



CITIZEN WATCH

Consolidated Financial Statements for the Nine Months Ended December 31, 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)

February 13, 2019

CITIZEN WATCH CO., LTD.

Listings: First section of Tokyo Stock Exchange

Code No.: 7762 (URL <https://www.citizen.co.jp>)

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Results for the Nine months ended December 31, 2018 (April 1, 2018 to December 31, 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	
Nine months ended December 31, 2018	247,786	1.4%	20,729	(7.0%)	23,272	(1.4%)	14,386	(9.9%)
Nine months ended December 31, 2017	244,259	2.5%	22,288	22.4%	23,613	29.0%	15,959	36.1%

Note: Comprehensive Income: As of December 31, 2018: ¥12,272million (-50.5%) As of December 31, 2017: ¥24,780million (49.3%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Nine months ended December 31, 2018	45.20	-
Nine months ended December 31, 2017	50.14	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
Nine months ended December 31, 2018	418,456	268,336	61.7%	811.52
March 31, 2018	409,909	263,713	61.9%	797.75

Reference: Shareholders' Equity: As of December 31, 2018: ¥258,292million 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	-	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%)	15,000	(22.3%)	47.13

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)

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, 2018	320,353,809	March 31, 2018	320,353,809
(ii) Number of treasury stock at the end of term	December 31, 2018	2,070,532	March 31, 2018	2,068,553
(iii) Average number of common stocks	December 31, 2018	318,284,380	December 31, 2017	318,287,607

* 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, 2018

(1) Qualitative data on the consolidated financial results

During the nine months ended December 31, 2018, the Japanese economy maintained a moderated recovery, although consumer spending continued to be weak. In the United States, capital spending 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 a 247.7 billion yen in sales (up 1.4% year on year) and a 20.7 billion yen in profit (down 7.0% year on year) in the nine months ended December 31, 2018. Ordinary profit and profit attributable to owners of parent both decreased, reaching 23.2 billion yen (down 1.4% year on year) and 14.3 billion yen (down 9.9% year on year), respectively.

Watches

In the domestic market, CITIZEN branded watches continued to show strong results, mainly in high-end product lines including THE CITIZEN. Mid-range products also recorded solid results, driven by mainstay products such as xC, ATTESTA, and PROMASTER, while achieving strong sales in limited editions for the 100th anniversary.

In the overseas market, although the European market showed some weakness, the North American market and the China/Asian regions remained firm, resulting in an overall increase in overseas sales. In the North American market, sales at department stores and retail jewelry chains showed signs of recovery and online sales continued to expand, contributing to an increase in sales of new products, in particular, such as PROMASTER and satellite-synchronized watches. In the European market, growing political uncertainty had a negative impact on consumer spending, resulting in a decline in sales. On the other hand, the Asian market grew steadily and sales rose in China, in particular, partly because the economic conditions had been strong since the beginning of the fiscal year, despite increasing concern about a slowdown in the upcoming months.

In the multiple brand segment, sales climbed overall as a result of strong sales of new BULOVA brand products, among other products, in North America, while sales of the Frederique Constant brand remained slow, chiefly due to the harsh market conditions.

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

As a result, the watches segment posted a decline in sales with net sales of 127.0 billion yen (down 0.4% year on year), reflecting a slower-than-expected recovery of demand in the movement market, despite signs of a pick-up in demand for finished products supported by the aggressive release of new products and the acceleration of advertising investments. Operating profit decreased to 12.3 billion yen (down 23.2% 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, although there were some signs of a slowdown, partly due to a reaction to sales that remained at high levels.

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, although there were growing uncertainties over the future, primarily because of unstable political conditions.

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, although there were signs of holding back on purchases due to the impact of the US-China trade dispute.

