

10 May 2011

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED 31 MARCH 2011

Financial Highlights

For the fiscal year ended 31 March 2011 (FY2010)

	FY2010		FY2009
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	313,881	3,774,877	230,766
Operating income	11,656	140,180	1,979
Ordinary income	6,585	79,194	(1,940)
Net income	2,181	26,230	(3,632)
Earnings per share (yen)	12.43	\$0.15	(25.23)
	31 March 2011		31 March 2010
Total assets	400,457	4,816,079	405,960
Net assets	46,270	556,5	42,554

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 83.15 yen/dollar.

Business Results

1. Overview

For the fiscal year ended 31 March 2011, SEIKO HOLDINGS CORPORATION reported consolidated net sales of 313.8 billion yen, an increase of 83.1 billion yen (36.0% increase) from the previous year. The increase is primarily the result of 85.0 billion yen from the effects of including Seiko Instruments Inc. and its subsidiaries in consolidated results in conjunction with the integration of its management in October 2009. Sales in the watch business, electronic components business, and clock business increased, but sales in the optical products business and other businesses declined.

The Company reported operating income of 11.6 billion yen, up 9.6 billion yen from 1.9 billion yen in the previous year, as a result of steady progress in reducing operating expenses. Interest expenses and foreign exchange losses increased, but

improved equity in the earnings of affiliates and other factors resulted in ordinary income of 6.5 billion yen compared to an ordinary loss of 1.9 billion yen in the previous year. In addition, the Company recorded 2.7 billion yen in extraordinary income due mainly to capital gains in conjunction with exchanges of land lease rights and recorded 4.2 billion yen in extraordinary losses due primarily to losses on retirement of fixed assets in conjunction with application of the Accounting Standard for Asset Retirement Obligations and disaster losses. As a result, income after income taxes and minority interests was 2.1 billion yen (compared to a net loss of 3.6 billion yen in the previous year).

2. Results by Segment

The Company operates as a consolidated management organization in five areas of business—watches, electronic components, clocks, optical products, and other businesses. Starting this fiscal year, Seiko Instruments' watch manufacturing and watch movement sales businesses were integrated with the watch business and the timepiece retail business was transferred from other businesses to the watch business. In addition, Seiko Instruments' mechatronics and electronic device businesses were combined with the precision products business to form the new electronic components business. No changes were made with respect to the makeup of the clock and optical products businesses.

Results for each segment are as follows:

a. Watch business

The watch business reported sales of 106.9 billion yen, an increase of 42.4 billion yen (65.7% increase) from the previous year. The effect on sales from the changes to the consolidated management organization was 41.0 billion yen. In Japan, sales of Grand Seiko, particularly the 50th anniversary model, were robust, and sales of high-priced products were up sharply from the previous year. Sales of medium- to low-priced products were steady on the whole, with Tissé ladies watches continuing to perform briskly. Overseas, existing high-end lines were supplemented by expanding low- to mid-priced products including solar and mechanical watches, resulting in an increase in sales from the previous year in the United States and solid sales growth in China and other Asian countries. Watch movement sales benefited from the market recovery and increased steadily in

conjunction with the introduction of new models. As a result of higher sales and efforts to reduce operating expenses, operating income increased 5.7 billion yen from the previous year to 7.9 billion yen.

b. Electronic components business

The electronic components business reported sales of 167.4 billion yen and operating income of 6.2 billion yen. The sales figure includes sales of 29.0 billion yen from businesses that were under the precision products business until the previous fiscal year. In the electronic devices segment, semiconductors enjoyed continued solid sales growth from the previous year due mainly to their use in flat-panel televisions and ICs for automobiles, but there were some effects from temporary suspensions of operation caused by the Great East Japan Earthquake. In the mechatronics segment, sales of hard disk components and other products remained brisk. In the system application segment, sales of mobile communications modules for security-related products in Japan were up sharply from the previous year, but sales of large printers to the billboard industry have yet to recover. Sales of scientific instruments to Asian markets were steady and domestic sales increased in the second half, resulting in higher sales compared to the previous fiscal year.

c. Clock business

The clock business reported sales of 9.3 billion yen, up 3.8% from the previous year. Average prices in Japan continued to decline, but sales to home centers, mass merchandisers, and department stores increased. Overseas, sales in Europe and the United States were steady, and sales in Asia and the Middle East increased. However, the sales-profit rate did not improve because of rising manufacturing costs and other factors, and the clock business reported an operating loss of 0.5 billion yen (compared to an operating loss of 0.7 billion yen in the previous year).

