

November 13, 2018

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018

Financial Highlights

For the six months ended September 30, 2018 (2Q FY2018)

	2Q FY2018		2Q FY2017
	Millions of yen	Millions of US dollars	Millions of yen
Net sales	121,072	1,066.0	133,027
Operating profit	5,718	50.3	6,895
Ordinary profit	7,535	66.3	6,926
Profit attributable to owners of parent	6,166	54.3	2,447
Earnings per share (yen/USD)	¥ 149.61	US\$ 1.32	¥ 59.39
	September 30, 2018		March 31, 2018
Total assets	304,293	2,679.1	305,297
Net assets	111,915	985.3	105,170

Note1: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 113.58 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 six-month period ended September 30, 2018, in the world economy, the U.S. economy continued to recover due to growth in personal consumption. The European economy remained steady amid continued improvement in the employment environment in the Eurozone. Meanwhile, the outlook for the world economy showed growing uncertainty, including emerging signs of a slowdown in the Chinese economy, which had seen continued stable growth, due to the increasingly serious issue of trade friction with the U.S., as well as concerns about high prices for crude oil and weakening currencies in emerging countries.

The Japanese economy continued on a gradual recovery track backed by firm personal consumption and corporate capital investment.

For the six-month period ended September 30, 2018, the Company reported consolidated net sales of 121.0 billion yen, a year-on-year decrease of 11.9 billion yen, or 9.0%. However, revenue grew if

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the impact of the exclusion of the semiconductor business from the scope of consolidation is excluded. On a per-segment basis, sales under the Watches Business, the Systems Solutions Business and Others grew compared to the same period of the previous fiscal year. Revenue in the Electronic Devices Business increased year on year as well, excluding the impact of approximately 16.0 billion yen resulting from the exclusion of the semiconductor business from the scope of consolidation. On an overall consolidated basis, domestic net sales came to 67.4 billion yen (a year-on-year decrease of 1.4%), and overseas net sales were 53.5 billion yen (a year-on-year decrease of 17.0%). Overseas net sales comprised 44.3% of net sales overall.

In terms of income as well, operating income decreased only 1.1 billion yen compared to the same period of the previous fiscal year to 5.7 billion yen (a year-on-year decrease of 17.1%), despite the impact of the exclusion of the semiconductor business from the scope of consolidation. Ordinary profit increased by 0.6 billion yen compared to the same period of the previous fiscal year to become 7.5 billion yen (a year-on-year increase of 8.8%), 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 in the three-month period ended June 30, 2018, and profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests was 6.1 billion yen (a year-on-year increase of 151.9%).

The average exchange rates for the six-month period ended September 30, 2018, were 110.3 yen to 1 US dollar and 129.8 yen to 1 euro.

2. Results by Segment

Results for each segment are as follows:

a. Watches Business

Net sales under the Watches Business came to 69.1 billion yen, a year-on-year increase of 1.2 billion yen, or 1.8%. Net sales of watches in Japan grew steadily, mainly for the Grand Seiko and Prospex, despite several natural disasters including earthquakes and typhoons impacting sales at stores. As in Japan, the Grand Seiko and Prospex performed favorably in many countries overseas. Sales were on a level of the previous year in the U.S., Europe, and Asia. Net sales of watch movements declined year on year owing to stagnant sales of watches in the affordable price range in global markets and other factors.

Operating income was 5.7 billion yen, an increase of 30.9%, due to 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 28.8 billion yen, a year-on-year decrease of 15.3 billion yen, or 34.8%. Operating income was 1.3 billion yen, a year-on-year decrease of 2.5

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billion yen, or 66.5%. 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 previous fiscal year, due to the continued 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 15.0 billion yen, a year-on-year increase of 2.3 billion yen, or 18.4%. Operating income was 1.0 billion yen, a year-on-year increase of 0.4 billion yen, or 59.1%. The rise in net sales was driven by the mobile solutions business and expansion of system integration projects for the financial industry, among other factors.

d. Others

Net sales under Others amounted to 13.0 billion yen, a year-on-year increase of 0.1 billion yen, or 1.4%. Operating losses were 0.1 billion yen, compared to operating income of 37 million yen for the same period of the previous fiscal year.

