



CITIZEN HOLDINGS

## Consolidated Financial Statements for the Three Months Ended June 30, 2016

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 12 2016

### CITIZEN HOLDINGS CO., LTD.

Code No.: 7762

Representative: Toshio Tokura, President and CEO

Contact: Toshiyuki Furukawa, Director, In charge of Public & Investor Relations Department

Tel: +81 -42 -468 -4934

Scheduled release of fiscal 2016 Quarterly Business Report: August 12, 2016

Scheduled start of dividend payment: -

Listings: First section of Tokyo Stock Exchange

(URL <http://www.citizen.co.jp>)

### 1. Results for the Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)

(1) Consolidated operating results (Percentages represent changes over the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Three months ended June 30, 2016	76,659	△8.4	4,603	△27.5	2,770	△63.6	2,311	△55.4
Three months ended June 30, 2015	83,690	10.2	6,350	39.0	7,617	62.0	5,178	44.5

Note: Comprehensive Income: As of June 30, 2016: △¥10,140 million (—%) As of June 30, 2015: ¥8,854 million (163.3%)

	Earnings per share	Fully diluted earnings per share
	(Yen)	(Yen)
Three months ended June 30, 2016	7.26	-
Three months ended June 30, 2015	16.03	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	(%)	(Yen)
Three months ended June 30, 2016	382,758	224,337	56.2	675.57
March 31, 2016	406,462	237,469	56.0	715.38

Reference: Shareholders' Equity: As of June 30, 2016: ¥215,027 million As of March 31, 2016: ¥227,700 million

### 2. Dividends

(Record date)	Dividends per share				
	First quarter (Yen)	Second quarter (Yen)	Third quarter (Yen)	Year-end (Yen)	Full year (Yen)
March 31, 2016	-	8.50	-	8.50	17.00
March 31, 2017	-	-	-	-	-
March 31, 2017 (Estimate)	-	8.50	-	8.50	17.00

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

### 3. Projected Consolidated Results for the Year ending March 31, 2017

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(yen)
Interim term	157,000	△9.9	10,000	△33.3	8,000	△49.0	5,000	△51.1	15.71
Full Year	319,000	△8.4	21,500	△29.4	19,500	△36.3	12,500	△5.3	39.27

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

C I T I Z E N   H O L D I N G S

**4. Others**

- (1) Change in significant subsidiaries during this period: None
- (2) Adoption of simplified accounting method and special accounting methods: None
- (3) Changes of accounting policies applied, procedures and disclosures
  - (i) Changes associated with revised accounting standards: None
  - (ii) Changes other than those in (i)above: Yes
  - (iii) Changes in accounting estimate:Yes
  - (iv) Restatements: None

Note: For details, please refer to Attached Documents “2. Other Information (3) Changes in accounting policies, changes in accounting estimates, and restatements” on page 6.

(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, 2016	330,353,809	March 31, 2016	330,353,809
(ii) Number of treasury stock at the end of term	June 30, 2016	12,061,337	March 31, 2016	12,060,890
(iii) Average number of common stocks	June 30, 2016	318,292,570	June30, 2015	322,993,692

*\* Information regarding the implementation of quarterly review procedures*

*These quarterly financial results are not subject to quarterly review procedures. Thus, at the time of disclosure of these financial results, the quarterly financial statement review procedures based on the Financial Instruments and Exchange Law, have not been completed.*

*\* 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 5 for assumptions underlying the above forecasts and precautions regarding their use.*

(Attached Documents)

○INDEX

<b>1. Qualitative information on the Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017</b> .....	<b>2</b>
(1) Qualitative data on the consolidated financial results .....	2
(2) Qualitative data on the consolidated financial position .....	5
(3) Qualitative data on the consolidated earnings forecasts .....	5
<b>2. Other Information</b> .....	<b>6</b>
(1) Important changes of subsidiaries during the term .....	6
(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements .....	6
(3) Changes in accounting policies, changes in accounting estimates, and restatements .....	6
(4) Additional information .....	6
<b>3. Consolidated Financial Statements</b> .....	<b>7</b>
(1) Consolidated Balance Sheet .....	7
(2) Consolidated Statement of Income and Consolidated Statements of Comprehensive Income .....	9
Consolidated Statement of Income .....	9
Consolidated Statements of Comprehensive Income .....	10
(3) Notes to the Consolidated Financial Statements .....	11
(Notes regarding going concern assumptions) .....	11
(Notes regarding significant changes in shareholders' equity accounts) .....	11
(Segment information) .....	11

