



CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2019 [Japanese GAAP]

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Stock Listing: Tokyo

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(Note) Amounts under one million yen have been rounded down.

1. Consolidated financial results for the six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(1) Consolidated financial results (% represents the change from the corresponding period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2019	122,152	0.9	7,016	22.7	7,848	4.2	5,407	(12.3)
September 30, 2018	121,072	(9.0)	5,718	(17.1)	7,535	8.8	6,166	151.9

Note: Comprehensive income Six months ended September 30, 2019: 2,850 million yen (65.8) %
 Six months ended September 30, 2018: 8,331 million yen (2.1) %

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2019	131.20		131.18	
September 30, 2018	149.61		149.59	

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Millions of yen	Millions of yen	%
As of September 30, 2019	298,728	111,694	37.0
March 31, 2019	303,036	110,415	36.0

(Reference) Shareholder's equity As of September 30, 2019: 110,462 million yen
 As of March 31, 2019: 109,221 million yen

2. Dividends

	Dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended	Yen				
March 31, 2019	-	37.50	-	37.50	75.00
ending March 31, 2020	-	37.50	-	-	-
ending March 31, 2020 (Forecast)	-	-	-	37.50	75.00

(Note) Revision of the latest announced dividends forecast: None

3. Consolidated financial forecast for the fiscal year ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(% represents the change from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2020	253,000	2.3	10,000	6.4	11,500	0.8	9,500	2.7	230.48

(Note) Revision of the latest announced financial forecast: Revised

Business Results

1. Overview

During the six-month period ended September 30, 2019, in the world economy, growth continued to slow down in various countries simultaneously due to growing uncertainty over trade and the geopolitical situation. The U.S. economy was stable, with growth underpinned by steady personal consumption, although the corporate sector showed signs of deterioration, mainly in capital investment. Europe's growth remained suppressed due to stagnation in exports and uncertainty over the BREXIT issue in the U.K., despite firm domestic demand including consumption. In Asia, the Chinese economy saw growing signs of a slowdown, mainly due to a fall in exports and sluggish domestic demand, reflecting the impact of trade friction with the U.S. Neighboring countries were adversely affected, experiencing sluggish growth.

Meanwhile, a sense of stagnation persisted in the Japanese economy due to continuing weakness in overseas demand, reflecting the impact of the global slowdown, despite factors including steady personal consumption.

For the six-month period ended September 30, 2019, the Company reported consolidated net sales of 122.1 billion yen, a year-on-year increase of 1.0 billion yen, or 0.9%. On a per-segment basis, sales under the Watches Business, the Systems Solutions Business and Others increased year on year. On an overall consolidated basis, domestic net sales came to 70.4 billion yen (a year-on-year increase of 4.4%), and overseas net sales were 51.6 billion yen (a year-on-year decrease of 3.6%). Overseas net sales comprised 42.3% of net sales overall.

Operating profit increased 1.2 billion yen compared to the same period of the previous fiscal year to 7.0 billion yen (a year-on-year increase of 22.7%), mainly due to ongoing cost reductions and improvement in product composition, which offset active investment efforts at the start of the 7th Mid-Term Management Plan and an approximate 20% increase in advertising investment from the same period of the previous fiscal year. Ordinary profit increased 0.3 billion yen compared to the same period of the previous fiscal year to become 7.8 billion yen (a year-on-year increase of 4.2%), due to deterioration in non-operating income and expenses mainly owing to a decrease in share of profit of entities accounted for using equity method. Gain on sales of non-current assets of 0.1 billion yen was posted as extraordinary income. Retirement benefit expenses of 0.1 billion yen associated with a revision of the law for retirement benefits overseas were posted as extraordinary losses. As a result, profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests were 5.4 billion yen (a year-on-year decrease of 12.3%).

The average exchange rates for the six-month period ended September 30, 2019, were 108.6 yen to 1 US dollar and 121.4 yen to 1 euro.