Net sales exceeded those of the previous year in the Wako Business and other areas.

3. Financial Condition

a. Status of Assets, Liabilities, and Net Assets

-Assets

Total assets at the close of the six-month period ended September 30, 2018 amounted to 304.2 billion yen, a decrease of 1.0 billion yen from the close of the previous fiscal year. Total current assets came to 136.5 billion yen, a decrease of 1.7 billion yen from the close of the previous fiscal year. This was due to an increase of 3.8 billion yen in inventories, offsetting decreases of 4.1 billion yen in cash and deposits and 0.7 billion yen in notes and accounts receivable - trade. Under non-current assets, decreases of 0.3 billion yen in property, plant and equipment and 0.6 billion yen in intangible assets were offset by an increase of 1.7 billion yen in investments and other assets, resulting in total non-current assets of 167.7 billion yen, an increase of 0.7 billion yen relative to the close of the previous fiscal year.

-Liabilities

For liabilities, total loans came to 105.9 billion yen, due to decreases of 2.5 billion yen in short-term loans payable, 1.0 billion yen in current portion of long-term loans payable and 1.8 billion yen in long-term loans payable. In addition, notes and accounts payable - trade increased by 2.1 billion yen, while accounts payable - other decreased by 4.1 billion yen. As a result, total liabilities amounted to 192.3 billion yen, a decrease of 7.7 billion yen from the close of the previous fiscal year.

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-Net assets

With regard to net assets, total net assets increased by 6.7 billion yen over the close of the previous fiscal year to become 111.9 billion yen, owing to increases of 4.6 billion yen in shareholders' equity and 2.1 billion yen in total accumulated other comprehensive income mainly resulting from an increase in valuation difference on available-for-sale securities.

b. Cash Flows in the Current Fiscal Year Are Summarized as Follows:

The balance of cash and cash equivalents at the end of the six-month period ended September 30, 2018 came to 30.0 billion yen, a decline of 3.8 billion yen relative to the end of the previous fiscal year.

This is primarily due to the following factors:

-Cash flows from operating activities

Net cash provided by operating activities came to positive 6.7 billion yen (compared to a positive cash flow of 16.3 billion yen for the same period of the previous fiscal year), a decrease of 9.6 billion yen year on year. This was the result of the Company posting 7.6 billion yen in income before income taxes, factoring in depreciation amounting to 4.2 billion yen, as well as a 1.7 billion-yen decrease in notes and accounts receivable - trade, a 3.2 billion-yen increase in inventories (posted as a decrease), and a 3.8 billion-yen decrease in accounts payable - other (posted as a decrease).

-Cash flows from investing activities

Net cash used in investing activities came to negative 3.3 billion yen (compared to a negative cash flow of 6.6 billion yen for the same period of the previous fiscal year) due to cash outflows consisting mainly of 3.1 billion yen in purchase of property, plant and equipment (posted as a decrease).

-Cash flows from financing activities

Net cash used in financing activities came to negative 7.5 billion yen (compared to a negative cash flow of 2.3 billion yen for the same period of the previous fiscal year) due mainly to repayments of long- and short-term loans payable and cash dividends paid.

4. Outlook for the Year Ending March 31, 2019

Although business performance progressed favorably with respect to the plan during the six-month period ended September 30, 2018, the Company has made no changes to the previous consolidated financial outlook for the year ending March 31, 2019 (FY2018), or the financial outlook by segment for the year ending March 31, 2019 (FY2018), owing to uncertainty in the outlook for the external environment.

Note that the financial outlook is based on assumed exchange rates of 105.0 yen to 1 US dollar and 125.0 yen to 1 euro from the third quarter onward.

