



CITIZEN WATCH

Consolidated Financial Statements**for the Six Months Ended September 30, 2019**

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 8, 2019

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: December 3, 2019

Scheduled release of fiscal 2019 Quarterly Business Report: November 11, 2019

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)****(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, 2019	144,416	(6.5%)	5,725	(47.8%)	5,890	(55.1%)	3,593	(57.1%)
Six months ended September 30, 2018	154,406	0.7%	10,959	(6.8%)	13,133	4.0%	8,375	1.9%

Note: Comprehensive income:

Six months ended September 30, 2019: ¥ (1,393) million (-%)

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

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Six months ended September 30, 2019	11.39	-
Six months ended September 30, 2018	26.32	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
Six months ended September 30, 2019	399,848	259,895	62.5%	799.46
March 31, 2019	413,911	267,547	62.2%	808.87

Reference: Shareholders' Equity:

As of September 30, 2019: ¥ 249,942 million As of March 31, 2019: ¥ 257,449 million

2. Dividends

	Dividends per share(Yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
March 31, 2019	-	10.00	-	10.00	20.00
March 31, 2020	-	12.00			
March 31,2020 (E)			-	12.00	24.00

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

3. Projected Consolidated Results for the Year ending March 31, 2020

(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	305,000 (5.2%)	16,000 (28.6%)	18,000 (32.3%)	11,500 (14.0%)	36.45

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: Yes
 - (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, 2019	314,353,809	March 31, 2019 320,353,809
(ii) Number of treasury stock at the end of term	September 30, 2019	1,712,739	March 31, 2019 2,070,969
(iii) Average number of common stocks	September 30, 2019	315,514,970	September 30, 2018 318,284,751

** 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 6 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, 2019

(1) Qualitative data on the consolidated financial results

During the first six months of the consolidated fiscal year under review, Japan's economic outlook grew increasingly uncertain owing to growing political risks overseas and economic trends that were difficult to see through. Furthermore, in the United States, capital expenditure showed signs of slowing down due to concern over developments in conjunction with trade with other countries. The European market also continued to slow down due to the increasing instability of trade and political uncertainty. With respect to the Asian economy, economic growth in China softened and other Asian economies lacked strength.

In this environment, the Citizen Group posted a decrease in sales and a decrease in profit in the six months ended September 30, 2019. Net sales stood at 144.4 billion yen (down 6.5% year on year), and operating profit was 5.7 billion yen (down 47.8% year on year). Ordinary profit and profit attributable to owners of parent both decreased, reaching 5.8 billion yen (down 55.1% year on year) and 3.5 billion yen (down 57.1% year on year), respectively.

Watches

With respect to sales of CITIZEN brand watches in the domestic market, luxury items such as The CITIZEN and Eco-Drive One continued to show strong results, and sales of medium-priced items such as xC and PROMASTER increased steadily. Moreover, sales grew as the event to commemorate the launch of a model for Japan National Rugby Team succeeded, and there was last-minute demand some time ahead of the rise in consumption tax.

In the overseas market, sales in the North American market remained unchanged thanks to the contribution of the rising market share of our mainstay medium-priced items despite the impact of the shrinkage of physical store distribution. In the European market, growing political uncertainty had a negative impact on consumer spending, resulting in a decline in sales. The Asian market was in a severe situation with an increasing sense of market slowdown. On the other hand, Singapore and Vietnam fared well, and sales in China grew due to an increase in online distribution.

In the multiple brand segment, sales remained strong despite a drop in the BULOVA brand due to the reorganization of brick and mortar retail stores. However, other brands were sluggish, mainly in overseas markets. As a result, sales declined.

Sales of movements declined, reflecting the ongoing harsh 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 72.3 billion yen (down 3.4% year on year), reflecting sluggish sales of movements, although sales expansion measures including the active launch of new products succeeded and sales of finished products increased. Operating profit decreased to 3.4 billion yen (down 37.4% year on year) due to the significant impact of poor sales of movements despite the growth of high-end products that was promoted as one of the priority measures.

