



CITIZEN WATCH

Consolidated Financial Statements
for the Three Months Ended June 30, 2021

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 13, 2021

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: -

Scheduled release of fiscal 2021 Quarterly Business Report: August 13, 2021

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)****(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, 2021	65,759	78.4	4,232	-	5,076	-	4,396	-
Three months ended June 30, 2020	36,858	(47.3)	(5,651)	-	(4,904)	-	(6,755)	-

Note: Comprehensive income:

Three months ended June 30, 2021: ¥ 5,088 million (-%)

Three months ended June 30, 2020: ¥ (7,034) million (-%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Three months ended June 30, 2021	14.06	-
Three months ended June 30, 2020	(21.61)	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Three months ended June 30, 2021	379,051	216,144	54.7	662.84
March 31, 2021	365,811	212,864	55.8	652.47

Reference: Shareholders' Equity:

As of June 30, 2021: ¥ 207,228 million As of March 31, 2021: ¥ 203,986 million

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(Note) The Accounting Standards for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 31, 2020) has been applied since the beginning of the first quarter of the consolidated fiscal year under review. For details, please see “(3) Notes on Consolidated Financial Statements (Changes in accounting policies).”

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, 2021	-	2.50	-	2.50	5.00
March 31, 2022					
March 31, 2022(E)		9.00	-	9.00	18.00

Note: Revision of dividend forecast for quarter in review: Yes

3. Projected Consolidated Results for the Year ending March 31, 2021

(Millions of yen)

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

	Net sales		Operating profit		Ordinary profit		Net income		Earnings per share (Yen)
Interim term	130,000	46.1	7,300	-	8,000	-	6,500	-	20.79
Full term	268,000	29.7	13,800	-	15,000	-	11,500	-	36.78

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, 2021	314,353,809	March 31, 2021	314,353,809
(ii) Number of treasury stock at the end of term	June 30, 2021	1,715,727	March 31, 2021	1,714,879
(iii) Average number of common stocks	June 30, 2021	312,638,493	June 30, 2020	312,639,320

** 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, 2021

(1) Qualitative data on the consolidated financial results

During the first quarter of the consolidated fiscal year under review, the Japanese economy achieved only a moderate recovery, reflecting the disappearance of inbound demand and continued weak domestic demand due to the prolonged impact of the COVID-19 pandemic, with another declaration of a state of emergency. The North American economy saw consumer confidence improve associated with the progress of vaccinations and the resumption of economic activities, amid concerns about COVID-19 variant strains. European economies also remained firm given a gradual relaxation of activity restrictions. In Asia, while the economic recovery continued in the Chinese market, recoveries varied in other Asian regions, depending on the degree to which infections were under control.

In this environment, the Citizen Group's consolidated results for the first quarter under review showed increases in sales and profits, with net sales of 65.7 billion yen (up 78.4% year on year) and operating profit of 4.2 billion yen (compared with an operating loss of 5.6 billion yen in the same period of the previous fiscal year). These results were driven mainly by the recovery of its core businesses, Watches and Machine Tools. Ordinary profit and profit attributable to owners of parent also increased to 5.0 billion yen (compared with an ordinary loss of 4.9 billion yen in the same period of the previous fiscal year) and 4.3 billion yen (compared with a loss attributable to owners of parent of 6.7 billion yen in the same period of the previous fiscal year), respectively.

The Company has applied the Accounting Standards for Revenue Recognition (ASBJ Statement No. 29 issued on March 31, 2020) since the beginning of the first quarter of the consolidated fiscal year under review. For details, please see "(3) Notes on Consolidated Financial Statements (Changes in accounting policies)."

Watches

In the domestic market, sales of Citizen brand watches faced severe challenges with the suspension of business and shorter business hours of stores associated with another declaration of a state of emergency, in an environment where a recovery of inbound demand was unlikely. However, products planned and developed on a cross-brand basis remained strong, and our main brands, such as CITIZEN xC and CITIZEN ATTESA, also drove sales.

