

February 14, 2017

CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2016

Financial Highlights

For the nine months ended December 31, 2016 (3Q FY2016)

	3Q FY2016		3Q FY2015
	Millions of yen	Millions of US dollars	Millions of yen
Net sales	191,058	1,639.6	228,963
Operating income	5,630	48.3	13,634
Ordinary income	5,446	46.7	14,102
Profit attributable to owners of parent	632	5.4	12,678
Earnings per share (yen/USD)	¥ 3.07	US\$ 0.03	¥ 61.36
Cash dividends per share (yen/USD)	¥ 7.50	US\$ 0.06	¥ 5.00
	December 31, 2016		March 31, 2016
Total assets	342,969	2,943.2	329,115
Net assets	104,656	898.1	102,692

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 116.53 yen/dollar.

Business Results

1. Overview

During the nine-month period ended December 31, 2016, the world economy slowed significantly in the first half against the backdrop of factors including a stall in the U.S. economy, concerns about the economic slowdown in China, and confusion in financial markets due to the Brexit shock in the U.K. However, there was gradual improvement in the second half as the U.S. economy picked up and various government measures propped up the Chinese economy. Furthermore, the adverse effects and limitations of substantial monetary easing, including quantitative easing and negative interest rate policies, were being recognized, particularly in developed countries. In the meantime, the U.S. dollar strengthened against other currencies toward the year-end amid factors including growing expectations for a large increase in fiscal spending following Donald Trump's victory in the U.S. presidential election and an interest-rate hike in the U.S. in December. These trends led to a

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weakening of the yen and higher stock prices, and signs of a recovery began to appear in personal consumption, which had been stagnant, whereas uncertainties over the outlook for emerging nations have been rekindled due to depreciating currencies.

For the nine-month period ended December 31, 2016, the Company reported consolidated net sales of 191.0 billion yen, a year-on-year decrease of 37.9 billion yen, or 16.6%. On a per-segment basis, sales under the Watches Business and the Electronic Devices Business declined year on year, due to the impact of yen appreciation and other factors, while the Systems Solutions Business grew compared to the same period of the previous fiscal year. On an overall consolidated basis, domestic net sales came to 99.1 billion yen (a year-on-year decrease of 8.9%), and overseas net sales were 91.9 billion yen (a year-on-year decrease of 23.5%). Overseas net sales comprised 48.1% of net sales overall. In terms of income, operating income decreased 8.0 billion yen compared to the same period of the previous fiscal year to 5.6 billion yen (a year-on-year decrease of 58.7%). Furthermore, ordinary income amounted to 5.4 billion yen (a year-on-year decrease of 61.4%), as non-operating income and expenses dipped into negative territory. Gain on sales of non-current assets of 0.4 billion yen was posted as extraordinary income, restructuring expenses of 0.4 billion yen and others were posted as extraordinary losses, and income taxes amounted to 3.5 billion yen. As a result of these factors, profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests came to 0.6 billion yen (a year-on-year decrease of 95.0%).

2. Results by Segment

Results for each segment are as follows:

a. Watches Business

Net sales under the Watches Business for the nine-month period ended December 31, 2016, came to 102.5 billion yen, a year-on-year decrease of 27.6 billion yen, or 21.2%. In Japan, sales fell due to the shifts in consumption by foreign tourists, in addition to sluggish personal consumption mainly for high-end products. On the overseas front, sales grew on a local currency basis in many markets, including Germany and Australia. However, net sales shrank due to factors including the impact of yen appreciation, as well as a falling off in department store distribution channels in the U.S. market. Sales of watch movements worsened due to the impact of a reduction in products handled, as well as the slump in the watch markets of the U.S. and China, among other factors.

With regard to income, the decrease in net sales resulted in a year-on-year decrease of 6.8 billion yen in operating income, bringing it to 6.2 billion yen (a year-on-year decrease of 52.3%).