Results by Segment

Results for each segment are as follows:

a. Watches Business

Net sales under the Watches Business came to 71.0 billion yen, a year-on-year increase of 1.9 billion yen, or 2.7%. Efforts were made to expand sales in Japan and overseas, especially in the U.S. and Asia, by promoting the Global Brands strategy set out in the basic policies of the Mid-Term Management Plan. As a result, sales of watches in Japan grew at department stores, watch independent stores, mass retailers, and many other distribution channels, mainly for high-priced watches such as Credor and Grand Seiko, partly due to a surge in demand in September before the consumption-tax hike. Overseas net sales of Global Brands also increased year on year in all regions. Grand Seiko showed favorable sales growth, particularly in the U.S. Seiko Prospex grew favorably in Europe, especially in Germany and France, and in Asian countries such as China and Taiwan. Net sales of watch movements declined year on year owing to continuing stagnant sales of watches in the affordable price range in global markets and to other factors.

Operating profit was 8.2 billion yen, an increase of 2.4 billion yen, or 42.8%, mainly due to the effects of improved efficiency from increased production and continued cost-reduction efforts.

In addition, a change in the allocation method of expenses related to headquarters for some consolidated subsidiaries resulted in an increase of 0.4 billion yen in operating profit.

b. Electronic Devices Business

Net sales under the Electronic Devices Business came to 26.0 billion yen, a year-on-year decrease of 2.7 billion yen, or 9.6%. Operating profit was 0.4 billion yen, a year-on-year decrease of 0.8 billion yen, or 67.0%. The external environment, including a protraction of the slowdown in the Chinese economy and stagnant investment in semiconductor equipment, did not show improvements, and sales of precision components and high-performance metals for semiconductor manufacturing equipment were sluggish. In addition, a change in the allocation method of expenses related to headquarters for some consolidated subsidiaries resulted in an increase of 0.4 billion yen in operating profit.

c. Systems Solutions Business

Net sales under the Systems Solutions Business came to 15.6 billion yen, a year-on-year increase of 0.5 billion yen, or 3.7%. Operating profit was 1.4 billion yen, a year-on-year increase of 0.3 billion yen, or 36.8%. 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 15.0 billion yen, a year-on-year increase of 2.0 billion yen, or 15.5%. Operating profit was 0.2 billion yen (compared to operating losses of 0.1 billion yen in the

same period of the previous fiscal year).

Net sales exceeded those of the previous fiscal year in the Wako Business, which showed growth in net sales due to the impact of a surge in demand before the consumption-tax hike, as well as in the Clocks Business, the Time Systems Business and other businesses.

2. Financial Condition

a. Status of Assets, Liabilities, and Net Assets

-Assets

Total assets at the close of the six-month period ended September 30, 2019 amounted to 298.7 billion yen, a decrease of 4.3 billion yen from the close of the previous fiscal year. Total current assets came to 133.7 billion yen, a decrease of 5.2 billion yen from the close of the previous fiscal year. This was due to a decrease of 7.6 billion yen in cash and deposits, offsetting increases of 2.8 billion yen in inventories and 0.2 billion yen in notes and accounts receivable - trade. Under non-current assets, an increase of 3.2 billion yen in property, plant and equipment, as well as decreases of 0.5 billion yen in intangible assets and 1.8 billion yen in investments and other assets resulted in total non-current assets of 164.9 billion yen, an increase of 0.9 billion yen relative to the close of the previous fiscal year.

-Liabilities

For liabilities, total loans came to 103.9 billion yen, due to a decrease of 1.8 billion yen in short-term loans payable, as well as increases of 0.2 billion yen in current portion of long-term loans payable and 1.0 billion yen in long-term loans payable. In addition, notes and accounts payable - trade decreased by 2.4 billion yen, electronically recorded obligations - operating decreased by 1.2 billion yen and accounts payable - other decreased by 5.0 billion yen. As a result, total liabilities amounted to 187.0 billion yen, a decrease of 5.5 billion yen from the close of the previous fiscal year.

