6% year on year) in response to a considerable rise in net sales and growth in products with high unit prices against the background of strong market conditions.

**Devices and Components**

Among auto parts as part of precision machining components, brake parts sold mainly in Japan remained solid based on growing demand in the automobile market, and switches for smartphones recovered from a significant decline in the previous year. Consequently, overall revenues from precision machining components increased. Among opto-devices, sales of LED chips for automobiles continued to be solid; however, sales remained sluggish as a result of efforts focused on proposing differentiating products instead of making pricing compromises despite intensifying price competition for lighting products. This resulted in a decrease in overall revenues from opto-devices.

Sales of quartz devices, among other products, slowed down, mainly reflecting a decline in the smartphone market. Sales of ferroelectric micro LCDs were affected by the stagnant state of the digital camera market, given that it is their main market. As a result, overall revenues in the other parts segment decreased.

As a consequence, the device and component segment as a whole recorded a decrease in sales, with net sales of 31.5 billion yen (down 7.4% year on year) due to a fall in the other product segment despite an increase in net sales of precision machining components. Operating profit rose to 1.5 billion yen (up 2.3% year on year) thanks to sales strategies with a focus on profitability.

**Electronic Products**

Among information equipment, sales of media and the main bodies of photo printers fell significantly, despite strong sales of new barcode printers. Consequently, revenues in the overall information equipment sector declined.

Revenues from healthcare products decreased after domestic sales declined, which was unable to be offset by growth of products for China, other parts of Asia, and the Americas in the overseas market.

Consequently, sales in the overall electronics product segment decreased and net sales came to 9.7 billion yen (down 4.9% year on year). Despite the fall in net sales, operating profit increased to 0.1 billion yen (up 16.0% year on year) thanks to successful efforts to increase profitability.

**Other Products**

Revenues from jewelry products declined due to a significant drop in sales of bridal items despite an increase in pearl products through exhibitions sponsored by the Company and standard price sales.

As a result, the other product segment as a whole posted decreases in sales and profit with net sales of 2.8 billion yen (down 1.6% year on year) and operating profit of 0 billion yen (down 49.6% year on year), mainly reflecting the sluggish sales of jewelry products.

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

At the end of the second quarter under review, total assets increased by 26.3 billion yen from the end of the previous fiscal year, to 436.2 billion yen. Current assets increased by 21.1 billion yen, mainly due to an increase of 12.6 billion yen in inventories and 5.0 billion yen in cash and deposits. Non-current assets increased by 5.2 billion yen, primarily reflecting increases of 2.8 billion yen in investment securities, 1.2 billion yen in machinery, equipment and vehicles, and 0.7 billion yen in construction in progress.

Liabilities increased by 15.6 billion yen from the end of the previous fiscal year, to 161.8 billion yen. This was mainly attributable to increases of 10.0 billion yen in bonds payable, 1.9 billion yen in accrued expenses, and 1.6 billion yen in electronically recorded obligations – operating.

Net assets increased by 10.6 billion yen from the end of the previous fiscal year, to 274.3 billion yen. This increase was primarily the results of increases of 4.6 billion yen in foreign currency transaction adjustment, 4.0 billion yen in retained earnings, and 1.6 billion yen in the 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 9, 2018 in the Consolidated Financial Statements for the Three Months Ended June 30, 2018.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

Millions of yen	March 31, 2018	September 30, 2018
<b>Current assets</b>		
Cash and deposits	92,079	97,103
Notes and accounts receivable – trade	62,013	65,092
Electronically recorded monetary claims – operating	914	1,094
Merchandise and finished goods	52,737	60,710
Work in process	20,590	22,559
Raw materials and supplies	17,213	19,960
Consumption taxes receivable	2,413	1,936
Other	5,991	6,618
Allowance for doubtful accounts	(957)	(964)
<b>Total current assets</b>	<b>252,997</b>	<b>274,110</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures, net	41,784	41,876
Machinery, equipment and vehicles, net	21,013	22,230
Tools, furniture and fixtures, net	6,557	6,989
Land	10,293	10,383
Leased assets, net	1,358	1,328
Construction in progress	3,971	4,742
<b>Total property, plant and equipment</b>	<b>84,979</b>	<b>87,550</b>
<b>Intangible assets</b>		
Goodwill	4,356	4,277
Software	3,940	4,145
Leased assets	9	8
Other	3,744	3,590
<b>Total intangible assets</b>	<b>12,051</b>	<b>12,020</b>
<b>Investments and other assets</b>		
Investment securities	46,043	48,850
Long-term loans receivable	931	988
Deferred tax assets	9,583	9,328
Other	3,546	3,620
Allowance for doubtful accounts	(199)	(199)
Allowance for investment loss	(26)	(26)
<b>Total investments and other assets</b>	<b>59,880</b>	<b>62,561</b>
<b>Total non-current assets</b>	<b>156,911</b>	<b>162,132</b>
<b>Total assets</b>	<b>409,909</b>	<b>436,242</b>