## 1. Qualitative information on the Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017

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

During the first quarter of the consolidated fiscal year under review, the Japanese market remained sluggish due to the stronger yen, lower stock prices, and a decline in demand from inbound tourists since the beginning of the year. The U.S. economy has been unstable since the interest hike in December last year. Given these economic conditions and uncertainty over the presidential election this coming fall, the market has been sluggish. In Europe, the economic outlook remained uncertain, but the economic condition was stable. However, there is concern over the impact on the European market, the global economy and exchange rates of the U.K.'s decision to exit the EU. In Asia, the Chinese economy and economies in the ASEAN region are sluggish. The economic condition in the area remains challenging.

In this environment, the Citizen Group posted decreases in sales and profits in the first quarter under review. Net sales stood at 76.6 billion yen (down 8.4% year on year), and operating income was 4.6 billion yen (down 27.5% year on year). Ordinary income came to 2.7 billion yen (down 63.6% year on year), reflecting foreign exchange losses due to the rapid appreciation of the yen. Profit attributable to owners of parent was 2.3 billion yen (down 55.4% year on year).

### Watches

The share of CITIZEN brand GPS satellite wave watches in the domestic market expanded, aided by the expansion of the assortment and the effects of promotion plans, advertisements and publicity. However, given the market environment described above demand for watches is sluggish due to a decline in demand from inbound tourists, and revenues in the domestic market declined.

Revenues from overall overseas markets declined. The strong yen had a significant adverse effect on sales. In the North American market, the Company continued to struggle at major department stores. In the European market, reflecting strong sales at major department stores and a rise in prices due to the launch of GPS satellite wave watches in Germany. In the Asian market, there are recovered the sales in some areas, although the revenue declined due to slower sales resulting from weak consumption and a decline in spending by tourists in the ASEAN region.

Revenues from the BULOVA brand fell, reflecting a challenging situation due to weak sales at large department stores in the United States, the core market, and the bankruptcy of a jewelry chain in Canada.

Revenues from the Q&Q brand declined as major existing customers gave priority to inventory reduction due to a market downturn, although new products, including solar products, were launched to attract new customers.

Sales of movements continued to face a challenging situation due to the business downturn and weak consumption in China, sluggish sales of global fashion brand-name watches, and the appreciation of the yen, and revenues declined.

Operating income dropped significantly due to a decrease in sales and the stronger yen.

In May the Company entered into a share transfer agreement with Frederique Constant, which sells luxury

watches made in Switzerland. Frederique Constant is to be included in the Citizen Group's brand portfolio.

As a result of these developments, the watches segment posted a decrease in both sales and profits, with net sales of 37.2 billion yen (down 13.4% year-on-year) and operating income of 2.2 billion yen (down 49.2% year-on-year).

### **Machine Tools**

Revenues from the domestic market decreased due to the restraint of orders at some companies, primarily small and medium enterprises, in anticipation of manufacturing subsidies to be approved in June, and the restraint of capital expenditures at certain customers in the automotive industry.

In the Americas, sales in medical services remained strong, but orders slowed down in other industries. Overall, revenues in the market declined.

Revenues from the European market was roughly flat from a year ago, reflecting strong sales in Germany and Italy, key markets.

The Asian market appeared to have bottomed out, although it fell short of constant recovery. Revenues from the market increased significantly, reflecting strong sales in the communications and automobile industries in China and the significant contribution of sales mainly of products related to PC components in East Asia.

Operating income rose significantly due to an increase in sales and a rise in factory utilization resulting primarily from a significant increase unit sales in Asia.

As a result, the machine tool segment posted growth in both sales and profits, with net sales of 12.9 billion yen (up 5.8% year on year) and operating income of 1.9 billion yen (up 59.5% year on year).

### **Devices and Components**

New orders for automobile components, among other precision machining components, increased steadily, although domestic sales of new vehicles continued to face a challenging situation. New orders also expanded overseas. Sales of smartphone switches, primarily to customers in Asia, remained strong. Sales of application products, which the Group launched last year, declined with the slowdown in demand. Overall revenues from precision machining components decreased.