-Net assets

With regard to net assets, total accumulated other comprehensive income decreased by 2.6 billion yen, mainly owing to decreases of 1.3 billion yen in valuation difference on available-for-sale securities and 1.3 billion yen in foreign currency translation adjustment, while shareholders' equity increased by 3.8 billion yen. As a result, total net assets increased by 1.2 billion yen over the close of the previous fiscal year to become 111.6 billion yen.

b. Overview of Cash Flows

The balance of cash and cash equivalents at the end of the six-month period ended September 30, 2019 came to 26.1 billion yen, a decline of 7.6 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 0.2 billion yen (compared to a positive cash flow of 6.7 billion yen for the same period of the previous fiscal year), a decrease of 6.4 billion yen year on year. This was the result of the Company posting 7.8 billion yen in income before income taxes, factoring in depreciation amounting to 5.0 billion yen, as well as a 1.1 billion-yen increase in notes and accounts receivable - trade (posted as a decrease), a 3.6 billion-yen increase in inventories (posted as a decrease), a 2.9 billion-yen decrease in notes and accounts payable - trade (posted as a decrease) and a 4.2 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 4.7 billion yen (compared to a negative cash flow of 3.3 billion yen for the same period of the previous fiscal year) due to cash outflows consisting mainly of 3.9 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 2.7 billion yen (compared to a negative cash flow of 7.5 billion yen for the same period of the previous fiscal year) due mainly to repayments and borrowings of long- and short-term loans payable as well as cash dividends paid.

3. Financial Forecast for the Year Ending March 31, 2020 (FY2019)

Business performance during the six-month period ended September 30, 2019 progressed favorably with respect to the forecast. Although reaction to a surge in demand before the consumption-tax hike has been observed in businesses such as the Watches Business and the Wako Business going into October, the decline was within the expected range. The Systems Solutions Business also remained steady along with an expansion of the market. Meanwhile, net sales of the watch movements business continue to be sluggish, and the recovery of market conditions for the Electronic Devices Business is expected to be more delayed than the assumption. Furthermore, the environment surrounding the business showed growing uncertainty about the outlook due to rising geopolitical tension, as seen by trade barriers. Considering these circumstances, the Company has made the following changes to the consolidated financial forecast for the year ending March 31, 2020 (FY2019) and the financial forecast by segment.

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Note that the financial forecast is based on assumed exchange rates of 110.0 yen to 1 US dollar and 125.0 yen to 1 euro from the third quarter onward.

■ Forecast for the consolidated business results for the year ending March 31, 2020 (FY2019)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	253.0	102.3
Operating profit	10.0	106.4
Ordinary profit	11.5	100.8
Profit attributable to owners of parent	9.5	102.7
Earnings per share (yen)	JPY 230.48	

■ Forecasted results by segment for the year ending March 31, 2020 (FY2019)

	Net Sales (Billions of yen)	Operating Profit (Billions of yen)
Watches Business	146.0	12.8
Electronic Devices Business	54.0	1.2
Systems Solutions Business	32.0	3.0
Total for reported segments	232.0	17.0
Others	30.0	0.8
Consolidated total	253.0	10.0

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 March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	33,844	26,161
Notes and accounts receivable - trade	37,456	37,752
Inventories	58,305	61,162
Accounts receivable - other	3,116	2,416
Other	7,419	7,445
Allowance for doubtful accounts	(1,153)	(1,176)
Total current assets	138,989	133,762
Non-current assets		
Property, plant and equipment		
Buildings and structures	71,913	71,199
Machinery, equipment and vehicles	81,388	77,579
Tools, furniture and fixtures	31,772	32,091
Other	1,820	6,274
Accumulated depreciation	(148,177)	(145,638)
Land	48,998	48,836
Construction in progress	924	1,565
Total property, plant and equipment	88,640	91,907
Intangible assets		
Goodwill	8,289	7,859
Other	8,957	8,878
Total intangible assets	17,247	16,738
Investments and other assets		
Investment securities	45,913	44,685
Deferred tax assets	4,243	3,493
Other	8,165	8,305
Allowance for doubtful accounts	(163)	(165)
Total investments and other assets	58,159	56,319
Total non-current assets	164,047	164,965
Total assets	303,036	298,728

