

August 10, 2018

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2018

### Financial Highlights

For the three months ended June 30, 2018 (1Q FY2018)

	1Q FY2018		1Q FY2017
	Millions of yen	Millions of US dollars	Millions of yen
Net sales	<b>59,367</b>	537.1	63,472
Operating profit	<b>2,431</b>	22.0	2,717
Ordinary profit	<b>3,463</b>	31.3	3,111
Profit attributable to owners of parent	<b>3,068</b>	27.8	1,199
Earnings per share (yen/USD)	<b>¥ 74.45</b>	US\$ 0.67	¥ 29.09
	June 30, 2018		March 31, 2018
Total assets	<b>304,967</b>	2,758.9	305,297
Net assets	<b>108,657</b>	983.0	105,170

Note1: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 110.54 yen/dollar.

Note2: The Company has conducted share consolidation by which five common shares have been consolidated into one share on October 1, 2017. Earnings per share results represent figures on the presumption that said share consolidation is performed at the beginning of the previous consolidated fiscal year (FY2017).

### Business Results

#### 1. Overview

During the three-month period ended June 30, 2018, in the world economy, the U.S. economy saw robust personal consumption backed by a stable employment environment, and the European economy continued to see gradual expansion. Chinese and Asian economies remained steady. However, the outlook for the world economy continues to require careful attention, including monitoring the development of trade friction issues between the U.S. and China, which is providing new grounds for concern.

Meanwhile, the Japanese economy continued on a gradual recovery track due to improvement in the employment situation and other factors.

For the three-month period ended June 30, 2018, the Company reported consolidated net sales of 59.3 billion yen, a year-on-year decrease of only 4.1 billion yen, or 6.5%, despite the impact of the exclusion of the semiconductor business from the scope of consolidation. On a per-segment basis,

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sales under the Watches Business and the Systems Solutions Business grew compared to the same period of the previous fiscal year. On an overall consolidated basis, domestic net sales came to 33.8 billion yen (a year-on-year decrease of 0.2%), and overseas net sales were 25.5 billion yen (a year-on-year decrease of 13.7%). Overseas net sales comprised 43.0% of net sales overall.

In terms of income as well, operating income decreased only 0.2 billion yen compared to the same period of the previous fiscal year to 2.4 billion yen (a year-on-year decrease of 10.5%), despite the impact of the exclusion of the semiconductor business from the scope of consolidation. Ordinary profit increased by 0.3 billion yen compared to the same period of the previous fiscal year to become 3.4 billion yen (a year-on-year increase of 11.3%), due to improvement in non-operating income and expenses mainly owing to an increase in share of profit of entities accounted for using equity method. Extraordinary income of 0.1 billion yen was posted, and profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests was 3.0 billion yen (a year-on-year increase of 155.9%).

## 2. Results by Segment

Results for each segment are as follows:

### a. Watches Business

Net sales under the Watches Business came to 33.8 billion yen, a year-on-year increase of 2.1 billion yen, or 6.7%. Net sales of watches in Japan increased year on year, driven by strong performance of the Grand Seiko and Prospex continuing on from the previous fiscal year and favorable sales of new products for the ladies' Lukia, despite sluggish sales for some products in the affordable price range. On a distribution channel basis, sales to department stores, independent stores, Internet vendors and others grew from the same period of the previous fiscal year. On the overseas front, net sales increased year on year in all regions on a local currency basis, including the U.S., Europe, and Asia. Sales expanded particularly in Asia, mainly in the Chinese market. Net sales of watch movements were down year on year owing to sluggish sales mainly for high value-added products.

With regard to income, operating income rose 1.1 billion yen year on year to 2.6 billion yen, an increase of 82.5%, due to an increase in net sales as well as the effects of cost-reduction efforts carried out in the previous fiscal year.

### b. Electronic Devices Business

Net sales under the Electronic Devices Business came to 14.1 billion yen, a year-on-year decrease of 7.4 billion yen, or 34.6%. Operating income was 0.6 billion yen, a year-on-year decrease of 1.4 billion yen, or 69.2%. Excluding the impact of the exclusion of the semiconductor business from the scope of consolidation, both income and earnings were up compared to the same period of the

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previous fiscal year, due to the favorable performance of products including thermal mini printer mechanisms and precision components.

## **c. Systems Solutions Business**

Net sales under the Systems Solutions Business came to 7.4 billion yen, a year-on-year increase of 1.2 billion yen, or 19.9%. Operating income was 0.5 billion yen, a year-on-year increase of 0.2 billion yen, or 88.7%. The rise in net sales was driven by the mobile solutions business and others.

## **d. Others**

Net sales under Others amounted to 6.2 billion yen, a year-on-year increase of 0.3 billion yen, or 5.4%. Operating losses were 0.1 billion yen, compared to operating losses of 5 million yen for the same period of the previous fiscal year. Net sales grew steadily, mainly for the Wako Business.

