

12 February 2014

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2013

### Financial Highlights

For the nine months ended 31 December 2013 (3Q FY2013)

	3Q FY2013		3Q FY2012
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	225,606	2,140,474	217,304
Operating income	13,370	126,850	8,891
Ordinary income	11,213	106,385	6,890
Net income	11,976	113,624	7,320
Earnings per share (yen)	57.95	0.55	40.03
	31 December 2013		31 March 2013
Total assets	382,832	3,632,182	355,308
Net assets	69,553	659,896	40,801

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 105.4 yen/dollar.

## Business Results

### 1. Overview

During the nine-month period ending 31 December 2013, consumer mentality in Japan improved mainly through wealth effects resulting from the upwards progression in stock prices. This, coupled with other contributing factors such as increases in residential and public investment, has perpetuated the trend of recovery in the Japanese economy. In the world economy, based largely on trade balance improvements resulting from the shale gas revolution, the United States is currently experiencing an economic upswing, albeit a moderate one. The European economy has also pulled out of a year-and-a-half-long negative growth, and is in the process of entering a recovery. While China had experienced a temporary increase in risk of a market downswing, as a result of subsequent prop-up measures, its economy is also on track to becoming stable.

While continuing to adopt “Being a company trusted by society” as the basic philosophy of its group management, SEIKO HOLDINGS CORPORATION (“Company”) formulated its new three-year Fifth Mid-Term Management Plan, which commenced this fiscal year. Under this plan, the Company has established “reconstructing business portfolio around our Watch segment as group’s core business to maximize profitability, as well as realizing the qualitative reinforcement of group’s management foundation” as its basic policy.

Additionally, as a result of changing business management methods at its organization in addition to formulating the aforementioned Fifth Mid-Term Management Plan, as of this fiscal year, the Company has divided the preexisting Electronic Components Business into the following reported segments: the Electronic Device Business, which handles the likes of semiconductors, crystal oscillators, batteries and related materials, printers, hard disk drive components and shutters for cameras; and the Systems Solutions Business, which handles the likes of data services, information network systems, and electronic dictionaries. Moreover, based on quantitative criteria surrounding each segment, the Company has disclosed data on its Watch Business, Electronic Device Business and Systems Solutions Business as reported segments. The Clock Business, Optical Products Business and Other Businesses have been collectively categorized and disclosed as Others.

For the nine-month period ending 31 December 2013, the Company reported consolidated net sales of 225.6 billion yen, a year-on-year increase of 8.3 billion yen. This was in spite of the impact of the sale of the scientific instruments business that took place during the fourth quarter of the last fiscal year. On a per-segment basis, sales under the Watch Business grew steadily both within Japan and overseas, and the Electronic Device Business, particularly the performance of semiconductors, recovered as well. At the same time, the Systems Solutions Business performed sluggishly due mainly to delays in new product development. On an overall consolidated basis, domestic net sales came to 104.7 billion yen (a year-on-year decrease of 6.6%) and overseas net sales to 120.8 billion yen (a year-on-year increase of 14.9%), with the latter comprising 53.6% of net sales overall (relative to 48.4% for the same period last fiscal year). In terms of income, operating income came to 13.3 billion yen, a year-on-year increase of 4.4 billion yen. This significant growth in operating income is primarily attributable to the

performance of the Watch Business. Additionally, due to non-operating income trending at nearly the same level as the same period last fiscal year, ordinary income also increased by 4.3 billion yen over the same period last fiscal year to become 11.2 billion yen. While a total of 5.5 billion yen consisting primarily of 4.6 billion yen in insurance income related to damage inflicted by the floods in Thailand two fiscal years prior and 0.8 billion yen in gains on sales of investment securities resulting from the sale of stocks of subsidiaries and affiliates was posted under extraordinary income, the Company posted 0.6 billion yen in special extra retirement payments and 0.6 billion yen as a provision of a reserve for losses on lease contracts under extraordinary losses. As a result of the above, quarterly net income minus income taxes and minority interests in income came to 11.9 billion yen (a year-on-year increase of 63.6%).