In overseas markets, not only online sales but sales at physical stores such as jewelry chains and department stores grew significantly in the North American market, reflecting a recovery in consumer spending. The European market gradually recovered with progress in the resumption of operations, albeit with differences depending on the country. In the Asian market, sales, particularly online sales, continued to grow in China, and sales at physical stores also remained firm with a normalization of economic activities

Sales of Bulova brand watches increased thanks to strong online sales in the mainstay North American market and a strong recovery of sales at physical stores.

Sales of movements increased with growth in sales of high value-added analog quartz movements, among other factors, reflecting a recovery of orders in North America, in addition to firm sales of mechanical movements.

As a result, the watches segment posted an increase in sales with net sales of 29.0 billion yen (up 141.0% year on year) as a result of accelerating efforts to strengthen online sales and promoting product development suitable for distribution, although the impact of the COVID-19 pandemic persisted. Operating results also improved to profit of 1.4 billion yen (compared with an operating loss of 3.8 billion yen in the same period of the previous fiscal year), mainly due to the recovery of sales in overseas markets and the contribution of the effects of business structural reforms instituted in fiscal 2020.

Machine Tools

In the domestic market, revenues decreased, notwithstanding a recovery in orders across a wide range of industries, including those related to semiconductors, construction machinery and housing equipment, as the recovery was not enough to return sales to the year-ago level. In overseas markets, sales recovered significantly, with orders driven by strong demand for capital expenditures in the European market. A strong performance of products related to communications and automobiles in the Chinese market also contributed. In Americas, sales also increased on growth in demand driven by the resumption of capital expenditures. As a result, the machine tools segment as a whole posted an increase in sales, with net sales of 18.6 billion yen

(up 85.2% year on year). Operating profit also rose to 2.6 billion yen (up 618.6% year on year) due to significant growth in sales following the strong market conditions.

Devices and Components

With regard to precision machining components, sales of components related to brakes and engines remained firm, despite concerns about auto parts, such that automobile manufacturers might be forced to cut production due to the global semiconductor supply shortage. Sales of switches increased, although they were affected by customer inventory adjustments.

In opto-devices, sales of LED chips increased on growth in sales of LEDs for lighting products following the recovery of the European and the Chinese markets and higher sales of LEDs for game consoles and automobiles.

In other products, demand for quartz devices for communication devices such as smartphones continued to increase, and sales of small motors related to medical care and semiconductors also remained solid.

Consequently, overall sales of other products increased.

As a result, net sales in the devices and components segment as a whole increased to 13.1 billion yen (up 25.7% year on year). Operating profit was 0.9 billion yen (compared with an operating loss of 0.7 billion yen in the same period of the previous fiscal year) due to the contribution of recovering sales.

Electronic and Other Products

Among information equipment, signs of a recovery in demand for photo printers remained weak, but sales of POS printers and bar code printers were recovering in the American and European markets, associated with the resumption of economic activities. As a result, sales of information equipment increased. Revenues from healthcare products increased as sales of thermometers remained firm, although there was a lull in the special demand for thermometers. The strong performance of blood pressure monitors, which were increasingly used by individuals due to growing health consciousness, were another contributing factor.

As a result, the electronic and other products segment overall recorded an increase in sales and profits, with net sales of 4.9 billion yen (up 15.0% year on year) and operating profit of 0.3 billion yen (compared with an operating loss of 0.3 billion yen in the same period of the previous fiscal year).

(2) Qualitative data on the consolidated financial position

Total assets at the end of the first quarter under review stood at 379.0 billion yen, an increase of 13.2 billion yen from the end of the previous consolidated fiscal year. Current assets increased by 14.3 billion yen, mainly reflecting an 8.5 billion yen increase in cash and deposits and a 4.0 billion yen increase in notes and accounts receivable – trade. Non-current assets decreased by 1.0 billion yen, attributable primarily to a 1.2 billion yen decrease in property, plant and equipment, partially offset by a 0.5 billion yen increase in deferred tax assets.