d. Optical products business

The optical products business reported sales of 22.8 billion yen (a 6.1% decline from the previous year). The prices of lenses for mass merchandisers in Japan continue to decline, and although sales in Europe and the United States were steady, performance in this business remained sluggish because of worsening foreign currency exchange rates. The optical products business reported an

operating loss of 0.4 billion yen in the previous year, but thanks to reductions in operating expenses, this year operating income of 0.2 billion yen was reported.

e. Other businesses

Other businesses reported sales of 16.0 billion yen (a 46.0% decrease from the previous year) and an operating loss of 0.9 billion yen (compared to an operating loss of 0.7 billion yen in the previous year). Of the 13.6 billion yen decrease in sales from the previous year, the effect from the changes to the consolidated management organization was 10.6 billion yen. There was a slight improvement through the third quarter, but unfortunately the decline in consumption following the Great Eastern Japan Earthquake in March resulted in a decrease in sales from the previous year.

Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets as of 31 March 2011 were 400.4 billion yen, a decrease of 5.5 billion yen from the end of the previous fiscal year. Cash and deposits decreased by 4.5 billion yen mainly as a result of repayment of debts, but inventory assets increased, primarily because of an increase of inventory assets in the electronic components business, and current assets increased 3.2 billion yen from the end of the previous fiscal year. Capital investment was less than depreciation and amortization, land acquired through exchanges increased, land lease rights decreased, and valuation differences on available-for-sell securities decreased, resulting in a 3.8 billion yen decrease in fixed assets.

Despite a 4.3 billion yen increase in notes and accounts payable-trade in conjunction with higher inventory assets, repayment of long- and short-term loans payable continued, resulting in a 17.2 billion yen decrease from the end of the previous fiscal year. As a result, total liabilities were down 9.2 billion yen from the end of the previous year.

Retained earnings increased by 9.8 billion yen primarily as a result of a 7.6 billion yen drawdown of capital surplus and transfer to retained earnings and the reporting of earnings for the current term. Treasury stock increased by 1.9 billion

yen due to the sale of SEIKO HOLDINGS shares by some subsidiaries, but foreign currency translation adjustments were down 2.2 billion yen, resulting in a 3.7 billion yen increase in net assets.

Cash Flows in the 3rd Quarter Are Summarized as Follows

The balance of cash and cash equivalents at the end of the fiscal year was 51.9 billion yen, a decrease of 3.4 billion yen from the end of the previous fiscal year. The primary factors behind the decrease are as follows:

- Cash flows from operating activities

Net cash inflow from operating activities was 20.4 billion yen, due mainly to 5.0 billion yen in income before income taxes and minority interest and 16.8 billion yen in depreciation and amortization expenses contributing to increased cash flows and 2.1 billion yen in gains from the sale of fixed assets contributing to a decrease in cash flows.

- Cash flows from investing activities

Net cash outflow from investing activities was 8.6 billion yen, due mainly to 13.3 billion yen in expenditures for the purchase of property, plant, and equipment and 3.1 billion yen in income from the sale of property, plant, and equipment.

- Cash flows from financing activities

Net cash outflow from financing activities was 14.3 billion yen, due primarily to the repayment of long- and short-term loans.

Basic Policy Relating to Profit Distribution and Dividends in the Current and Next Term

With regard to the distribution of profits, the Company places a strong emphasis on the continued payment of stable dividends as its basic policy concerning shareholder dividends. Unfortunately, no dividend was declared last year, but earnings recovered and net income was reported for the current fiscal year, and consequently, the Company will declare a 2.0 yen per share dividend. Net income was below initial projections because of extraordinary losses caused by the extensive earthquake damage, and as a result, the dividend was reduced from the initial 2.5 yen per share projection by 0.5 yen per share.

The outlook for the next fiscal year remains uncertain at this time, and consequently, no decision has been made concerning dividends in the next fiscal year.

Outlook for the Next Fiscal Year

Continued economic growth is expected in China and other Asian countries, and the U.S. economy will likely gain momentum. In contrast, growth of the Japanese economy is expected to be sluggish because of the effects of the recent earthquake and additional time will be needed for normalization of supply chains including procurement of materials and components. This is expected to have further repercussions on the global economy.