The Company also wishes to note that it supplied the timers officially used in the IAAF World Championships Moscow 2013, which was held in August. New starting block and LED-display field event board models by the Company, which were utilized for the first time at the event, helped make it a rousing success.

## **2. Results by Segment**

Results for each segment are as follows:

### **a. Watch Business**

Net sales under the Watch Business for the nine-month period ending 31 December 2013 came to 111.4 billion yen, a year-on-year increase of 19.9 billion yen, or 21.8%. In Japan, sales across a wide spectrum of price ranges, from the GRAND SEIKO, CREDOR and other high-value range products to the LUKIA ladies' watch model, the BRIGHTZ men's watch model and other medium- to low-value range products, demonstrated improved sales growth over the same period last fiscal year. Following its release in September 2012, the ASTRON, which represents the world's first and only GPS solar watch, also enjoyed steady improvements in sales that were driven by the release of new products. One of these was the "Kintaro Hattori Special Limited Edition Model" ASTRON, which was released to symbolize the 100th-year anniversary of SEIKO watch and contains an engraving of the philosophy espoused by that model's namesake, the founder of the Company. Additionally, after entering the current fiscal year, the Company opened four new "Seiko Premium Watch Salon" locations. This series of

stores is intended to strategically develop the Company's three high-end watch brands (GRAND SEIKO, CREDOR and GALANTE). The Company also continues to focus on its differentiation strategy for these stores, starting with developing up to a total of 26 locations. On the overseas front, sales to major chain stores and department stores progressed favorably in the United States, and sales in Europe, particularly in the United Kingdom, France and Germany, also grew. In Asia, sales in China decreased year on year, but grew in Taiwan and other countries. This, coupled with the effects of the depreciated yen, propelled sales in the American, European and Asian regions well over those for the same period last fiscal year following conversion into yen. With regards to watch movement sales, amid intensified price competition caused by the progressively weaker yen, although sales of standard movements were especially sluggish, movements sold to large clients dealing in high value-added products performed briskly.

With regards to income, the increase in net sales yielded a year-on-year increase of 3.0 billion yen in operating income, bringing it to 11.6 billion yen.

#### **b. Electronic Device Business**

Net sales in the Electronic Device Business came to 69.7 billion yen, and operating income to 2.2 billion yen. On a per-domain basis, sales of semiconductors, particularly those for automobile and smartphone products, grew. Sales of batteries, especially those for smartphones, also progressed on a favorable note. Demand for printers continues to increase with particular growth in markets for building materials intended for emerging countries. Sales of hard disk drive components also recovered over the same period last fiscal year, during which sales had been impacted by damage inflicted by the floods in Thailand.

#### **c. Systems Solutions Business**

Net sales in the Systems Solutions Business came to 14.9 billion yen, and operating losses to 62 million yen. Sales of payment terminal-related products grew primarily due to the introduction of new products and the front-loading of capital spending forecasts by customers. However, sales of products related to mobile communications decreased due mainly to delays in product development.

#### **d. Others**

Among segments included in Others, sales under the Optical Product and Clock

Businesses increased due in part to the impact of the depreciated yen. Under the Wako business, the main building and corporate sales department performed on a favorable note. On a per-product basis, sales for watches and jewelry were the chief drivers of the double-digit growth collectively posted for products under Others. These factors brought net sales and operating income under Others to 36.9 billion yen and 0.3 billion yen, respectively.

## **Financial Condition**

### **Status of Assets, Liabilities, and Net Assets**

Total assets at the close of the nine-month period ending 31 December 2013 amounted to 382.8 billion yen, an increase of 27.5 billion yen relative to the close of the last fiscal year. Current assets increased by 10.1 billion yen to become 167.0 billion yen. This was mainly due to a 1.7 billion-yen increase in notes and accounts receivable-trade and an 8.5 billion-yen increase in inventories. Under noncurrent assets, a 1.8 billion-yen increase in property, plant and equipment and a 15.7 billion-yen increase in investment and other assets caused total noncurrent assets to increase by 17.3 billion yen to 215.8 billion yen.