Liabilities totaled 162.9 billion yen, an increase of 9.9 billion yen from the end of previous consolidated fiscal year, mainly reflecting increases of 1.9 billion yen in provision for bonuses, 1.7 billion yen in notes and accounts payable – trade, and 3.7 billion yen in electronically recorded obligations - operating.

Net assets increased by 3.2 billion yen from the end of the previous consolidated fiscal year, to 216.1 billion yen, chiefly reflecting increases of 2.5 billion yen in retained earnings, 0.3 billion yen in foreign currency translation adjustment, and 0.2 billion yen in valuation difference on available-for-sale securities.

(3) Qualitative data on the consolidated earnings forecasts

With respect to the economic outlook, it is difficult to predict when economic activities will fully recover given the COVID-19 pandemic, but the economy is recovering from the previous severe decline. In Japan, consumption is expected to be pushed down by the new declaration of a state of emergency, but the Japanese economy is expected to gradually turn upward, given a significant improvement in consumer confidence in China associated with the implementation of additional economic measures and progress with vaccinations, as well as the revitalization of economic activities in North America.

In the Company, the performance of the mainstay watches segment was stronger than expected, mainly in the North American market, and sales of CITIZEN brand and BULOVA brand watches remained strong. In the machine tools segment, sales also expanded significantly following a worldwide recovery of orders. In this

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environment, the Company has reviewed its financial forecast for the first half and left the previous forecast for net sales in the watches segment has revised upward by 1.0 billion yen from the previous forecast, to 125.0 billion yen, and its forecast for operating profit by 1.5 billion yen from the previous forecast, to 5.5 billion yen. The Company has also revised upward its forecast for net sales in the machine tools segment by 6.0 billion yen from the previous forecast, to 73.0 billion yen, and its forecast for operating profit by 1.3 billion yen from the previous forecast, to 10.3 billion yen.

As a result of the above, for its financial results for the current fiscal year, the Company forecasts net sales of 268.0 billion yen (up 29.7% year on year), operating profit of 13.8 billion yen (compared with an operating loss of 9.5 billion yen in the previous fiscal year), ordinary profit of 15.0 billion yen (compared with an ordinary loss of 4.1 billion yen in the previous fiscal year), and profit attributable to owners of parent of 11.5 billion yen (compared with a loss attributable to owners of parent of 25.1 billion yen in the previous fiscal year).

The foreign exchange rates in the second quarter of the fiscal year under review and thereafter are assumed to be 105 yen against the U.S. dollar and 125 yen against the euro.

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

	(Millions of yen)	
	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	101,816	110,415
Notes and accounts receivable - trade	44,102	48,149
Electronically recorded monetary claims - operating	1,371	1,530
Merchandise and finished goods	52,018	51,324
Work in process	19,372	20,096
Raw materials and supplies	18,857	18,624
Consumption taxes receivable	2,129	2,252
Other	5,926	7,455
Allowance for doubtful accounts	(1,150)	(1,083)
Total current assets	<u>244,444</u>	<u>258,766</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,877	39,645
Machinery, equipment and vehicles, net	15,811	15,605
Tools, furniture and fixtures, net	4,275	4,071
Land	10,649	10,232
Leased assets, net	1,249	1,198
Construction in progress	4,085	3,929
Total property, plant and equipment	<u>75,948</u>	<u>74,683</u>
Intangible assets		
Software	3,590	3,495
Leased assets	2	2
Other	1,059	1,027
Total intangible assets	<u>4,652</u>	<u>4,524</u>
Investments and other assets		
Investment securities	33,341	33,281
Long-term loans receivable	251	249
Deferred tax assets	5,293	5,843
Other	2,185	2,020
Allowance for doubtful accounts	(306)	(316)
Total investments and other assets	<u>40,765</u>	<u>41,077</u>
Total non-current assets	<u>121,366</u>	<u>120,285</u>
Total assets	<u><u>365,811</u></u>	<u><u>379,051</u></u>