In terms of opto-devices, sales of LED chips continued to expand primarily in the Japanese and European markets despite intensifying competition in prices and performance, especially in the LED lighting chips market. Of LED chips other than those for lighting, sales of automotive LED chips and LED chips for game machines were steady. New back light products launched in the second half of last year contributed to sales, but sales of unit products for smartphones declined. Overall revenues from opto-devices declined due to the stronger yen.

Among other parts, sales of quartz crystals and ferroelectric micro LCDs, main products, remained weak. However, overall revenues for other parts were on a par with the year-ago level.

Despite strong sales of key products, operating income in this segment declined due to a decrease in sales and the stronger yen.

As a result of these developments, the devices and components segment recorded a decrease in both sales and profits, with net sales of 18.3 billion yen (down 7.5% year-on-year) and an operating income of 1.1 billion yen (down 30.4% year-on-year).

**Electronic Products**

In the information equipment sector, sales of large printers were strong, reflecting an increase in demand associated with changes to the tax system in China, but sales of POS printers and label printers were affected by adjustments at customers in certain areas. Overall revenues for information equipment were on a par with the year-earlier level.

Revenues from healthcare equipment declined, given sluggish sales overseas linked to the deterioration in market conditions in each area, despite strong sales, primarily of blood-pressure monitors, in the domestic market.

Despite a decrease in sales, operating income increased thanks to cost cutting.

As a result of these developments, the electronic products segment on the whole recorded a decrease in sales but an increase in profits, with net sales of 5.5 billion yen (down 2.9% year-on-year) and operating income of 0.1 billion yen (compared with an operating income of 0.0 billion yen in the same period of the previous fiscal year).

**Other Products**

Consumers' motivation to buy jewelry products, key products, remained weak from the start of the year, when share prices plummeted. The Group plans to withdraw from the pachinko-related products business and reduced sales in this area. As a result, overall revenues in this segment declined.

Thanks to the downsizing of the pachinko-related products business, which continued to be in the red, operating income in the other products segment moved into the black.

As a result of these developments, the other product segment recorded a decrease in sales and an increase in profits, with net sales of 2.5 billion yen (down 10.2% year-on-year) and operating income of 0.0 billion yen (compared with an operating loss of 0.1 billion yen in the same period of the previous fiscal year)

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

As of the end of the first quarter of the consolidated fiscal year under review, assets fell by 23.7 billion yen from the end of the previous fiscal year, to 382.7 billion yen. Current assets declined by 19.5 billion yen mainly because of a 9.2 billion yen decrease in notes and accounts receivable – trade and an 8.4 billion yen decline in cash and deposits. Non-current assets decreased by 4.1 billion yen, primarily reflecting decreases of 3.4 billion yen in investment securities and 1.2 billion yen in buildings and structures, despite an increase of 1.2 billion yen in construction in progress.

Liabilities declined by 10.5 billion yen from the end of the previous fiscal year, to 158.4 billion yen. This decrease in liabilities mainly reflected declines of 9.5 billion yen in short-term loans payable, 2.2 billion yen in accrued expenses, and 1.6 billion yen in income taxes payable, while provision for bonuses and notes and accounts payable – trade increased 3.2 billion yen and 3.1 billion yen, respectively.

Net assets decreased by 13.1 billion yen, to 224.3 billion yen, mainly due to decreases of 10.0 billion yen in foreign currency translation adjustment and 1.8 billion yen in valuation difference on available-for-sale securities.

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

Regarding the forecast for the consolidated operating results for the interim term and full term for the year ending March 31, 2017, given the worsening market environment for watches and clocks in addition to the unexpected strength of the yen, the results are expected to fall below the previous forecast and thus the financial forecasts have been revised.

Please note that we assume exchange rates of 100 yen against the U.S. dollar and 110 yen against the euro from the second quarter of this fiscal year.

For details, please refer to the “notice of a revision to consolidated operating results forecasts” published on August 12, 2016.

## **2. Other Information**

### **(1) Important changes of subsidiaries during the term**

Not applicable.

### **(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements**

Not applicable.

### **(3) Changes in accounting policies, changes in accounting estimates, and restatements**

Change in accounting policy that is difficult to distinguish from change in accounting estimates  
(Change in depreciation method for property, plant and equipment)

In the depreciation of property, plant and equipment, the Company and its domestic consolidated subsidiaries employed primarily the declining-balance method, and its overseas consolidated subsidiaries employed the straight-line method. Starting the first quarter of the consolidated fiscal year under review, the Company and its domestic consolidated subsidiaries are also employing the straight-line method.