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■ 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 Sep. 30, 2018	As of Mar. 31, 2018
Assets		
Current assets		
Cash and deposits	30,076	34,229
Notes and accounts receivable - trade	37,321	38,109
Inventories	60,838	57,011
Accounts receivable - other	1,852	3,537
Other	7,707	6,589
Allowance for doubtful accounts	(1,274)	(1,206)
Total current assets	136,521	138,271
Non-current assets		
Property, plant and equipment		
Buildings and structures	72,818	72,303
Machinery, equipment and vehicles	80,171	80,147
Tools, furniture and fixtures	31,108	30,419
Other	1,791	1,766
Accumulated depreciation	(147,382)	(145,116)
Land	49,178	49,199
Construction in progress	1,418	779
Total property, plant and equipment	89,104	89,498
Intangible assets		
Goodwill	8,719	9,149
Other	8,683	8,887
Total intangible assets	17,402	18,036
Investments and other assets		
Investment securities	49,177	46,774
Deferred tax assets	3,959	4,015
Other	8,338	8,908
Allowance for doubtful accounts	(210)	(208)
Total investments and other assets	61,265	59,490
Total non-current assets	167,772	167,025
Total assets	304,293	305,297

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(Millions of yen)

	As of Sep. 30, 2018	As of Mar. 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	27,038	24,921
Electronically recorded obligations - operating	7,183	7,956
Short-term loans payable	47,359	49,916
Current portion of long-term loans payable	20,439	21,476
Accounts payable - other	8,491	12,598
Income taxes payable	1,424	1,275
Provision for bonuses	3,839	3,534
Other provision	1,323	1,144
Asset retirement obligations	53	51
Other	11,997	11,589
Total current liabilities	129,150	134,467
Non-current liabilities		
Long-term loans payable	38,187	40,075
Deferred tax liabilities	2,552	2,521
Deferred tax liabilities for land revaluation	3,614	3,614
Other provision	2,384	2,550
Net defined benefit liability	10,826	10,810
Asset retirement obligations	683	676
Other	4,978	5,410
Total non-current liabilities	63,227	65,660
Total liabilities	192,378	200,127

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(Millions of yen)

	As of Sep. 30, 2018	As of Mar. 31, 2018
Net assets		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	7,245	7,245
Retained earnings	72,591	67,975
Treasury shares	(335)	(334)
Total shareholders' equity	89,501	84,886
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,641	11,639
Deferred gains or losses on hedges	(140)	(294)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	1,338	468
Remeasurements of defined benefit plans	(782)	(879)
Total accumulated other comprehensive income	21,246	19,123
Non-controlling interests	1,166	1,159
Total net assets	111,915	105,170
Total liabilities and net assets	304,293	305,297

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Statements of Income

(Millions of yen)

	2Q FY2018	2Q FY2017
Net sales	121,072	133,027
Cost of sales	74,075	82,696
Gross profit	46,997	50,331
Selling, general and administrative expenses	41,278	43,436
Operating profit	5,718	6,895
Non-operating income		
Interest income	84	70
Dividend income	395	370
Share of profit of entities accounted for using equity method	1,147	8
Other	1,256	806
Total non-operating income	2,884	1,256
Non-operating expenses		
Interest expenses	527	686
Other	540	537
Total non-operating expenses	1,068	1,224
Ordinary profit	7,535	6,926
Extraordinary income		
Gain on sales of memberships	106	-
Total extraordinary income	106	-
Extraordinary losses		
Business structure improvement expenses	-	949
Loss on liquidation of subsidiaries and associates	-	142
Total extraordinary losses	-	1,092
Income before income taxes	7,641	5,834
Income taxes	1,451	2,462
Profit	6,190	3,372
Profit attributable to non-controlling interests	24	924
Profit attributable to owners of parent	6,166	2,447

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Statements of Comprehensive Income

(Millions of yen)