Machine Tools

Revenues from the domestic market decreased due to an increasing sense of the uncertainty of capital expenditures including products related to automobiles, as products related to semiconductors softened.

Revenues from overseas markets declined, affected by the sluggish European and Asian markets, mainly ASEAN, while the revenues from the Americas and the China market remained strong as we focused on products related to medical equipment, for which stable demand was expected, following the ongoing economic slowdown affected by the trade frictions between the U.S. and China.

As a result, the machine tools segment as a whole posted a decrease in sales with net sales of 30.8 billion yen (down 12.6% year on year) and operating profit to 4.5 billion yen (down 33.3% year on year), in reaction to strong performance a year ago, although we pursued sales of machines equipped with low frequency vibration (LFV) cutting, one of the Group's unique technologies, amid a cautious stance toward capital expenditure both in Japan and abroad.

Devices and Components

Auto parts as part of precision machining components remained slow due to a decrease in new car sales worldwide, including China, and sales of switches declined owing to a decrease in adopted models. Consequently, overall revenues from precision machining components decreased.

Among opto-devices, with regard to LED chips, we focused on initiatives for placing the emphasis on profitability instead of making pricing compromises, despite intensifying price competition for lighting products, and we were hit by a drop in sales of backlight units. This resulted in a decrease in overall revenues from opto-devices.

Sales of quartz devices, among other products, were slow, mainly reflecting a decline in the smartphone market and the consumer product market. Sales of ferroelectric micro LCDs were also affected by the narrowing of the digital camera market.

As a consequence, the devices and components segment as a whole recorded a decrease in sales, with net sales of 29.3 billion yen (down 7.1% year on year), due mainly to a fall in opto-devices. Operating profit declined to 0.7 billion yen (down 51.9% year on year), largely affected by a decrease in sales despite our efforts regarding sales strategies with a focus on profitability.

Electronic Products

Among information equipment, due to a cautious stance toward capital expenditure, sales of POS printers and bar code printers were sluggish despite sales of photo printers were stable. Consequently, revenues in the overall information equipment sector declined.

Sale of healthcare equipment remained strong in the Middle East and Asia, but they were not strong enough to offset a drop in sales in Japan, resulting in lower sales.

Consequently, sales in the overall electronic products segment decreased and net sales came to 8.8 billion yen (down 9.4% year on year). Operating loss came to 0.1 billion yen (operating profit of 0.1 billion yen a year ago).

Other Products

Revenues from jewelry products rose due to growth in the mainstay wedding rings due to the reinforcement of bridal items and steady wholesale and sales through exhibitions.

As a result, the other products segment as a whole posted increases in sales and profit with net sales of 2.9 billion yen (up 5.0% year on year) and operating profit of 0.1 billion yen (up 153.8% year on year).

(2) Qualitative data on the consolidated financial position

At the end of the second quarter under review, total assets decreased by 14.0 billion yen from the end of the previous fiscal year, to 399.8 billion yen. Current assets decreased by 15.4 billion yen, mainly due to decreases of 15.4 billion yen in cash and deposits and 7.4 billion yen in notes and accounts receivable-trade, despite an increase of 8.1 billion yen in inventories. Non-current assets increased by 1.4 billion yen, primarily reflecting an increase of 1.9 billion yen in machinery, equipment and vehicles, and a decrease of 1.1 billion yen in construction in progress.

Liabilities decreased by 6.4 billion yen from the end of the previous fiscal year, to 139.9 billion yen. This was mainly attributable to decreases of 2.1 billion yen in electronically recorded obligations – operating, 1.1 billion yen in income taxes payable, and 1.0 billion yen in accrued expenses.

Net assets decreased by 7.6 billion yen from the end of the previous fiscal year, to 259.8 billion yen. This decrease was primarily the result of decreases of 4.3 billion yen in foreign currency transaction adjustments, 2.9 billion yen in retained earnings, and 0.7 billion yen in treasury shares due the acquisition and cancellation of treasury stock.