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b. Electronic Devices Business

Net sales under the Electronic Devices Business came to 61.5 billion yen (a year-on-year decrease of 15.8%), and operating income to 2.0 billion yen (a year-on-year decrease of 13.9%). Semiconductors mainly for automobiles and smartphones performed strongly on a volume basis. Performance was also favorable for quartz crystals and for high performance metals in batteries and materials. However, overall sales declined year on year due to the impact of yen appreciation.

c. Systems Solutions Business

Net sales under the Systems Solutions Business came to 14.5 billion yen (a year-on-year increase of 10.5%), and operating income to 0.8 billion yen (compared to operating losses of 0.2 billion yen for the same period of the previous fiscal year). Sales were favorable in some businesses such as data services, which include payment terminals, and mobile solutions for home security.

d. Others

Net sales under Others amounted to 19.4 billion yen (a year-on-year decrease of 7.2%). Among segments included in Others, sales under the Wako Business fell due to shifts in consumption by foreign tourists, while the Clock Business saw a steady increase in sales in Japan despite a decrease in sales to overseas due to the impact of yen appreciation. Operating losses came to 89 million yen (compared to operating income of 0.5 billion yen for the same period of the previous fiscal year).

3. Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets at the close of the nine-month period ended December 31, 2016 amounted to 342.9 billion yen, an increase of 13.8 billion yen from the close of the previous fiscal year. Current assets amounted to 166.6 billion yen, an increase of 7.0 billion yen. This was mainly due to increases of 2.2 billion yen in cash and deposits and 5.9 billion yen in inventories, offsetting a decrease of 1.1 billion yen in deferred tax assets (current). Under non-current assets, investments and other assets increased 5.9 billion yen, resulting in total non-current assets of 176.2 billion yen, an increase of 6.8 billion yen.

For liabilities, the Company posted 238.3 billion yen in total liabilities, an increase of 11.8 billion yen over the close of the previous fiscal year. This was mainly attributable to increases of 5.3 billion yen in notes and accounts payable-trade, 12.0 billion yen in long- and short-term loans payable, and 3.0 billion yen in deferred tax liabilities (non-current), which offset decreases of 4.5 billion yen in accounts payable-other, 1.5 billion yen in provision for bonuses, and 3.6 billion yen in net defined benefit liability.

Additionally, total net assets increased by 1.9 billion yen over the close of the previous fiscal year to become 104.6 billion yen, due to an increase of 4.0 billion yen in total accumulated other comprehensive income resulting from an increase of 5.2 billion yen in valuation difference on available-for-sale securities, despite a decrease of 2.7 billion yen in shareholders' equity mainly due to the recording of profit attributable to owners of parent and payment of cash dividends.

4. Outlook for the Year Ending March 31, 2017

There are no changes at this point to the consolidated business results forecast for the year ending March 31, 2017 (FY2016).

If it becomes necessary to change the consolidated business results forecast for the year ending March 31, 2017 (FY2016), released on September 13, 2016, notification will be made immediately.

The forecasted results which appear in this report are based on the information which we have obtained as of now, and on certain assumptions deemed reasonable. As a result, actual results, etc. may differ significantly from the forecasted figures due to a wide range of factors.

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Balance Sheets

Seiko Holdings Corporation and Consolidated Subsidiaries

December 31, 2016

	Millions of yen	
	December 31, 2016	March 31, 2016
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	41,418	39,131
Notes and accounts receivable - trade	42,244	41,623
Inventories	71,100	65,196
Accounts receivable - other	3,020	3,753
Deferred tax assets	3,799	4,966
Other	6,513	6,466
Allowance for doubtful accounts	(1,426)	(1,488)
Total current assets	166,671	159,649
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	72,446	70,424
Machinery, equipment and vehicles	81,702	80,454
Tools, furniture and fixtures	31,556	30,654
Other	2,913	2,983
Accumulated depreciation	(142,729)	(140,016)
Land	48,912	48,674
Construction in progress	507	1,758
Total property, plant and equipment	95,308	94,934
Intangible assets:		
Goodwill	7,447	7,663
Other	9,006	8,262
Total intangible assets	16,454	15,925
Investments and other assets:		
Investment securities	49,200	42,407
Deferred tax assets	8,422	8,966
Other	7,091	7,432
Allowance for doubtful accounts	(179)	(199)
Total investments and other assets	64,535	58,606
Total non-current assets	176,298	169,466
Total assets	342,969	329,115

