



CITIZEN WATCH

Consolidated Financial Statements
for the Three Months Ended June 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)

August 8, 2019

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: -

Scheduled release of fiscal 2019 Quarterly Business Report: August 9, 2019

Listings: First section of Tokyo Stock Exchange

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

1. Results for the Three months ended June 30, 2019 (April 1, 2019 to June 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
Three months ended June 30, 2019	69,916 (6.2)	1,815 (59.9)	2,018 (66.1)	910 (76.8)
Three months ended June 30, 2018	74,505 2.5	4,525 18.5	5,948 30.8	3,923 47.9

Note: Comprehensive income:

Three months ended June 30, 2019: ¥ (2,851) million (-%)

Three months ended June 30, 2018: ¥ 4,809 million (-21.7%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Three months ended June 30, 2019	2.87	-
Three months ended June 30, 2018	12.33	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Three months ended June 30, 2019	408,336	260,347	61.3%	793.42
March 31, 2019	413,911	267,547	62.2%	808.87

Reference: Shareholders' Equity:

As of June 30, 2019: ¥ 250,430 million

As of March 31, 2019: ¥ 257,449 million

2. Dividends

	Dividends per share (Yen)				
	End of the three-month period	End of the six-month period	End of the nine-month period	End of the year	Full year
March 31, 2019	-	10.00	-	10.00	20.00
March 31, 2020	-				
March 31, 2020(E)		12.00	-	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		Profit attributable to owners of parent		Earnings per share (Yen)
Interim term	146,300	(5.3%)	7,200	(34.3%)	7,500	(42.9%)	5,000	(40.3%)	15.84
Full term	305,000	(5.2%)	16,000	(28.6%)	18,000	(32.3%)	11,500	(14.0%)	36.44

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: 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)	June 30, 2019	320,353,809	March 31, 2019	320,353,809
(ii) Number of treasury stock at the end of term	June 30, 2019	4,719,441	March 31, 2019	2,070,969
(iii) Average number of common stocks	June 30, 2019	317,643,589	June 30, 2018	318,285,067

** The consolidated financial statements are not included in the scope of the audit.*

** Explanation about the proper use of financial forecasts and other important notes*

Statements above relating to financial forecasts are based on information available to the Company and certain assumptions the Company considers reasonable as of the date of the announcement of these statements. Actual results may differ materially from these forecasts, depending on a variety of factors.

Please refer to the attached "Qualitative data on the consolidated earnings forecasts" on page 7 for assumptions underlying the above forecasts and precautions regarding their use.

(Attached Documents)

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1. Qualitative Information on the Consolidated Financial Results for the Three Months Ended June 30, 2019

(1) Qualitative data on the consolidated financial results

During the first quarter of the consolidated fiscal year under review, the Japanese economy continued to face growing concerns about the future, given political risks overseas and uncertain economic trends. In the United States, meanwhile, attention continued to be paid to the issue of trade with other countries, and signs of a slowdown in capital expenditures appeared. On the other hand, the European economy continued to show signs of slowing due to higher instability in trade and political uncertainty. As Chinese economic growth appeared to have weakened, the Asian economy also lost momentum.

In this environment, the Citizen Group's consolidated results for the fiscal year under review showed a decrease in sales of 69.9 billion yen (down 6.2% year on year) and operating profit of 1.8 billion yen (down 59.9% year on year), due in part to a decline in its core businesses, Watches and Machine Tools. Ordinary profit and profit attributable to owners of parent decreased to 2.0 billion yen (down 66.1% year on year) and 0.9 billion yen (down 76.8% year on year).

Watches

In the domestic market, CITIZEN brand watches showed growth, mainly driven by luxury items, such as The CITIZEN and Eco-Drive One. Mid-range products, such as xC and PROMASTER, steadily increased sales. The commemorative launch of Japan National Rugby Team models contributed to total sales, resulting in increased revenues.

In the overseas market, the North American market fared better in mainstay mid-range men's and women's products, but failed to compensate for the impact of the further restructuring of brick-and-mortar stores. In the European market, the Citizen Group continued to face challenges because of increased concern over political uncertainty and sluggish growth for individual consumption. A decline in revenues was registered in these markets. In the Asian market, despite steady results in Hong Kong and Thailand, sales remained sluggish due to concerns about the future of Chinese economy, resulting in a decline in revenues.