For liabilities, the Company posted 313.2 billion yen in total liabilities, a decrease of 1.2 billion yen over the close of the last fiscal year. This was attributable to a 3.5 billion-yen decrease in notes and accounts payable-trade and a 3.1 billion-yen decrease in accounts payable-other, which offset a 4.2 billion-yen increase in electronically recorded obligations-operating and a 4.4 billion-yen increase in deferred tax liabilities (noncurrent liabilities).

Additionally, due to an 11.1 billion-yen increase in shareholders' equity and a 16.8 billion-yen increase in total accumulated other comprehensive income, total net assets increased by 28.7 billion yen over the close of the last fiscal year to become 69.5 billion yen.

### **Outlook for the Year Ending 31 March 2014**

During the third quarter of the current fiscal year, due to the steady performance of its Watch Business, the Company forecasts that for the year ending 31 March

2014, its consolidated operating income and operating income under the Watch Business will exceed previously-issued forecasts by 1.0 billion yen. Additionally, due largely to expectations that it will incur extraordinary losses during the fourth quarter, the Company forecasts that its net income for the fiscal year in question will fall below previously-issued forecasts by 2.0 billion yen to become 9.0 billion yen. Note that assumed exchange rates for the fourth quarter are as follows: 1 US dollar=100 yen; 1 euro=130 yen.

The Company's business results forecast following revision is as follows:

■ **Forecast for the consolidated business results for the year ending 31 March 2014 (FY2013)**

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	300.0	5.7
Operating income	14.0	153.5
Ordinary income	10.0	208.3
Net income	9.0	62.8

■ **Forecasted results by segment for the year ending 31 March 2014 (FY2013)**

	Net Sales (Billions of yen)	Operating Income (Billions of yen)
Watch Business	145.0	12.0
Electronic Device Business	90.0	2.5
Systems Solutions Business	25.0	0.5
Total for all business segments	260.0	15.0
Others	50.0	0.5
Consolidated total	300.0	14.0

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

*The forecasted results that appear above have been prepared based on information currently available to the Company and on certain assumptions determined by the Company to be reasonable. Actual business results, etc. may largely differ from forecasted figures due to a number of factors.*

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## Balance Sheets

Seiko Holdings Corporation and Consolidated Subsidiaries

31 December 2013

	Millions of yen	
	31 December 2013	31 March 2013
	Amount	Amount
<b>Assets</b>		
Current assets:		
Cash and deposits	42,865	42,830
Notes and accounts receivable-trade	45,382	43,583
Inventories	69,158	60,638
Accounts receivable-other	2,824	2,557
Deferred tax assets	3,084	3,454
Other	5,302	5,258
Allowance for doubtful accounts	(1,585)	(1,453)
<b>Total current assets</b>	<b>167,032</b>	<b>156,867</b>
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	107,697	101,285
Machinery, equipment and vehicles	107,335	102,312
Tools, furniture and fixtures	35,093	33,407
Other	3,699	3,567
Accumulated depreciation	(183,414)	(174,473)
Land	76,199	76,148
Construction in progress	2,312	4,817
Subtotal	148,924	147,065
Intangible assets:		
Goodwill	9,048	9,541
Other	6,494	6,262
Subtotal	15,543	15,803
Investments and other assets:		
Investment securities	43,981	28,191
Deferred tax assets	1,764	1,786
Other	8,728	8,941
Allowance for doubtful accounts	(3,141)	(3,348)
Subtotal	51,332	35,571
<b>Total noncurrent assets</b>	<b>215,800</b>	<b>198,440</b>
<b>Total assets</b>	<b>382,832</b>	<b>355,308</b>