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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	26,449	24,036
Electronically recorded obligations - operating	6,438	5,160
Short-term borrowings	49,610	47,759
Current portion of long-term borrowings	19,698	19,972
Accounts payable - other	12,402	7,375
Income taxes payable	1,281	1,628
Provision for bonuses	3,644	4,018
Other provisions	1,233	1,457
Asset retirement obligations	-	97
Other	12,213	12,791
Total current liabilities	132,972	124,298
Non-current liabilities		
Long-term borrowings	35,106	36,177
Deferred tax liabilities	2,451	2,064
Deferred tax liabilities for land revaluation	3,614	3,614
Other provisions	2,237	1,930
Retirement benefit liability	10,602	10,586
Asset retirement obligations	888	897
Other	4,748	7,465
Total non-current liabilities	59,647	62,736
Total liabilities	192,620	187,034

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(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	7,245	7,245
Retained earnings	74,124	77,981
Treasury shares	(335)	(331)
Total shareholders' equity	91,034	94,895
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,099	8,739
Deferred gains or losses on hedges	(104)	(122)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	878	(475)
Remeasurements of defined benefit plans	(876)	(764)
Total accumulated other comprehensive income	18,186	15,567
Non-controlling interests	1,194	1,231
Total net assets	110,415	111,694
Total liabilities and net assets	303,036	298,728

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Statements of Income

(Millions of yen)

	2Q FY2018	2Q FY2019
Net sales	121,072	122,152
Cost of sales	74,075	72,388
Gross profit	46,997	49,764
Selling, general and administrative expenses	41,278	42,747
Operating profit	5,718	7,016
Non-operating income		
Interest income	84	92
Dividend income	395	385
Share of profit of entities accounted for using equity method	1,147	889
Other	1,256	789
Total non-operating income	2,884	2,156
Non-operating expenses		
Interest expenses	527	498
Other	540	826
Total non-operating expenses	1,068	1,324
Ordinary profit	7,535	7,848
Extraordinary income		
Gain on sales of non-current assets	-	138
Gain on sales of memberships	106	-
Total extraordinary income	106	138
Extraordinary losses		
Retirement benefit expenses	-	158
Total extraordinary losses	-	158
Income before income taxes	7,641	7,827
Income taxes	1,451	2,348
Profit	6,190	5,479
Profit attributable to non-controlling interests	24	72
Profit attributable to owners of parent	6,166	5,407

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Statements of Comprehensive Income

(Millions of yen)

	2Q FY2018	2Q FY2019
Profit	6,190	5,479
Other comprehensive income		
Valuation difference on available-for-sale securities	485	(1,434)
Deferred gains or losses on hedges	194	(22)
Foreign currency translation adjustment	817	(1,229)
Remeasurements of defined benefit plans, net of tax	81	103
Share of other comprehensive income of entities accounted for using equity method	562	(46)
Total other comprehensive income	2,141	(2,628)
Comprehensive income	8,331	2,850
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,289	2,788
Comprehensive income attributable to non-controlling interests	42	62

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Statements of Cash Flows

(Millions of yen)

	2Q FY2018	2Q FY2019
Cash flows from operating activities		
Income before income taxes	7,641	7,827
Depreciation	4,277	5,025
Increase (decrease) in allowance for doubtful accounts	74	42
Increase (decrease) in retirement benefit liability	24	5
Interest and dividend income	(480)	(477)
Interest expenses	527	498
Foreign exchange losses (gains)	(157)	130
Share of loss (profit) of entities accounted for using equity method	(1,147)	(889)
Loss (gain) on sales of non-current assets	-	(138)
Loss on retirement of non-current assets	15	43
Decrease (increase) in trade receivables	1,796	(1,110)
Decrease (increase) in inventories	(3,229)	(3,683)
Increase (decrease) in trade payables	288	(2,911)
Increase (decrease) in accounts payable - other	(3,800)	(4,279)
Other, net	2,482	1,186
Subtotal	8,313	1,271
Interest and dividends received	481	478
Dividends received from entities accounted for using equity method	27	27
Interest paid	(528)	(502)
Extra retirement payments	(134)	-
Income taxes paid	(1,446)	(1,054)
Net cash provided by (used in) operating activities	6,712	219