In the multiple brand segment, revenues from the BULOVA brand declined because it failed to offset a decrease due to slumping sales in department stores and jewelry chains, and the restructuring of brick-and-mortar stores from growing sales on the Internet.

Sales of movements declined, reflecting sluggish demand for high value-added products continuing to face tough conditions characterized by a weak market recovery.

As a result, the watches segment posted a decline in sales with net sales of 33.5 billion yen (down 6.5% year on year), due to sluggish sales mainly in overseas markets despite expansion of sales through aggressive launch of new products and accelerated investment in advertising and slower growth of movements. Operating profit decreased to 0.6 billion yen (down 71.6% year on year) largely due to poor sales of movements despite sales growth of high-end products that were promoted as one of the priority measures.

Machine Tools

In the domestic market, revenues decreased due to weak demand for semiconductors and a decline in demand for automobile-related products primarily in China.

In overseas markets, capital expenditures were increasingly postponed amid growing concern about the impact of trade friction between the US and China, and revenues in Europe declined. In the Americas, revenues remained steady because of focus on medical-related industries, from which a relatively stable demand is expected. In the Asian market, although revenues from medical-related products remained steady in China, revenues remained stable due to slumping market mainly in ASEAN.

As a result, the machine tools segment as a whole posted a decline in sales to 15.7 billion yen (down 7.8% year on year) and operating profit to 2.6 billion yen (down 17.8% year on year), because of a cautious stance toward capital expenditures in Japan and overseas. The Group promoted sales of machines equipped with low frequency vibration (LFV) cutting, the Group's unique technology, but sales suffered due in part to a reaction from the previous year, when sales were strong.

Devices and Components

With respect to auto parts, among other precision machining components, sales continued to be low due to a decline in new vehicle sales following falls in new vehicle sales in China and Europe. On the other hand, although sales of switches grew due to adaption in new models, they were insufficient to offset the declines, resulting in an overall loss in the precision machining components.

In terms of opto-devices, with respect to LED chips, the Company focused on profitability, rather than pursuing price amid intensifying price competition of LED chips for lighting products. The total revenues from opto-devices declined due to decreased sales of back light units.

Sales of quartz devices, among other products, remained sluggish because of slower growth in the smartphone market, and sales of ferroelectric micro LCDs decreased, affected by the narrowing of the digital camera market.

As a consequence, the devices and components segment recorded a decrease in sales with 14.5 billion yen (down 6.6% year on year) due to a fall in sales mainly of opto-devices. Operating profit decreased to 0.3 billion yen (down 51.1% year on year), due to failure to offset the decrease in sales in the sales strategy with a focus on profitability.

Electronic Products

Among information equipment, sales of media and the main bodies of photo printers led total sales, despite a decline in sales of POS printers and barcode printers. Consequently, revenues in the overall information equipment sector grew.

Revenues from healthcare products decreased, reflecting a sluggish domestic market in Japan and unfavorable export to South America in the overseas market.

As a result, the electronics products segment overall recorded decreases in sales and profits, with net sales of 4.5 billion yen (down 0.9% year on year) and operating loss of 0 billion yen (a 0 billion yen operating loss in the same period last year), reflecting slumping sales of healthcare products, despite favorable sales of photo printers.

Other Products

Revenues from jewelry products increased, reflecting growth in sales of mainstay wedding rings with the enhancement of bridal sales as well as steady sales in exhibition and favorable wholesale.

As a result, the other products segment posted increases in sales and profits with net sales of 1.5 billion yen (up 9.8% year on year) and operating profit of 0.1 billion yen (up 218.5% year on year), mainly reflecting a recovery in jewelry products.