## CITIZEN WATCH

Millions of yen	March 31, 2018	September 30, 2018
<b>Current liabilities</b>		
Notes and accounts payable – trade	21,267	22,321
Electronically recorded obligations – operating	14,164	15,800
Notes payable – facilities	192	453
Electronically recorded obligations - non-operating	755	1,064
Short-term loans payable	6,880	8,405
Bonds payable within one year	10,000	10,000
Income taxes payable	4,884	2,457
Accrued expenses	13,509	15,452
Provision for bonuses	5,936	6,088
Provision for directors' bonuses	279	-
Provision for product warranties	1,159	1,186
Provision for environmental measures	22	16
Provision for loss on business restructuring	822	522
Other	6,943	6,256
<b>Total current liabilities</b>	<b>86,818</b>	<b>90,026</b>
<b>Non-current liabilities</b>		
Bonds payable	-	10,000
Long-term loans payable	32,146	33,382
Deferred tax liabilities	1,587	2,424
Provision for environmental measures	4	-
Provision for loss on business restructuring	913	913
Net defined benefit liability	22,721	23,105
Asset retirement obligations	74	74
Other	1,930	1,961
<b>Total non-current liabilities</b>	<b>59,377</b>	<b>71,861</b>
<b>Total liabilities</b>	<b>146,195</b>	<b>161,887</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	32,648	32,648
Capital surplus	34,000	34,019
Retained earnings	176,117	180,185
Treasury stocks	(1,783)	(1,773)
<b>Total shareholders' equity</b>	<b>240,983</b>	<b>245,080</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	11,909	13,597
Foreign currency translation adjustment	2,067	6,720
Remeasurements of defined benefit plans	(1,047)	(982)
<b>Total accumulated other comprehensive income</b>	<b>12,928</b>	<b>19,335</b>
<b>Non-controlling interests</b>	<b>9,801</b>	<b>9,938</b>
<b>Total net assets</b>	<b>263,713</b>	<b>274,355</b>
<b>Total liabilities and net assets</b>	<b>409,909</b>	<b>436,242</b>

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

Consolidated Statement of Income for the six months ended September 30, 2018

Millions of yen	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)
<b>Net sales</b>	<b>153,379</b>	<b>154,406</b>
<b>Cost of sales</b>	<b>93,486</b>	<b>94,524</b>
<b>Gross profit</b>	<b>59,893</b>	<b>59,882</b>
<b>Selling, general and administrative expenses</b>	<b>48,129</b>	<b>48,923</b>
<b>Operating profit</b>	<b>11,763</b>	<b>10,959</b>
<b>Non-Operating profit</b>		
Interest income	181	251
Dividend income	424	526
Share of profit of entities accounted for using equity method	216	436
Foreign exchange gains	468	783
Other	521	582
<b>Total non-Operating profit</b>	<b>1,813</b>	<b>2,581</b>
<b>Non-operating expenses</b>		
Interest expenses	213	185
Compensation expenses	331	-
Other	405	221
<b>Total non-operating expenses</b>	<b>950</b>	<b>407</b>
<b>Ordinary profit</b>	<b>12,626</b>	<b>13,133</b>
<b>Extraordinary profit</b>		
Gain on sales of investment securities	36	29
Gain on sales of shares of subsidiaries	14	-
Gain on sales of non-current assets	334	8
Other	4	3
<b>Total extraordinary profit</b>	<b>390</b>	<b>41</b>
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	122	255
Loss on sales of non-current assets	13	9
Impairment loss	0	21
Loss on business restructuring	117	261
Special compliance expense, etc.	-	192
Other	63	329
<b>Total extraordinary losses</b>	<b>317</b>	<b>1,071</b>
<b>Income before income taxes</b>	<b>12,699</b>	<b>12,104</b>
Income taxes	4,236	3,508
<b>Net income</b>	<b>8,463</b>	<b>8,595</b>
Profit attributable to non-controlling interests	242	220
<b>Profit attributable to owners of parent</b>	<b>8,220</b>	<b>8,375</b>