In February 2013, the Company formulated Citizen Global Plan 2018, a medium-term management plan, the final year of which is the fiscal year ending March 31, 2019, and has carried out structural reform to reorganize its plants. We now expect stable operations of facilities for the long term and have determined that the straight-line method will enable us to reflect our actual condition more properly in the depreciation of property, plant and equipment.

Because of this change, operating income in the first quarter under review has increased 475 million yen, and ordinary income and income before income taxes have increased 480 million yen.

### **(4) Additional Information**

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Starting the first quarter of the consolidated fiscal year under review, we are applying the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).



## 3. Consolidated Financial Statements

## (1) Consolidated Balance Sheet

(Unit: Millions of yen)

	As of March 31, 2016	As of June 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	99,371	90,885
Notes and accounts receivable - trade	63,061	53,849
Electronically recorded monetary claims - operating	885	910
Merchandise and finished goods	53,328	51,061
Work in process	18,736	18,730
Raw materials and supplies	17,099	16,180
Consumption taxes receivable	2,755	1,384
Deferred tax assets	8,609	9,077
Other	8,034	9,700
Allowance for doubtful accounts	△1,301	△754
<b>Total current assets</b>	<b>270,551</b>	<b>251,025</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,113	32,816
Machinery, equipment and vehicles, net	21,023	21,155
Tools, furniture and fixtures, net	5,657	5,674
Land	10,904	10,737
Leased assets, net	1,175	1,142
Construction in progress	5,570	6,833
<b>Total property, plant and equipment</b>	<b>78,443</b>	<b>78,359</b>
Intangible assets		
Goodwill	2,097	1,832
Software	2,462	2,709
Leased assets	14	13
Other	1,953	1,505
<b>Total intangible assets</b>	<b>6,529</b>	<b>6,060</b>
Investments and other assets		
Investment securities	40,366	36,884
Long-term loans receivable	1,130	1,080
Deferred tax assets	5,886	5,812
Other	5,594	3,871
Allowance for doubtful accounts	△1,901	△196
Allowance for investment loss	△138	△138
<b>Total investments and other assets</b>	<b>50,938</b>	<b>47,314</b>
<b>Total non-current assets</b>	<b>135,911</b>	<b>131,733</b>
<b>Total assets</b>	<b>406,462</b>	<b>382,758</b>

## CITIZEN HOLDINGS

(Unit: Millions of yen)

	As of March 31, 2016	As of June 30, 2016
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	19,589	22,737
Electronically recorded obligations - operating	13,564	15,546
Notes payable - facilities	376	253
Electronically recorded obligations - non-operating	885	522
Short-term loans payable	17,444	7,864
Income taxes payable	3,679	2,027
Deferred tax liabilities	120	2
Accrued expenses	14,655	12,440
Provision for bonuses	6,335	9,565
Provision for directors' bonuses	162	-
Provision for product warranties	1,011	968
Provision for environmental measures	11	-
Provision for loss on business restructuring	4,369	3,878
Other	9,697	6,751
<b>Total current liabilities</b>	<b>91,901</b>	<b>82,559</b>
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term loans payable	30,000	30,000
Deferred tax liabilities	2,067	814
Provision for loss on guarantees	28	28
Provision for environmental measures	65	65
Provision for loss on business restructuring	1,663	1,658
Net defined benefit liability	21,139	21,135
Asset retirement obligations	97	97
Other	2,031	2,061
<b>Total non-current liabilities</b>	<b>77,091</b>	<b>75,861</b>
<b>Total liabilities</b>	<b>168,993</b>	<b>158,421</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	32,648	32,648
Capital surplus	33,969	33,969
Retained earnings	159,684	159,290
Treasury shares	△10,400	△10,400
<b>Total shareholders' equity</b>	<b>215,903</b>	<b>215,508</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,413	5,514
Deferred gain or loss on hedges	-	△455
Foreign currency translation adjustment	5,756	△4,264
Remeasurements of defined benefit plans	△1,372	△1,275
<b>Total accumulated other comprehensive income</b>	<b>11,797</b>	<b>△481</b>
Non-controlling interests	9,768	9,310
<b>Total net assets</b>	<b>237,469</b>	<b>224,337</b>
<b>Total liabilities and net assets</b>	<b>406,462</b>	<b>382,758</b>