(2) Qualitative data on the consolidated financial position

Total assets at the end of the first quarter under review stood at 408.3 billion yen, down 5.5 billion yen from the end of the previous consolidated fiscal year. Current assets decreased by 6.2 billion yen, reflecting a 7.1 billion yen decrease in notes and accounts receivable – trade and a 5.8 billion yen decrease in cash and deposits, partially offset by a 5.3 billion yen increase in inventories. Non-current assets increased by 0.6 billion yen, reflecting a 1.8 billion yen increase in machinery, equipment and vehicles, a 0.4 billion yen increase in tools, furniture and fixtures and a 0.4 billion yen increase in buildings and structures, partially offset by a 2.1 billion yen decrease in construction in progress.

Liabilities totaled 147.9 billion yen, up 1.6 billion yen from the end of the preceding consolidated fiscal year, reflecting a 3.0 billion yen increase in provision for bonuses, a 1.0 billion yen increase in notes and accounts payable – trade, partially offset by a 1.3 billion yen decrease in electronically recorded obligations – operating and a 0.9 billion yen decrease in income taxes payable.

Net assets decreased by 7.2 billion yen to 260.3 billion yen, reflecting a 2.9 billion yen decrease in foreign currency translation adjustment account, a 1.9 billion yen decrease in retained earnings, a 1.3 billion yen increase in treasury stocks resulting from treasury stock repurchases.

(3) Qualitative data on the consolidated earnings forecasts

A downward revision has been made to the six-month and full-year forecasts for the consolidated fiscal year ending March 31, 2020, primarily due to the deterioration in market conditions for watches and machine tools in addition to the unexpected strength of the yen. Internal currency exchange rates for budgeting purposes have been set at ¥105/US\$ and ¥120/EUR from the second quarter.

Revision to the consolidated the six-month earnings forecasts for the fiscal year ending September 30, 2019

(From April 1, 2019 to September 30, 2019)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share
Forecasts announced before (A)	million yen 152,000	million yen 9,000	million yen 10,000	million yen 7,000	yen 21.99
Revised forecasts (B)	146,300	7,200	7,500	5,000	15.84
Change (B-A)	(5,700)	(1,800)	(2,500)	(2,000)	-
Rate of change (%)	(3.8)	(20.0)	(25.0)	(28.6)	-
(Reference) Results for the half year ended September 30, 2018	154,406	10,959	13,133	8,375	26.32

Revision to the consolidated full-year earnings forecasts for the fiscal year ending March 31, 2020

(From April 1, 2019 to March 31, 2020)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share
Forecasts announced before (A)	million yen 318,000	million yen 20,000	million yen 22,000	million yen 14,500	yen 45.56
Revised forecasts (B)	305,000	16,000	18,000	11,500	36.44
Change (B-A)	(13,000)	(4,000)	(4,000)	(3,000)	-
Rate of change (%)	(4.1)	(20.0)	(18.2)	(20.7)	-
(Reference) Results for the year ended March 31, 2019	321,652	22,411	26,602	13,369	42.00

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

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	86,875	80,982
Notes and accounts receivable - trade	64,139	57,000
Electronically recorded monetary claims - operating	1,225	1,028
Merchandise and finished goods	55,614	58,448
Work in process	22,982	23,841
Raw materials and supplies	19,605	21,236
Consumption taxes receivable	3,131	1,447
Other	6,522	9,634
Allowance for doubtful accounts	(1,111)	(843)
Total current assets	258,985	252,776
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,496	42,957
Machinery, equipment and vehicles, net	22,685	24,499
Tools, furniture and fixtures, net	7,364	7,833
Land	10,326	10,346
Leased assets, net	1,360	1,647
Construction in progress	5,437	3,313
Total property, plant and equipment	89,669	90,597
Intangible assets		
Software	4,402	4,373
Leased assets	7	6
Other	4,323	4,074
Total intangible assets	8,732	8,455
Investments and other assets		
Investment securities	39,974	39,047
Long-term loans receivable	942	993
Deferred tax assets	11,847	12,772
Other	4,050	3,982
Allowance for doubtful accounts	(268)	(266)
Allowance for investment loss	(23)	(23)
Total investments and other assets	56,524	56,507
Total non-current assets	154,926	155,560
Total assets	413,911	408,336