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	(Millions of yen)	
	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,576	17,281
Electronically recorded obligations - operating	9,041	12,838
Notes payable - facilities	241	404
Electronically recorded obligations - non-operating	395	799
Short-term borrowings	9,648	10,017
Income taxes payable	1,381	1,906
Accrued expenses	9,451	10,193
Provision for bonuses	4,778	6,697
Provision for bonuses for directors (and other officers)	157	—
Provision for product warranties	984	1,033
Provision for environmental measures	2	—
Provision for loss on reorganization	715	717
Other	7,369	7,342
Total current liabilities	<u>59,745</u>	<u>69,233</u>
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	55,212	55,216
Deferred tax liabilities	2,281	2,793
Provision for loss on reorganization	103	103
Retirement benefit liability	22,590	22,403
Asset retirement obligations	75	75
Other	2,937	3,081
Total non-current liabilities	<u>93,201</u>	<u>93,674</u>
Total liabilities	<u>152,946</u>	<u>162,907</u>
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,740	33,740
Retained earnings	128,393	130,985
Treasury shares	(1,069)	(1,069)
Total shareholders' equity	<u>193,713</u>	<u>196,304</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,503	6,773
Foreign currency translation adjustment	4,871	5,213
Remeasurements of defined benefit plans	(1,100)	(1,062)
Total accumulated other comprehensive income	<u>10,273</u>	<u>10,924</u>
Non-controlling interests	<u>8,878</u>	<u>8,915</u>
Total net assets	<u>212,864</u>	<u>216,144</u>
Total liabilities and net assets	<u>365,811</u>	<u>379,051</u>

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

Consolidated Statement of Income for the three months ended June 30, 2021

	(Millions of yen)	
	Three months ended June 30, 2020	Three months ended June 30, 2021
Net sales	36,858	65,759
Cost of sales	27,049	42,011
Gross profit	9,808	23,747
Selling, general and administrative expenses	15,460	19,515
Operating profit (loss)	(5,651)	4,232
Non-operating income		
Interest income	68	63
Dividend income	402	339
Share of profit of entities accounted for using equity method	14	169
Foreign exchange gains	4	219
Subsidy income	※ 1 359	※ 1 118
Other	72	141
Total non-operating income	921	1,051
Non-operating expenses		
Interest expenses	81	80
Other	92	126
Total non-operating expenses	174	207
Ordinary profit (loss)	(4,904)	5,076
Extraordinary income		
Gain on sale of non-current assets	135	865
Other	9	71
Total extraordinary income	144	936
Extraordinary losses		
Loss on retirement of non-current assets	5	9
Loss on sale of non-current assets	13	9
Reorganization cost	22	40
Extra retirement payments	207	34
Loss on COVID19	※ 2 2,034	※ 2 75
Other	2	4
Total extraordinary losses	2,286	173
Profit (loss) before income taxes	(7,046)	5,839
Income taxes	(107)	1,420
Profit (loss)	(6,939)	4,419
Profit (loss) attributable to non-controlling interests	(183)	23
Profit (loss) attributable to owners of parent	(6,755)	4,396

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Consolidated Statement of Comprehensive Income for the three months ended June 30, 2021

	(Millions of yen)	
	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit (loss)	(6,939)	4,419
Other comprehensive income		
Valuation difference on available-for-sale securities	143	269
Foreign currency translation adjustment	(298)	370
Remeasurements of defined benefit plans, net of tax	95	36
Share of other comprehensive income of entities accounted for using equity method	(34)	△7
Total other comprehensive income	<u>(95)</u>	<u>669</u>
Comprehensive income	<u>(7,034)</u>	<u>5,088</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,841)	5,046
Comprehensive income attributable to non-controlling interests	(193)	41

(3) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Not applicable

(Change in accounting policies)

(Application of Accounting Standard for Revenue Recognition and other standards)

The Company has decided to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter under review and recognize revenue from goods or services which the Company promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer. Major changes in the application of Revenue Recognition Accounting Standard, etc. are shown below.