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(Millions of yen)

	2Q FY2018	2Q FY2019
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,139)	(3,981)
Proceeds from sales of property, plant and equipment	3	81
Purchase of investment securities	(0)	(0)
Proceeds from sales of investment securities	-	0
Loan advances	(213)	(123)
Collection of loans receivable	173	872
Other, net	(177)	(1,577)
Net cash provided by (used in) investing activities	(3,353)	(4,728)
Cash flows from financing activities		
Proceeds from short-term borrowings	498,681	422,309
Repayments of short-term borrowings	(501,534)	(424,108)
Proceeds from long-term borrowings	8,300	11,500
Repayments of long-term borrowings	(11,235)	(10,154)
Dividends paid	(1,550)	(1,550)
Other, net	(198)	(768)
Net cash provided by (used in) financing activities	(7,537)	(2,771)
Effect of exchange rate change on cash and cash equivalents	383	(402)
Net increase (decrease) in cash and cash equivalents	(3,794)	(7,683)
Cash and cash equivalents at beginning of period	33,911	33,843
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(41)	-
Cash and cash equivalents at end of period	30,075	26,160

Notes to the Financial Statements

1. Changes in significant accounting policies

The Company adopted IFRS 16 “Leases” at its consolidated subsidiaries overseas, excluding those in the U.S., from the first quarter of the fiscal year ending March 31, 2020. Accordingly, the Company recognizes right-of-use assets and lease obligations with regard to all leases, in principle, for lessees’ lease transactions.

When applying IFRS 16, the Company has adopted a method of recognizing the cumulative effect of application of this standard on the application start date, which is allowed as a transitional measure.

There is no impact on retained earnings at the beginning of the fiscal year.

The standard’s application resulted in increases of 3,927 million yen in property, plant and equipment, 774 million yen in current liabilities, and 3,177 million yen in non-current liabilities, respectively, in the balance sheets for the six months ended September 30, 2019. The impact of this standard on gains or losses or on segment information for the six-month period ended September 30, 2019 is immaterial.

Segment Information

I. For the Six Months Ended September 30, 2018

1. Information about Sales and Income (Loss) by Reported Segment

	Sales 2Q FY2018	Operating Profit 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)
Subtotal	126,096	7,967
Adjustments	(5,023)	(2,248)
Consolidated total	121,072	5,718

- Notes:
- The “Others” category denotes business segments not included among reported segments, such as the Clocks Business.
 - 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).
 - Segment income has been adjusted for alongside operating profit on the consolidated statements of income.

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II. For the Six Months Ended September 30, 2019

1. Information about Sales and Income (Loss) by Reported Segment

	Millions of yen	
	Sales 2Q FY2019	Operating Profit 2Q FY2019
Watches Business	71,093	8,205
Electronic Devices Business	26,036	431
Systems Solutions Business	15,634	1,475
Total for reported segments	112,764	10,112
Others	15,027	248
Subtotal	127,792	10,360
Adjustments	(5,639)	(3,344)
Consolidated total	122,152	7,016

- 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 -3,344 million yen include -283 million yen in the amortization of goodwill, 84 million yen that mainly consists of the elimination of inter-segment transactions, and -3,145 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses incurred at headquarters, unallocated to reported segments.
 3. Segment income has been adjusted for alongside operating profit on the consolidated statements of income.

2. Change in Evaluation Method of Profit / Loss of Reported Segments

In order to appropriately evaluate the results of each reported segment, the Company changed to a method of considering expenses related to headquarters for some consolidated subsidiaries that had previously been allocated to the Watches Business and Electronic Devices Business as adjustments to segment income, which are company-wide expenses, from the first quarter of the fiscal year ending March 31, 2020. As a result of this change, compared to the previous method, segment income for the Watches Business increased by 453 million yen, segment income for the Electronic Devices Business increased by 467 million yen, and adjustments to segment income (loss) decreased by 920 million yen for the six-month period ended September 30, 2019.