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	20,496	21,562
Electronically recorded obligations - operating	14,896	13,590
Notes payable - facilities	246	392
Electronically recorded obligations - non-operating	859	1,111
Short-term borrowings	13,987	14,625
Income taxes payable	2,139	1,182
Accrued expenses	13,395	12,730
Provision for bonuses	5,712	8,762
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	477
Other	7,846	7,929
Total current liabilities	81,741	83,638
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	27,077	26,580
Deferred tax liabilities	791	635
Provision for loss on reorganization	816	816
Retirement benefit liability	23,328	23,448
Asset retirement obligations	74	74
Other	2,534	2,795
Total non-current liabilities	64,622	64,351
Total liabilities	146,363	147,989
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	34,019	34,019
Retained earnings	181,995	180,085
Treasury shares	(1,773)	(3,150)
Total shareholders' equity	246,889	243,603
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,111	7,339
Foreign currency translation adjustment	3,303	328
Remeasurements of defined benefit plans	(855)	(841)
Total accumulated other comprehensive income	10,559	6,826
Non-controlling interests	10,098	9,917
Total net assets	267,547	260,347
Total liabilities and net assets	413,911	408,336

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

Consolidated Statement of Income for the three months ended June 30, 2019

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	74,505	69,916
Cost of sales	45,530	43,682
Gross profit	28,975	26,233
Selling, general and administrative expenses	24,449	24,417
Operating profit	4,525	1,815
Non-operating income		
Interest income	109	118
Dividend income	513	406
Share of profit of entities accounted for using equity method	271	321
Foreign exchange gains	502	—
Other	162	246
Total non-operating income	1,560	1,093
Non-operating expenses		
Interest expenses	78	120
Foreign exchange losses	—	650
Other	59	120
Total non-operating expenses	137	890
Ordinary profit	5,948	2,018
Extraordinary income		
Gain on sales of non-current assets	6	22
Other	0	10
Total extraordinary income	7	32
Extraordinary losses		
Loss on retirement of non-current assets	47	105
Loss on sales of non-current assets	0	1
Reorganization cost	45	203
Loss on valuation of investment securities	—	0
Special compliance expense, etc.	75	—
Other	80	46
Total extraordinary losses	249	358
Profit before income taxes	5,705	1,692
Income taxes	1,653	733
Profit	4,052	959
Profit attributable to non-controlling interests	128	48
Profit attributable to owners of parent	3,923	910

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Consolidated Statement of Comprehensive Income for the three months ended June 30, 2019

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit	4,052	959
Other comprehensive income		
Valuation difference on available-for-sale securities	(418)	(772)
Foreign currency translation adjustment	1,031	(2,953)
Remeasurements of defined benefit plans, net of tax	33	14
Share of other comprehensive income of entities accounted for using equity method	111	(100)
Total other comprehensive income	757	(3,811)
Comprehensive income	4,809	(2,851)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,657	(2,822)
Comprehensive income attributable to non-controlling interests	151	(29)

(3) 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 2,647,800 own shares based on the resolution at the meeting of the board of directors held on May 28, 2019. As a result, the amount of treasury stock increased by 1,375 million yen during the first quarter of the consolidated fiscal year under review, to a total of 3,150 million yen at the end of the quarter.

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

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic Products	Other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales								
Customers	35,838	17,115	15,575	4,583	1,393	74,505	-	74,505
Inter-segment	25	391	520	25	232	1,194	(1,194)	-
Total	35,863	17,506	16,095	4,609	1,625	75,700	(1,194)	74,505
Segment profit or loss	2,396	3,193	700	(42)	38	6,286	(1,760)	4,525

(Notes)

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

(ii) Three months ended June 30, 2019 (April 1, 2019 to June 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	33,522	15,772	14,549	4,542	1,529	69,916	-	69,916
Inter-segment	25	293	457	16	196	989	(989)	-
Total	33,547	16,065	15,006	4,558	1,726	70,905	(989)	69,916
Segment profit or loss	681	2,626	342	(52)	123	3,721	(1,905)	1,815

(Notes)

1. The 1,905 million yen negative adjustment to segment income (Operating profit) includes 42 million yen in inter-segment eliminations and 1,862 million yen in corporate expenses that could not be allocated to a particular segment.
2. Segment profits are adjusted with Operating profit on the consolidated financial statements.