	2Q FY2018	2Q FY2017
Profit	6,190	3,372
Other comprehensive income		
Valuation difference on available-for-sale securities	485	3,232
Deferred gains or losses on hedges	194	(34)
Foreign currency translation adjustment	817	1,100
Remeasurements of defined benefit plans, net of tax	81	69
Share of other comprehensive income of entities accounted for using equity method	562	771
Total other comprehensive income	2,141	5,139
Comprehensive income	8,331	8,511
Comprehensive income attributable to		
owners of parent	8,289	7,573
non-controlling interests	42	938

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Statements of Cash Flows

(Millions of yen)

	2Q FY2018	2Q FY2017
Cash flows from operating activities		
Income before income taxes	7,641	5,834
Depreciation	4,277	5,211
Increase (decrease) in provision for directors' retirement benefits	-	(2)
Increase (decrease) in allowance for doubtful accounts	74	218
Increase (decrease) in net defined benefit liability	24	22
Interest and dividend income	(480)	(440)
Interest expenses	527	686
Foreign exchange losses (gains)	(157)	(119)
Share of loss (profit) of entities accounted for using equity method	(1,147)	(8)
Loss on retirement of non-current assets	15	59
Decrease (increase) in notes and accounts receivable - trade	1,796	(1,570)
Decrease (increase) in inventories	(3,229)	(3,298)
Decrease (increase) in accounts receivable - other	1,698	1,698
Increase (decrease) in notes and accounts payable - trade	288	9,978
Increase (decrease) in accounts payable - other	(3,800)	(3,915)
Other, net	783	3,661
Subtotal	8,313	18,015
Interest and dividend income received	481	441
Proceeds from dividend income from entities accounted for using equity method	27	13
Interest expenses paid	(528)	(681)
Extra retirement payments	(134)	(322)
Income taxes paid	(1,446)	(1,127)
Net cash provided by (used in) operating activities	6,712	16,338

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(Millions of yen)

	2Q FY2018	2Q FY2017
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,139)	(3,814)
Proceeds from sales of property, plant and equipment	3	1
Purchase of investment securities	(0)	(348)
Proceeds from sales of investment securities	-	6
Payments of loans receivable	(213)	(432)
Collection of loans receivable	173	217
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(1,095)
Other, net	(177)	(1,137)
Net cash provided by (used in) investing activities	(3,353)	(6,601)
Cash flows from financing activities		
Increase in short-term loans payable	498,681	400,537
Decrease in short-term loans payable	(501,534)	(399,794)
Proceeds from long-term loans payable	8,300	17,500
Repayments of long-term loans payable	(11,235)	(18,691)
Cash dividends paid	(1,550)	(1,550)
Other, net	(198)	(397)
Net cash provided by (used in) financing activities	(7,537)	(2,397)
Effect of exchange rate change on cash and cash equivalents	383	523
Net increase (decrease) in cash and cash equivalents	(3,794)	7,861
Cash and cash equivalents at beginning of period	33,911	35,333
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(41)	(184)
Cash and cash equivalents at end of period	30,075	43,010

(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 September 30, 2017

	Sales 2Q FY2017	Operating Profit 2Q FY2017
Watches Business	67,943	4,388
Electronic Devices Business	44,185	3,904
Systems Solutions Business	12,731	677
Total for reported segments	124,860	8,970
Others	12,833	37
Total for all business segments	137,693	9,008
Adjustments	(4,665)	(2,113)
Total	133,027	6,895

- 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 -2,113 million yen include -283 million yen in the amortization of goodwill, 7 million yen that mainly consists of the elimination of inter-segment transactions, and -1,837 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 has been adjusted for alongside operating profit on the consolidated statements of income.

For Year Ended September 30, 2018

	Sales 2Q FY2018	Operating Profit (Loss) 2Q FY2018
Watches Business	69,192	5,745
Electronic Devices Business	28,815	1,306
Systems Solutions Business	15,079	1,078
Total for reported segments	113,087	8,130
Others	13,008	(162)
Total for all business segments	126,096	7,967
Adjustments	(5,023)	(2,248)
Total	121,072	5,718

- 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 -2,248 million yen include -283 million yen in the amortization of goodwill, -20 million yen that mainly consists of the elimination of inter-segment transactions, and -1,945 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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