As a result, the machine tools segment as a whole posted a significant increase in sales with net sales of 54.2 billion yen (up 16.6% 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 sharply, to 9.8 billion yen (up 33.5% year on year), in response to a considerable rise in net sales 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 lighting products instead of making pricing compromises despite intensifying price competition. 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 devices and components segment as a whole recorded a decrease in sales, with net sales of 47.4 billion yen (down 5.9% 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 2.8 billion yen (up 14.7% 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 POS printers and 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 electronic products segment decreased on the back of sluggish sales growth of mainstay information equipment, and net sales came to 14.6 billion yen (down 4.3% year on year). Despite the fall in net sales, operating profit increased to 0.3 billion yen (up 17.2% year on year) thanks to successful efforts to increase profitability.

Other Products

Revenues from jewelry products declined due to a drop in sales through exhibitions and the harsh status of wholesale, despite solid results of mainstay marriage rings.

As a result, the other products segment as a whole posted decreases in sales and profit with net sales of 4.4 billion yen (down 2.3% year on year) and operating profit of 0.0 billion yen (down 51.2% year on year), mainly reflecting the sluggish sales growth of jewelry products.

■(2) Qualitative data on the consolidated financial position

As of the end of the third quarter under review, total assets increased by 8.5 billion yen from the end of the previous fiscal year, to 418.4 billion yen. Current assets increased 9.8 billion yen, mainly because of increases of 10.0 billion yen in inventories and 8.4 billion yen in notes and accounts receivable - trade, despite a decrease of 11.9 billion yen in cash and deposits. Non-current assets decreased by 1.2 billion yen, primarily reflecting a decrease of 3.9 billion yen in investment securities, despite increases of 1.0 billion yen in machinery, equipment and vehicles and 0.6 billion yen in tools, furniture and fixtures.

Liabilities increased by 3.9 billion yen from the end of the previous fiscal year, to 150.1 billion yen. This increase in liabilities mainly reflected increases of 2.8 billion yen in accrued expenses, 2.5 billion yen in notes and accounts payable - trade and 1.1 billion yen in electronically recorded obligations - operating, despite a decrease of 2.6 billion yen in income taxes payable.

Net assets increased by 4.6 billion yen from the end of the previous fiscal year, to 268.3 billion yen. This increase was primarily the result of increases of 6.8 billion yen in retained earnings and 0.7 billion yen in foreign currency translation adjustment, despite a decrease of 3.5 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 be lower than the previous forecast due to the posting of an extraordinary loss arising from expenses related to the decision to close the factory in China, although net sales, operating profit and ordinary profit are in line with expectations.

The exchange rate for and after the fourth quarter of the fiscal year under review is assumed to be 110 yen to the US dollar and 125 yen to the euro.

Revision to the consolidated full-year earnings forecasts for the fiscal year ending March 31, 2019

(April 1, 2018 to March 31, 2019)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share
Forecasts announced before (A)	million yen 330,000	million yen 25,000	million yen 26,500	million yen 17,000	yen 53.41
Revised forecasts (B)	330,000	25,000	26,500	15,000	47.13
Change (B-A)	0	0	0	(2,000)	-
Rate of change (%)	0	0	0	(11.8%)	-
(Reference) Results for the previous fiscal year (Fiscal year ended March 31, 2018)	320,047	24,920	26,664	19,303	60.65

■2. CONSOLIDATED FINANCIAL STATEMENTS

■(1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	92,079	80,114
Notes and accounts receivable - trade	62,013	70,455
Electronically recorded monetary claims - operating	914	1,101
Merchandise and finished goods	52,737	58,539
Work in process	20,590	21,406
Raw materials and supplies	17,213	20,663
Consumption taxes receivable	2,413	2,166
Other	5,991	9,193
Allowance for doubtful accounts	(957)	(830)
Total current assets	252,997	262,810
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,784	41,611
Machinery, equipment and vehicles, net	21,013	22,099
Tools, furniture and fixtures, net	6,557	7,178
Land	10,293	10,291
Leased assets, net	1,358	1,277
Construction in progress	3,971	4,232
Total property, plant and equipment	84,979	86,691
Intangible assets		
Goodwill	4,356	4,004
Software	3,940	4,126
Leased assets	9	8
Other	3,744	5,500
Total intangible assets	12,051	13,638
Investments and other assets		
Investment securities	46,043	42,121
Long-term loans receivable	931	1,030
Deferred tax assets	9,583	8,650
Other	3,546	3,795
Allowance for doubtful accounts	(199)	(255)
Allowance for investment loss	(26)	(26)
Total investments and other assets	59,880	55,315
Total non-current assets	156,911	155,646
Total assets	409,909	418,456