## **3. Financial Condition**

### **-Assets**

Total assets at the close of the three-month period ended June 30, 2018 amounted to 304.9 billion yen, a decrease of 0.3 billion yen from the close of the previous fiscal year. Total current assets came to 137.2 billion yen, a decrease of 0.9 billion yen from the close of the previous fiscal year. This was due to an increase of 3.4 billion yen in inventories, offsetting decreases of 3.5 billion yen in cash and deposits and 2.2 billion yen in notes and accounts receivable - trade. Under non-current assets, decreases of 0.5 billion yen in property, plant and equipment and 0.2 billion yen in intangible assets were offset by an increase of 1.4 billion yen in investments and other assets, resulting in total non-current assets of 167.6 billion yen, an increase of 0.6 billion yen relative to the close of the previous fiscal year.

### **-Liabilities**

For liabilities, total loans came to 108.3 billion yen, due to an increase of 1.4 billion yen in short-term loans payable, and decreases of 1.2 billion yen in current portion of long-term loans payable and 3.4 billion yen in long-term loans payable. In addition, notes and accounts payable - trade increased by 2.4 billion yen, while accounts payable - other decreased by 3.7 billion yen. As a result, total liabilities amounted to 196.3 billion yen, a decrease of 3.8 billion yen from the close of the previous fiscal year.

### **-Net assets**

With regard to net assets, total net assets increased by 3.4 billion yen over the close of the previous fiscal year to become 108.6 billion yen, owing to increases of 1.5 billion yen in shareholders' equity mainly due to posting of profit attributable to owners of parent and 1.9 billion yen in total accumulated other comprehensive income mainly resulting from an increase in valuation difference on available-for-sale securities.

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## 4. Outlook for the Year Ending March 31, 2019

As noted above, business performance was robust during the three-month period ended June 30, 2018, and there are no changes to the consolidated business results forecast for the year ending March 31, 2019 (FY2018). Note that the business results forecast is based on assumed exchange rates of 105 yen to 1 US dollar and 125 yen to 1 euro from the second quarter onward.

### ■ Forecast for the consolidated business results for the year ending March 31, 2019 (FY2018)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	250.0	93.1
Operating profit	8.0	73.8
Ordinary profit	9.0	82.5
Profit attributable to owners of parent	6.5	56.3
Earnings per share (yen)	JPY 157.71	

### ■ Forecasted results by segment for the year ending March 31, 2019 (FY2018)

	Net Sales (Billions of yen)	Operating Profit (Billions of yen)
Watches Business	140.0	9.0
Electronic Devices Business	60.0	2.0
Systems Solutions Business	29.0	2.0
Total for all business segments	229.0	13.0
Others	30.0	0.5
Consolidated total	250.0	8.0

Note: Consolidated total represents figures after consolidation adjustment such as the elimination of inter-segment sales.

*The forecasted results which appear in this report have been prepared based solely on the information which was available to us as of the date on which the report was released. As a result, actual results may differ from the forecasted figures due to a number of factors, such as changes in the business environment in the future.*

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## Balance Sheets

(Millions of yen)

	As of June 30, 2018	As of March 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	30,632	34,229
Notes and accounts receivable - trade	35,879	38,109
Inventories	60,509	57,011
Accounts receivable - other	3,771	3,537
Other	7,736	6,589
Allowance for doubtful accounts	(1,244)	(1,206)
Total current assets	137,283	138,271
Non-current assets		
Property, plant and equipment		
Buildings and structures	72,593	72,303
Machinery, equipment and vehicles	80,019	80,147
Tools, furniture and fixtures	30,610	30,419
Other	1,790	1,766
Accumulated depreciation	(146,151)	(145,116)
Land	49,165	49,199
Construction in progress	907	779
Total property, plant and equipment	88,935	89,498
Intangible assets		
Goodwill	8,935	9,149
Other	8,835	8,887
Total intangible assets	17,770	18,036
Investments and other assets		
Investment securities	48,723	46,774
Deferred tax assets	4,117	4,015
Other	8,343	8,908
Allowance for doubtful accounts	(207)	(208)
Total investments and other assets	60,977	59,490
Total non-current assets	167,684	167,025
<b>Total assets</b>	<b>304,967</b>	<b>305,297</b>

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(Millions of yen)