## CITIZEN WATCH

## Consolidated Statement of Comprehensive Income for the six months ended September 30, 2018

Millions of yen	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)
<b>Net income</b>	<b>8,463</b>	<b>8,595</b>
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale Securities	2,315	1,687
Foreign currency translation adjustment	3,807	4,558
Remeasurements of defined benefit plans	93	66
Share of other comprehensive income of entities accounted for using equity method	12	197
<b>Total other comprehensive income</b>	<b>6,228</b>	<b>6,510</b>
<b>Comprehensive income</b>	<b>14,692</b>	<b>15,106</b>
(Breakdown)		
Comprehensive income attributable to owners of parent	14,421	14,782
Comprehensive income attributable to non-controlling interests	270	323

**(3) Consolidated Statement of Cash Flow**

Millions of yen	Six months ended September 30,	Six months ended September 30,
	2017 (April 1, 2017 to September 30, 2017)	2018 (April 1, 2018 to September 30, 2018)
<b>Cash flows from operating activities</b>		
Income before income taxes	12,699	12,104
Depreciation	6,679	6,671
Amortization of goodwill	795	264
Increase/decrease in provision	98	(494)
Increase/decrease in net defined benefit liability	441	398
Interest and dividends income	(606)	(778)
Interest expenses	213	185
Loss/gain on sales of investment securities	(36)	(29)
Loss/gain on sales of shares of subsidiaries	(14)	-
Loss/gain on sales of non-current assets	(321)	0
Loss on disposal of non-current assets	118	236
Increase/decrease in notes and accounts receivables - trade	(3,013)	(1,076)
Increase/decrease in inventories	(10,077)	(10,716)
Increase/decrease in notes and accounts payables - trade	6,062	1,215
Other	2,288	2,794
Sub total	15,326	10,775
Interest and dividends received	607	776
Interest payments	(212)	(173)
Income taxes	(2,672)	(6,168)
Net cash provided by operating activities	<b>13,048</b>	<b>5,210</b>
<b>Cash flows from investing activities</b>		
Payments for the purchase of investment securities	(0)	(0)
Proceeds from the sale of investment securities	83	30
Payments for the purchase of property, plant and equipment	(7,855)	(8,964)
Proceeds from the sale of property, plant and equipment	1,315	445
Payments for the purchases of Intangible assets	(583)	(700)
Payments for loans receivable	(2)	(58)
Collection of loans receivable	5	2
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	75	-
Other	(98)	(367)
Net cash used in investing activities	<b>(7,060)</b>	<b>(9,613)</b>

Millions of yen	Six months ended September 30, 2017	Six months ended September 30, 2018
	(April 1, 2017 to September 30, 2017)	(April 1, 2018 to September 30, 2018)
<b>Cash flows from financing activities</b>		
Net increase/decrease in short-term loan payable	766	1,436
Proceeds from long-term loans payable	-	1,216
Repayments of long-term loans payable	(9)	(9)
Proceeds from issuance of bonds	-	10,000
Dividends paid	(2,705)	(4,296)
Dividends paid to non-controlling interests	(227)	(136)
Purchase of treasury shares	(1)	(75)
Proceeds from sales of treasury shares	0	74
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(199)	(0)
Other	(61)	(546)
Net cash used in financing activities	<b>(2,437)</b>	<b>7,662</b>
Effect of exchange rate changes on cash and cash equivalents	1,608	1,468
<b>Increase/decrease in cash and cash equivalents</b>	<b>5,157</b>	<b>4,728</b>
Cash and cash equivalents at the beginning of the term	77,887	90,655
<b>Cash and cash equivalents at the end of the term</b>	<b>83,045</b>	<b>95,384</b>

**(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

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

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	77,484	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.

(ii) Six months ended September 30, 2018 (April 1, 2018 to September 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	74,908	35,307	31,597	9,752	2,840	154,406	-	154,406
Inter-segment	48	840	1,034	56	450	2,431	(2,431)	-
Total	74,956	36,148	32,632	9,809	3,291	156,838	(2,431)	154,406
Segment profit	5,506	6,844	1,557	194	77	14,179	(3,220)	10,959

(Notes)

1. The 3,220 million yen negative adjustment to segment profit (operating profit) includes 174 million yen in inter-segment eliminations and 3,046 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.