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	Millions of yen	
	31 December 2013	31 March 2013
	Amount	Amount
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable-trade	35,243	38,840
Electronically recorded obligations-operating	7,625	3,333
Short-term loans payable	60,094	54,065
Current portion of long-term loans payable	38,533	65,352
Accounts payable-other	11,676	14,833
Income taxes payable	1,999	1,416
Deferred tax liabilities	115	104
Provision for bonuses	1,774	2,003
Other provision	961	779
Asset retirement obligations	16	16
Other	11,577	14,139
<b>Total current liabilities</b>	<b>169,619</b>	<b>194,885</b>
Noncurrent liabilities:		
Long-term loans payable	100,423	79,571
Deferred tax liabilities	9,373	4,946
Deferred tax liabilities for land revaluation	4,218	4,218
Provision for retirement benefits	19,372	19,974
Other provision	1,141	1,079
Asset retirement obligations	343	338
Negative goodwill	-	189
Other	8,787	9,303
<b>Total noncurrent liabilities</b>	<b>143,659</b>	<b>119,621</b>
<b>Total liabilities</b>	<b>313,278</b>	<b>314,507</b>



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	Millions of yen	
	31 December 2013	31 March 2013
	Amount	Amount
<b>Net assets</b>		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,414	7,414
Retained earnings	33,429	22,301
Treasury stock	(144)	(134)
Subtotal	50,699	39,580
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	8,803	(2,276)
Deferred gains or losses on hedges	(246)	(332)
Revaluation reserve for land	7,617	7,617
Foreign currency translation adjustment	91	(5,575)
Subtotal	16,266	(567)
Minority interests	2,587	1,787
<b>Total net assets</b>	<b>69,553</b>	<b>40,801</b>
<b>Total liabilities and net assets</b>	<b>382,832</b>	<b>355,308</b>

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## Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Nine Months Ended 31 December 2013

	Millions of yen	
	3Q FY 2013	3Q FY 2012
	Amount	Amount
<b>Net sales</b>	225,606	217,304
Cost of sales	147,844	148,622
Gross profit	77,762	68,681
Selling, general and administrative expenses	64,391	59,790
<b>Operating income</b>	<b>13,370</b>	<b>8,891</b>
<b>Non-operating income:</b>		
Interest income	110	160
Dividends income	181	224
Foreign exchange gains	1,384	457
Equity in earnings of affiliates	–	499
Other	1,357	1,064
Subtotal	3,032	2,407
<b>Non-operating expenses:</b>		
Interest expenses	3,106	3,645
Equity in losses of affiliates	1,256	–
Other	827	761
Subtotal	5,190	4,407
<b>Ordinary income</b>	<b>11,213</b>	<b>6,890</b>
<b>Extraordinary income:</b>		
Insurance income	4,628	3,676
Gain on sales of investment securities	843	–
Reversal of allowance for doubtful accounts for subsidiaries and affiliates	119	–
Gain on sales of noncurrent assets	–	1,560
Subtotal	5,591	5,237
<b>Extraordinary loss:</b>		
Special extra retirement payments	646	723
Provision of reserve for loss on lease contracts	631	–
Loss on disaster	–	694
Loss on valuation of investment securities	–	122
Other	–	868
Subtotal	1,278	2,408
<b>Income before income taxes and minority interests</b>	<b>15,526</b>	<b>9,719</b>
Income taxes	3,239	1,798
Income before minority interests	12,286	7,921
Minority interests in income	309	600
<b>Net income</b>	<b>11,976</b>	<b>7,320</b>

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## Statements of Comprehensive Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Nine Months Ended 31 December 2013