	As of June 30, 2018	As of March 31, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	27,377	24,921
Electronically recorded obligations - operating	8,590	7,956
Short-term loans payable	51,414	49,916
Current portion of long-term loans payable	20,259	21,476
Accounts payable - other	8,836	12,598
Income taxes payable	985	1,275
Provision for bonuses	2,059	3,534
Asset retirement obligations	50	51
Other provision	1,265	1,144
Other	13,582	11,589
<b>Total current liabilities</b>	<b>134,422</b>	<b>134,467</b>
Non-current liabilities		
Long-term loans payable	36,672	40,075
Deferred tax liabilities	2,557	2,521
Deferred tax liabilities for land revaluation	3,614	3,614
Other provision	2,459	2,550
Net defined benefit liability	10,855	10,810
Asset retirement obligations	680	676
Other	5,049	5,410
<b>Total non-current liabilities</b>	<b>61,888</b>	<b>65,660</b>
<b>Total liabilities</b>	<b>196,310</b>	<b>200,127</b>

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(Millions of yen)

	As of June 30, 2018	As of March 31, 2018
Net assets		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	7,245	7,245
Retained earnings	69,493	67,975
Treasury shares	(334)	(334)
Total shareholders' equity	86,404	84,886
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,000	11,639
Deferred gains or losses on hedges	(156)	(294)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	839	468
Remeasurements of defined benefit plans	(835)	(879)
Total accumulated other comprehensive income	21,037	19,123
Non-controlling interests	1,214	1,159
Total net assets	108,657	105,170
Total liabilities and net assets	304,967	305,297

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## Statements of Income

(Millions of yen)

	1Q FY2018	1Q FY2017
Net sales	59,367	63,472
Cost of sales	36,405	39,001
Gross profit	22,962	24,470
Selling, general and administrative expenses	20,530	21,752
Operating profit	2,431	2,717
Non-operating income		
Interest income	40	33
Dividend income	395	370
Share of profit of entities accounted for using equity method	448	163
Other	616	388
Total non-operating income	1,502	954
Non-operating expenses		
Interest expenses	274	356
Other	195	203
Total non-operating expenses	469	560
Ordinary profit	3,463	3,111
Extraordinary income		
Gain on sales of memberships	106	-
Total extraordinary income	106	-
Extraordinary losses		
Business structure improvement expenses	-	223
Loss on liquidation of subsidiaries and associates	-	142
Total extraordinary losses	-	366
Income before income taxes	3,570	2,745
Income taxes	435	1,070
Profit	3,134	1,675
Profit attributable to non-controlling interests	65	476
Profit attributable to owners of parent	3,068	1,199



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## Statements of Comprehensive Income

(Millions of yen)

	1Q FY2018	1Q FY2017
Profit	3,134	1,675
Other comprehensive income		
Valuation difference on available-for-sale securities	308	1,313
Deferred gains or losses on hedges	170	(23)
Foreign currency translation adjustment	314	334
Remeasurements of defined benefit plans, net of tax	40	34
Share of other comprehensive income of entities accounted for using equity method	1,068	668
Total other comprehensive income	1,902	2,327
Comprehensive income	5,037	4,003
Comprehensive income attributable to		
owners of parent	4,982	3,528
non-controlling interests	54	474

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc.)

The Company has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018), etc. from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

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## Segment Information

### Information about Sales and Income (Loss) by Reported Segment

For Year Ended June 30, 2017

	Millions of yen	
	Sales 1Q FY 2017	Operating Profit (Loss) 1Q FY 2017
Watches Business	31,694	1,436
Electronic Devices Business	21,546	2,038
Systems Solutions Business	6,193	272
Total for reported segments	59,434	3,747
Others	5,887	(5)
Total for all business segments	65,321	3,741
Adjustments	(1,849)	(1,024)
Total	63,472	2,717

- Notes:
1. The "Others" category denotes business segments not included among reported segments, such as the Clocks Business.
  2. Adjustments to segment income in the amount of -1,024 million yen include -141 million yen in the amortization of goodwill, 39 million yen that mainly consists of the elimination of inter-segment transactions, and -921 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses that fall under the parent company (holding company).
  3. Segment income (loss) has been adjusted for alongside operating profit on the consolidated statements of income.

For Year Ended June 30, 2018

	Millions of yen	
	Sales 1Q FY 2018	Operating Profit (Loss) 1Q FY 2018
Watches Business	33,826	2,620
Electronic Devices Business	14,100	627
Systems Solutions Business	7,423	514
Total for reported segments	55,350	3,762
Others	6,205	(169)
Total for all business segments	61,556	3,592
Adjustments	(2,188)	(1,160)
Total	59,367	2,431

- Notes:
1. The "Others" category denotes business segments not included among reported segments, such as the Clocks Business.
  2. Adjustments to segment income in the amount of -1,160 million yen include -141 million yen in the amortization of goodwill, -27 million yen that mainly consists of the elimination of inter-segment transactions, and -991 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses that fall under the parent company (holding company).
  3. Segment income (loss) has been adjusted for alongside operating profit on the consolidated statements of income.

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