1. Recognition of revenue related to membership-based inspection services

Revenue related to membership-based inspection services in the watches segment was not recognized in the past, but the Company has changed this to the method of identifying performance obligations related to the sale of products and performance obligations related to the inspection services and recognizing revenue when each performance obligation is satisfied.

2. Variable considerations

Variable considerations such as rebates in product sales were in the past deducted from net sales when the amount was fixed, but the Company has changed this to the method of estimating the amount of the variable portion of the consideration for a transaction and including in the transaction price only the portion that is highly unlikely to cause a significant reduction in the recognized revenue.

3. Considerations to be paid to customers

Considerations to be paid to customers, such as sales commissions, were accounted for as selling, general and administrative expenses in the past, but the Company has changed it to the method of reducing them from transaction prices.

4. Sales with return rights

For transactions of products that could be returned, the Company has changed to the method of not recognizing revenue at the time of sales in accordance with the provisions regarding variable considerations.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in the case of retroactively applying the new accounting policy to before the beginning of the first quarter under review are adjusted in retained earnings at the beginning of the first quarter under review, and the new accounting policy is applied from this initial balance. However, applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the Company does not retroactively apply the new accounting policy to the contracts almost all of whose revenue was recognized in compliance with the conventional method before the beginning of the first quarter under review.

In addition, applying the method prescribed in the note (1) for Paragraph 86 of the Revenue Recognition Accounting Standard, the Company accounts for contract changes made prior to the beginning of the first quarter under review based on the contract terms after reflecting all contract changes, and added or subtracted their cumulative effect to or from retained earnings at the beginning of the first quarter under review.

As a result, during the first quarter of the consolidated fiscal year under review, net sales decreased by 103 million yen, the cost of sales increased by 10 million yen, selling, general and administrative expenses dropped by 93 million yen, while operating profit, ordinary profit and profit attributable to owners of parent each decreased by 19 million yen. In addition, retained earnings at the beginning of the current fiscal year was decreased by 1,068 million yen.

(Application of Accounting Standard for Fair Value Measurement and other standards)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter the “Fair Value Measurement Accounting Standard”) from the beginning of the first quarter under review. Accordingly, the Company will apply new accounting policies prescribed in the Fair Value Measurement Accounting Standard and the like in the future in accordance with the provisional treatment stipulated in Paragraph 19 of the same Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application of the accounting standard has no impact on the consolidated quarterly financial statements.

(Additional Information)

(Application of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

For items for which transition to the group tax sharing system created in the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) was made and for which the non-consolidated taxation system was reviewed in step with transition to the group tax sharing system, the Company and some of its consolidated subsidiaries in Japan do not apply the provisions in Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) based on the treatment in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020), and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Income Tax Act before amendment.

(Accounting estimate of the impact of the COVID-19 coronavirus)

There is no significant change in the assumptions on the impact of the COVID-19 pandemic described in the securities report for the previous consolidated fiscal year as additional information regarding accounting estimates on the impact of the COVID-19 pandemic.

(Segment information)

(i) Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	12,046	10,089	10,458	4,264	36,858	-	36,858
Inter-segment	16	122	254	166	559	(559)	-
Total	12,063	10,212	10,712	4,430	37,418	(559)	36,858
Segment profit or loss	(3,829)	372	(761)	(306)	(4,523)	(1,128)	(5,651)

(Notes)

1. The 1,128 million yen negative adjustment to segment income (Operating profit) includes 39 million yen in inter-segment eliminations and 1,167 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits or loss are adjusted with Operating profit on the consolidated financial statements.

(ii) Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	29,031	18,682	13,143	4,901	65,759	-	65,759
Inter-segment	23	13	362	158	558	(558)	-
Total	29,055	18,695	13,506	5,060	66,317	(558)	65,759
Segment profit or loss	1,496	2,678	932	360	5,467	(1,234)	4,232

(Notes)

1. The 1,234 million yen negative adjustment to segment income (Operating profit) includes 23 million yen in inter-segment eliminations and 1,258 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits or loss are adjusted with Operating profit on the consolidated financial statements.