	Millions of yen	
	3Q FY 2013	3Q FY 2012
	Amount	Amount
<b>Income before minority interests</b>	<b>12,286</b>	<b>7,921</b>
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	10,962	(3,621)
Deferred gains or losses on hedges	86	(71)
Revaluation reserve for land	–	283
Foreign currency translation adjustment	4,096	1,820
Share of other comprehensive income of associates accounted for using equity method	1,832	(228)
Subtotal	16,977	(1,817)
<b>Comprehensive income</b>	<b>29,264</b>	<b>6,103</b>
Comprehensive income attributable to owners of the parent	28,810	5,487
Comprehensive income attributable to minority interests	453	616

## Segment Information

### 1. Information about Sales and Income (Loss) by Reported Segment (For the Nine Months Ended 31 December 2012)

	Millions of yen	
	Sales 3Q FY 2012	Operating Income 3Q FY 2012
Watch Business	91,558	8,610
Electronic Components Business	98,462	874
Clock Business	6,952	(483)
Optical Products Business	16,331	87
Other Businesses	10,213	91
Total for all business segments	223,518	9,180
Eliminations and common	(6,213)	(289)
Total	217,304	8,891

- Notes: 1. Adjustments to segment income in the amount of -289 million yen include -546 million yen in the amortization of goodwill, 1,058 million yen that mainly consists of the elimination of intra-segment transactions, and -801 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).
2. Segment income (loss) has been adjusted for alongside operating income on the consolidated quarterly statements of income.
3. The above data was computed based on reported segments prior to the change in segmentation methods as of the three-month period ending 30 June 2013.

### 2. Information about Sales and Income (Loss) by Reported Segment (For the Nine Months Ended 31 December 2013)

	Millions of yen	
	Sales 3Q FY 2013	Operating Income 3Q FY 2013
Watch Business	111,480	11,639
Electronic Device Business	69,711	2,209
Systems Solutions Business	14,962	(62)
Total for reported segments	196,153	13,786
Others	36,990	341
Total for all business segments	233,144	14,128
Eliminations and common	(7,537)	(757)
Total	225,606	13,370

- Notes: 1. The "Others" category denotes business segments not included among reported segments, such as the Clock Business and the Optical Products Business.
2. Adjustments to segment income in the amount of -757 million yen include -521 million yen in the amortization of goodwill, 837 million yen that mainly consists of the elimination of intra-segment transactions, and -1,074 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 income on the consolidated quarterly statements of income.

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Matters pertaining to changes, etc. in reported segments

As of the three-month period ending 30 June 2013, the Company has divided the Electronic Components Business into the Electronic Device Business and the Systems Solutions Business. Additionally, the Company has collectively disclosed data on its Clock Business, Optical Products Business and other non-reported segments as the "Others" category.

The main finished goods and merchandise belonging to each reported segment are as follows:

Reported Segment	Main Products
Watch Business	Watches, watch movements
Electronic Device Business	Semiconductors, quartz crystals, micro batteries and materials, printers, hard disk drive components, and shutters for cameras
Systems Solutions Business	Data services, information network systems, and IC dictionaries
Others	Clocks, optical lenses and frames, high-end clothing and miscellaneous goods, system clocks, etc.

Moreover, due mainly to the fact that the accurate computation of segment data for the nine-month period ending 31 December 2012 using segmentation methods for the nine-month period ending 31 December 2013 requires a tremendous burden, segment data for the nine-month period ending 31 December 2013 has been indicated below based on the treatment of segment data for the nine-month period ending 31 December 2012.

	Millions of yen	
	Sales 3Q FY 2013	Operating Income 3Q FY 2013
Watch Business	111,480	11,639
Electronic Components Business	84,265	2,227
Clock Business	7,220	(578)
Optical Products Business	18,328	518
Other Businesses	11,421	395
Total for all business segments	232,715	14,204
Eliminations and common	(7,108)	(833)
Total	225,606	13,370

Notes:

- Adjustments to segment income in the amount of -833 million yen include -521 million yen in the amortization of goodwill, 761 million yen that mainly consists of the elimination of intra-segment transactions, and -1,074 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 (loss) has been adjusted for alongside operating income on the consolidated quarterly statements of income.

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