(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 8, 2019 in the Consolidated Financial Statements for the Three Months Ended June 30, 2019.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	86,875	71,381
Notes and accounts receivable - trade	64,139	56,714
Electronically recorded monetary claims - operating	1,225	1,444
Merchandise and finished goods	55,614	61,971
Work in process	22,982	23,203
Raw materials and supplies	19,605	21,170
Consumption taxes receivable	3,131	1,846
Other	6,522	6,533
Allowance for doubtful accounts	(1,111)	(758)
Total current assets	258,985	243,505
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,496	42,531
Machinery, equipment and vehicles, net	22,685	24,676
Tools, furniture and fixtures, net	7,364	7,814
Land	10,326	10,379
Leased assets, net	1,360	1,524
Construction in progress	5,437	4,320
Total property, plant and equipment	89,669	91,246
Intangible assets		
Software	4,402	4,467
Leased assets	7	5
Other	4,323	3,837
Total intangible assets	8,732	8,310
Investments and other assets		
Investment securities	39,974	40,423
Long-term loans receivable	942	791
Deferred tax assets	11,847	11,958
Other	4,050	3,896
Allowance for doubtful accounts	(268)	(262)
Allowance for investment loss	(23)	(23)
Total investments and other assets	56,524	56,784
Total non-current assets	154,926	156,342
Total assets	413,911	399,848

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(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	20,496	19,835
Electronically recorded obligations - operating	14,896	12,731
Notes payable - facilities	246	321
Electronically recorded obligations - non-operating	859	579
Short-term borrowings	13,987	15,787
Income taxes payable	2,139	1,030
Accrued expenses	13,395	12,379
Provision for bonuses	5,712	6,017
Provision for bonuses for directors (and other officers)	247	—
Provision for product warranties	1,428	1,273
Provision for environmental measures	0	—
Provision for loss on reorganization	484	475
Other	7,846	5,052
Total current liabilities	81,741	75,484
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	27,077	26,626
Deferred tax liabilities	791	614
Provision for loss on reorganization	816	650
Retirement benefit liability	23,328	23,634
Asset retirement obligations	74	74
Other	2,534	2,869
Total non-current liabilities	64,622	64,468
Total liabilities	146,363	139,953
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	34,019	33,730
Retained earnings	181,995	179,070
Treasury shares	(1,773)	(1,070)
Total shareholders' equity	246,889	244,379
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,111	7,382
Foreign currency translation adjustment	3,303	(1,016)
Remeasurements of defined benefit plans	(855)	(802)
Total accumulated other comprehensive income	10,559	5,562
Non-controlling interests	10,098	9,952
Total net assets	267,547	259,895
Total liabilities and net assets	413,911	399,848

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

Consolidated Statement of Income for the six months ended September 30, 2019

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	154,406	144,416
Cost of sales	94,524	90,040
Gross profit	59,882	54,375
Selling, general and administrative expenses	48,923	48,649
Operating profit	10,959	5,725
Non-operating income		
Interest income	251	253
Dividend income	526	466
Share of profit of entities accounted for using equity method	436	498
Foreign exchange gains	783	—
Other	582	325
Total non-operating income	2,581	1,543
Non-operating expenses		
Interest expenses	185	223
Foreign exchange losses	—	979
Other	221	175
Total non-operating expenses	407	1,378
Ordinary profit	13,133	5,890
Extraordinary income		
Gain on sales of investment securities	29	—
Gain on sales of non-current assets	8	42
Other	3	6
Total extraordinary income	41	48
Extraordinary losses		
Loss on retirement of non-current assets	255	188
Loss on sales of non-current assets	9	6
Impairment loss	21	1
Reorganization cost	261	341
Loss on valuation of investment securities	—	0
Special compliance expense, etc.	192	—
Other	329	179
Total extraordinary losses	1,071	717
Profit before income taxes	12,104	5,221
Income taxes	3,508	1,506
Profit	8,595	3,715
Profit attributable to non-controlling interests	220	121
Profit attributable to owners of parent	8,375	3,593

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Consolidated Statement of Comprehensive Income for the six months ended September 30, 2019