	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,267	23,815
Electronically recorded obligations - operating	14,164	15,342
Notes payable - facilities	192	367
Electronically recorded obligations - non-operating	755	1,281
Short-term loans payable	6,880	8,353
Current portion of bonds	10,000	—
Income taxes payable	4,884	2,196
Accrued expenses	13,509	16,375
Provision for bonuses	5,936	3,625
Provision for directors' bonuses	279	—
Provision for product warranties	1,159	1,511
Provision for environmental measures	22	16
Provision for loss on reorganization	822	498
Other	6,943	6,296
Total current liabilities	86,818	79,680
Non-current liabilities		
Bonds payable	—	10,000
Long-term loans payable	32,146	33,397
Deferred tax liabilities	1,587	837
Provision for environmental measures	4	—
Provision for loss on reorganization	913	913
Net defined benefit liability	22,721	23,178
Asset retirement obligations	74	74
Other	1,930	2,036
Total non-current liabilities	59,377	70,438
Total liabilities	146,195	150,119
Net assets		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	34,000	34,019
Retained earnings	176,117	183,012
Treasury shares	(1,783)	(1,773)
Total shareholders' equity	240,983	247,907
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,909	8,386
Foreign currency translation adjustment	2,067	2,849
Remeasurements of defined benefit plans	(1,047)	(851)
Total accumulated other comprehensive income	12,928	10,384
Non-controlling interests	9,801	10,044
Total net assets	263,713	268,336
Total liabilities and net assets	409,909	418,456

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

▪Consolidated Statement of Income for Nine months ended December 31, 2018

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	244,259	247,786
Cost of sales	147,012	149,963
Gross profit	97,247	97,823
Selling, general and administrative expenses	74,958	77,093
Operating profit	22,288	20,729
Non-operating income		
Interest income	298	419
Dividend income	634	876
Share of profit of entities accounted for using equity method	409	733
Foreign exchange gains	528	392
Other	736	828
Total non-operating income	2,607	3,251
Non-operating expenses		
Interest expenses	326	284
Compensation expenses	331	—
Other	625	424
Total non-operating expenses	1,282	709
Ordinary profit	23,613	23,272
Extraordinary income		
Gain on sales of investment securities	1,226	30
Gain on sales of shares of subsidiaries	14	—
Gain on sales of non-current assets	552	24
Gain on liquidation of subsidiaries	—	302
Other	21	5
Total extraordinary income	1,815	362
Extraordinary losses		
Loss on retirement of non-current assets	205	413
Loss on sales of non-current assets	19	39
Impairment loss	0	166
Reorganization cost	1,166	1,814
Special compliance expense, etc.	83	205
Other	197	608
Total extraordinary losses	1,673	3,247
Profit before income taxes	23,756	20,387
Income taxes	7,413	5,611
Profit	16,342	14,775
Profit attributable to non-controlling interests	382	389
Profit attributable to owners of parent	15,959	14,386

Consolidated Statement of Comprehensive Income for the Nine months ended December 31, 2018

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Profit	16,342	14,775
Other comprehensive income		
Valuation difference on available-for-sale securities	3,664	(3,522)
Foreign currency translation adjustment	4,653	699
Remeasurements of defined benefit plans, net of tax	98	198
Share of other comprehensive income of entities accounted for using equity method	22	121
Total other comprehensive income	8,438	(2,502)
Comprehensive income	24,780	12,272
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	24,348	11,842
Comprehensive income attributable to non-controlling interests	432	430

(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) Nine months ended December 31, 2017 (April 1, 2017 to December 31, 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	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.