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	Millions of yen	
	December 31, 2016	March 31, 2016
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	29,616	24,267
Electronically recorded obligations - operating	7,328	7,766
Short-term loans payable	49,326	39,565
Current portion of long-term loans payable	37,107	35,342
Accounts payable - other	10,895	15,442
Income taxes payable	1,030	1,851
Deferred tax liabilities	21	19
Provision for bonuses	2,476	4,054
Other provision	602	766
Asset retirement obligations	-	16
Other	12,830	10,696
Total current liabilities	151,237	139,789
Non-current liabilities:		
Long-term loans payable	50,349	49,811
Deferred tax liabilities	12,234	9,232
Deferred tax liabilities for land revaluation	3,614	3,614
Other provision	529	605
Net defined benefit liability	13,394	17,011
Asset retirement obligations	651	459
Other	6,302	5,898
Total non-current liabilities	87,075	86,633
Total liabilities	238,313	226,423

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	Millions of yen	
	December 31, 2016	March 31, 2016
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,245	7,246
Retained earnings	54,775	57,323
Treasury shares	(329)	(158)
Total shareholders' equity	71,691	74,411
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	15,978	10,719
Deferred gains or losses on hedges	(37)	(28)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	(73)	1,647
Remeasurements of defined benefit plans	66	(417)
Total accumulated other comprehensive income	24,125	20,110
Non-controlling interests	8,840	8,170
Total net assets	104,656	102,692
Total liabilities and net assets	342,969	329,115

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Nine Months Ended December 31, 2016

	Millions of yen	
	3Q FY 2016	3Q FY 2015
	Amount	Amount
Net sales	191,058	228,963
Cost of sales	119,517	144,874
Gross profit	71,541	84,088
Selling, general and administrative expenses	65,910	70,454
Operating income	5,630	13,634
Non-operating income:		
Interest income	102	141
Dividend income	733	854
Other	1,308	1,865
Total non-operating income	2,143	2,861
Non-operating expenses:		
Interest expenses	1,391	1,610
Other	935	781
Total non-operating expenses	2,327	2,392
Ordinary income	5,446	14,102
Extraordinary income		
Gain on sales of non-current assets	490	348
Total extraordinary income	490	348
Extraordinary losses		
Settlement payment related to patent contracts	530	-
Restructuring expenses	403	-
Business structure improvement expenses	112	1,597
Loss on retirement of non-current assets	-	115
Total extraordinary losses	1,046	1,713
Income before income taxes	4,891	12,737
Income taxes	3,594	(63)
Profit	1,296	12,801
Profit attributable to non-controlling interests	664	122
Profit attributable to owners of parent	632	12,678

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Statements of Comprehensive Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Nine Months Ended December 31, 2016

	Millions of yen	
	3Q FY 2016	3Q FY 2015
	Amount	Amount
Profit	1,296	12,801
Other comprehensive income		
Valuation difference on available-for-sale securities	5,488	(2,117)
Deferred gains or losses on hedges	(14)	33
Revaluation reserve for land	—	4
Foreign currency translation adjustment	(716)	(1,169)
Remeasurements of defined benefit plans, net of tax	459	44
Share of other comprehensive income of entities accounted for using equity method	(1,184)	745
Total other comprehensive income	4,032	(2,458)
Comprehensive income	5,329	10,342
Comprehensive income attributable to		
owners of parent	4,647	10,274
non-controlling interests	682	68

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Segment Information

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

(For the Nine Months Ended December 31, 2015)

	Millions of yen	
	Sales 3Q FY 2015	Operating Income 3Q FY 2015
Watches Business	130,196	13,155
Electronic Devices Business	73,086	2,360
Systems Solutions Business	13,164	(224)
Total for reported segments	216,448	15,291
Others	20,935	583
Total for all business segments	237,384	15,875
Adjustments	(8,420)	(2,240)
Total	228,963	13,634

- 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 -2,240 million yen include -424 million yen in the amortization of goodwill, 445 million yen that mainly consists of the elimination of intra-segment transactions, and -2,261 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.

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

(For the Nine Months Ended December 31, 2016)

	Millions of yen	
	Sales 3Q FY 2016	Operating Income 3Q FY 2016
Watches Business	102,544	6,275
Electronic Devices Business	61,513	2,033
Systems Solutions Business	14,551	832
Total for reported segments	178,609	9,141
Others	19,436	(89)
Total for all business segments	198,046	9,052
Adjustments	(6,987)	(3,422)
Total	191,058	5,630

- 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 -3,422 million yen include -424 million yen in the amortization of goodwill, -19 million yen that mainly consists of the elimination of intra-segment transactions, and -2,978 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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