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	8,595	3,715
Other comprehensive income		
Valuation difference on available-for-sale securities	1,687	(729)
Foreign currency translation adjustment	4,558	(4,343)
Remeasurements of defined benefit plans, net of tax	66	54
Share of other comprehensive income of entities accounted for using equity method	197	(90)
Total other comprehensive income	6,510	(5,109)
Comprehensive income	15,106	(1,393)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,782	(1,386)
Comprehensive income attributable to non-controlling interests	323	(7)

(3) Consolidated Statement of Cash Flow

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	12,104	5,221
Depreciation	6,671	7,322
Amortization of goodwill	264	—
Increase (decrease) in provision	(494)	(681)
Increase (decrease) in retirement benefit liability	398	370
Interest and dividend income	(778)	(719)
Interest expenses	185	223
Loss (gain) on sales of investment securities	(29)	—
Loss (gain) on sales of non-current assets	0	(36)
Loss on retirement of non-current assets	236	188
Decrease (increase) in trade receivables	(1,076)	6,248
Decrease (increase) in inventories	(10,716)	(9,506)
Increase (decrease) in trade payables	1,215	(1,849)
Other, net	2,794	1,441
Subtotal	10,775	8,224
Interest and dividends received	776	715
Interest paid	(173)	(218)
Income taxes paid	(6,168)	(4,165)
Net cash provided by (used in) operating activities	5,210	4,556
Cash flows from investing activities		
Purchase of investment securities	(0)	(1,970)
Proceeds from sales of investment securities	30	—
Purchase of property, plant and equipment	(8,964)	(10,681)
Proceeds from sales of property, plant and equipment	445	568
Purchase of intangible assets	(700)	(668)
Loan advances	(58)	(1)
Collection of loans receivable	2	1
Other, net	(367)	(703)
Net cash provided by (used in) investing activities	(9,613)	(13,455)

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Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,436	1,849
Proceeds from long-term borrowings	1,216	268
Repayments of long-term borrowings	(9)	(704)
Proceeds from issuance of bonds	10,000	—
Dividends paid	(4,296)	(3,183)
Dividends paid to non-controlling interests	(136)	(149)
Purchase of treasury shares	(75)	(3,000)
Proceeds from sales of treasury shares	74	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(0)	(557)
Other, net	(546)	(180)
Net cash provided by (used in) financing activities	7,662	(5,657)
Effect of exchange rate change on cash and cash equivalents	1,468	(1,910)
Net increase (decrease) in cash and cash equivalents	4,728	(16,467)
Cash and cash equivalents at beginning of period	90,655	84,533
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	544
Cash and cash equivalents at end of period	95,384	68,610

(4) Notes on the Consolidated Financial Statements**(Notes related to of going concern assumptions)**

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

The Company acquired 5,640,400 shares of its treasury stock based on a resolution of the Board of Directors made on May 28, 2019. For the six-month period under review, treasury shares increased by 2,999 million yen. In addition, based on a resolution of the Board of Directors made on August 29, 2019, we cancelled 6,000,000 shares of treasury stock on September 30, 2019. As a result, retained earnings and treasury shares each decreased 3,703 million yen for the six-month period under review. At the end of the second quarter under review, retained earnings came to 179,070 million yen, and treasury shares arrived at 1,070 million yen.

(Changes in the accounting policy)

Starting from the first quarter of the current consolidated fiscal year, some overseas consolidated subsidiaries of the Group apply IFRS 16 Leases and recognize assets and liabilities for all lease assets, in principle, as the accounting of the lessee. The impact of applying this accounting standard to the Group's consolidated financial statements is minor.

(Segment information)

(i) Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)

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	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.

(ii) Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

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	72,372	30,870	29,358	8,831	2,983	144,416	-	144,416
Inter-segment	51	434	950	45	410	1,891	(1,891)	-
Total	72,423	31,304	30,309	8,876	3,393	146,308	(1,891)	144,416
Segment profit	3,446	4,566	750	(130)	196	8,827	(3,102)	5,725

(Notes)

1. The 3,102 million yen negative adjustment to segment profit (operating profit) includes 59 million yen in inter-segment eliminations and 3,042 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.