(ii) Nine months ended December 31, 2018 (April 1, 2018 to December 31, 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	127,074	54,256	47,410	14,620	4,423	247,786	-	247,786
Inter-segment	74	964	1,526	86	632	3,284	(3,284)	-
Total	127,148	55,221	48,937	14,707	5,056	251,071	(3,284)	247,786
Segment profit	12,329	9,810	2,828	380	95	25,444	(4,714)	20,729

(Notes)

1. The 4,714 million yen negative adjustment to segment profit (operating profit) includes -176 million yen in inter-segment eliminations and -4,537 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.

(Significant Subsequent Events)

The Company made a resolution to absorb Citizen Financial Service Co., Ltd., its wholly owned subsidiary, through an absorption-type merger (hereinafter called the "Merger") on April 1, 2019, at a meeting of the Board of Directors held on January 24, 2019.

1. Purpose of the Merger

With the goal of consolidating management resources and conducting efficient organizational management, the Company has decided to absorb Citizen Financial Service Co., Ltd., a subsidiary that has been fulfilling its role as a core company for intragroup financing in the Citizen Group.

2. Overview of the Merger**(i) Method of the Merger**

The Company, as a surviving company, will implement an absorption-type merger, based on which Citizen Financial Service Co., Ltd. will be dissolved.

(ii) Schedule of the Merger

Approval of the merger agreement at a Board of Directors' meeting: January 24, 2019

Date of conclusion of the merger agreement: January 24, 2019

Effective date of the merger agreement: April 1, 2019 (plan)

The Merger will be carried out without obtaining the resolution-based approvals at the respective companies' General Meetings of Shareholders because for the Company, it is a simple merger specified in paragraph 2 of Article 796 in the Companies Act, and a short-form merger specified in paragraph 1 of Article 784 in the Companies Act for Citizen Financial Service Co., Ltd.

(iii) Details of allotments related to the Merger

No shares or other pecuniary interests will be allocated through the Merger.

(iv) Treatment of subscription rights to shares or bonds with subscription rights to shares in conjunction with the Merger

Not applicable.

3. Overview of the merged company

(1) Name	Citizen Financial Service Co., Ltd.	
(2) Location	6-1-12, Tanashi-cho, Nishi-Tokyo-shi, Tokyo	
(3) Name and title of representative	Toshiyuki Furukawa, President and Representative Director	
(4) Business description	Operations of accepting deposits from and lending funds to participating companies of the Citizen Group, etc.	
(5) Capital	50million yen	
(6) Date of establishment	March 8, 2002	
(7) Number of shares issued	1,000 shares	
(8) Fiscal year-end	March 31	
(9) Major shareholders and the percentage of ownership (as of March 31, 2018)	Citizen Watch Co., Ltd. 100%	
(10) Financial conditions and operating results of the immediately preceding	Fiscal year-end	Fiscal year ended March 31, 2018 (nonconsolidated)
	Net assets	93million yen

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fiscal year (fiscal year ended March 31, 2018))	Total assets	23,481million yen
	Net assets per share	93 thousand yen
	Net sales	83million yen
	Operating profit	16million yen
	Ordinary profit	16million yen
	Net profit	10million yen
	Earnings per share	10 thousand yen

4. Post-merger status

(1) Name	Citizen Watch Co., Ltd.
(2) Location	6-1-12, Tanashi-cho, Nishi-Tokyo-shi, Tokyo
(3) Name and title of representative	Toshihiko Sato (plan) President and CEO
(4) Business description	Manufacturing and sales of varieties of types of watches and components thereof, and the planning of the Group's management strategies and implementation thereof, auditing of the Group's management, development of the Group's technologies, and management of intellectual property rights, as well as management of other administrative operations, from the standpoint of a holding company.
(5) Capital	32,648 million yen
(6) Date of establishment	March 31

5. Future outlook

The Merger, which is an undertaking between the Company and its wholly owned subsidiary, is not expected to have any material impact on consolidated financial results, going forward.