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

Consolidated Statement of Income (Three months ended June 30, 2016)

(Unit: Millions of yen)

	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)
<b>Net sales</b>	<b>83,690</b>	<b>76,659</b>
Cost of sales	51,967	47,874
Gross profit	31,723	28,785
Selling, general and administrative expenses	25,372	24,181
<b>Operating income</b>	<b>6,350</b>	<b>4,603</b>
Non-operating income		
Interest income	88	79
Dividend income	403	385
Foreign exchange gains	520	-
Share of profit of entities accounted for using equity method	167	138
Other	251	118
Total non-operating income	1,431	721
Non-operating expenses		
Interest expenses	118	120
Foreign exchange losses	-	2,294
Other	46	139
Total non-operating expenses	164	2,554
<b>Ordinary income</b>	<b>7,617</b>	<b>2,770</b>
Extraordinary income		
Gain on sales of investment securities	188	787
Gain on sales of non-current assets	64	4
Other	16	14
Total extraordinary income	268	806
Extraordinary losses		
Loss on retirement of non-current assets	58	11
Loss on sales of non-current assets	4	3
Other	11	45
Total extraordinary losses	73	61
<b>Income before income taxes</b>	<b>7,812</b>	<b>3,516</b>
Income taxes	2,500	1,169
Net income	5,312	2,346
Profit attributable to non-controlling interests	133	35
<b>Profit attributable to owners of parent</b>	<b>5,178</b>	<b>2,311</b>

## CITIZEN HOLDINGS

## Consolidated Statements of Comprehensive Income (Three months ended June 30, 2016)

(Unit: Millions of yen)

	Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)	Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)
Net income	5,312	2,346
Other comprehensive income		
Valuation difference on available-for-sale securities	1,207	△1,898
Deferred gain or loss on hedges	-	△455
Foreign currency translation adjustment	2,243	△9,977
Remeasurement of defined benefit plans	46	98
Share of other comprehensive income of entities accounted for using equity method	44	△254
Total other comprehensive income	3,542	△12,487
Comprehensive income	8,854	△10,140
(Breakdown)		
Comprehensive income attributable to owners of parent	8,660	△9,971
Comprehensive income attributable to non-controlling interests	193	△169

**(3) Notes to the Consolidated Financial Statements**

(Notes regarding going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Not applicable

(Segment Information)

(i) Three months ended June 30, 2015 (April 1, 2015 to June 30, 2015)  
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)	Consolidated totals (Note 2)
Net sales								
Customers	43,081	12,233	19,861	5,723	2,790	83,690	-	83,690
Inter-segment	43	61	726	87	177	1,097	△1,097	-
Total	43,125	12,295	20,588	5,810	2,967	84,787	△1,097	83,690
Segment profit or loss	4,501	1,228	1,707	0	△108	7,329	△978	6,350

(Notes)

1. The 978 million yen negative adjustment to segment income (operating income) includes 57 million yen in inter-segment eliminations and 1,035 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits and losses are adjusted with operating income on the consolidated financial statements.

(ii) Three months ended June 30, 2016 (April 1, 2016 to June 30, 2016)  
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)	Consolidated totals (Note 2)
Net sales								
Customers	37,291	12,939	18,368	5,555	2,504	76,659	-	76,659
Inter-segment	44	252	602	23	196	1,120	△1,120	-
Total	37,335	13,192	18,970	5,579	2,701	77,779	△1,120	76,659
Segment profit	2,286	1,959	1,188	114	52	5,600	△996	4,603

(Notes)

1. The 996 million yen negative adjustment to segment income (operating income) includes 3 million yen in inter-segment eliminations and 1,000 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits are adjusted with operating income on the consolidated financial statements.
3. Change related to segment information

(Change in depreciation method for property, plant and equipment)

As described in Changes in accounting policies, the Company and its domestic consolidated subsidiaries principally employed the declining-balance method, while its overseas consolidated subsidiaries mainly used the straight-line method in the depreciation of property, plant and equipment. Starting the first quarter of the consolidated fiscal year under review, the Company and its domestic consolidated subsidiaries are also employing the straight-line method. Because of this change, segment income in the first quarter under review rose 243 million yen in the watches segment, 150 million yen in the devices and components segment, 13 million yen in the electronic products segment, and 2 million yen in the other products segment.