The Company implemented recovery activities following the earthquake and was able to restore unimpaired production at its production sites, but electric power supplies during the summer and materials and component supplies may have some impact on production activities.

Under this business environment, the Company will work to reinforce sales to developing countries in the watch business and to achieve a recovery in overseas sales in the electronic components business primarily through sales of electronic devices. This will enable the Company to compensate for the slow recovery in domestic sales, but the timing of a recovery is still uncertain. The Company will also make further efforts to raise productivity and will work to minimize the impact of electric power shortages and other supply issues on income.

The outlook for consolidated financial results in the next fiscal year is as follows:

■ Forecast for the consolidated business results for the year ending 31 March 2012 (FY2011)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	315.0	100.4
Operating income	12.0	102.9
Ordinary income	8.0	121.5
Net income	4.0	183.3
Earnings per share (yen)	21.94	–

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 7/17

■ Forecasted results by segment for the year ending 31 March 2012 (FY2011)

	Net Sales (Billions of yen)	Operating Income (Billions of yen)
Watch Business	110.0	8.0
Electronic Components Business	165.0	5.0
Clock Business	10.0	0.0
Optical Products Business	23.0	0.2
Other Businesses	15.0	0.0
Total for all business segments	323.0	13.2
Consolidated total	315.0	12.0

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

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 8/17

Balance Sheets

Seiko Holdings Corporation and Consolidated Subsidiaries

31 March 2011

	Millions of yen	
	31 March 2011	31 March 2010
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	51,958	56,548
Notes and accounts receivable-trade	50,897	50,918
Merchandise and finished goods	37,720	37,969
Work in process	12,566	10,890
Raw materials and supplies	10,687	8,912
Accounts receivable-other	2,837	3,339
Deferred tax assets	4,489	4,347
Other	4,849	4,777
Allowance for doubtful accounts	(1,352)	(1,402)
Total current assets	174,654	176,301
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	107,510	107,916
Machinery, equipment and vehicles	100,248	97,437
Tools, furniture and fixtures	35,410	35,067
Other	3,191	781
Accumulated depreciation	(168,054)	(161,075)
Land	83,505	80,739
Construction in progress	1,054	2,382
Subtotal	162,866	163,249
Intangible assets:		
Goodwill	11,172	12,075
Other	10,373	12,305
Subtotal	21,545	24,381
Investments and other assets:		
Investment securities	31,989	32,415
Deferred tax assets	2,600	2,939
Other	10,229	10,070
Allowance for doubtful accounts	(3,428)	(3,395)
Subtotal	41,390	42,028
Total noncurrent assets	225,802	229,659
Total assets	400,457	405,960

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 9/17

	Millions of yen	
	31 March 2011	31 March 2010
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	45,175	40,798
Short-term loans payable	75,306	102,276
Current portion of long-term loans payable	58,606	59,777
Accounts payable-other	11,182	11,567
Income taxes payable	1,691	1,084
Deferred tax liabilities	127	21
Provision for bonuses	1,520	1,938
Provision for loss on disaster	580	–
Provision for goods warranties	490	532
Provision for loss on transfer of business	290	–
Other provision	105	19
Asset retirement obligations	39	–
Other	11,045	8,227
Total current liabilities	206,163	226,244
Noncurrent liabilities:		
Long-term loans payable	103,952	93,016
Deferred tax liabilities	4,632	5,207
Deferred tax liabilities for land revaluation	5,490	5,490
Provision for retirement benefits	25,241	26,398
Provision for directors' retirement benefits	350	884
Provision for environmental measures	330	303
Provision for gift certificate exchange losses	184	216
Provision for long-term goods warranties	92	109
Other provision	125	231
Asset retirement obligations	351	–
Negative goodwill	946	1,325
Other	6,325	3,976
Total noncurrent liabilities	148,023	137,161
Total liabilities	354,187	363,405

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 10/17

	Millions of yen	
	31 March 2011	31 March 2010
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,521	14,770
Retained earnings	23,140	13,262
Treasury stock	(1,010)	(2,984)
Subtotal	39,650	35,048
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	740	1,388
Deferred gains or losses on hedges	99	44
Revaluation reserve for land	7,154	7,154
Foreign currency translation adjustment	(10,455)	(8,173)
Subtotal	(2,461)	414
Minority interests	9,080	7,092
Total net assets	46,270	42,554
Total liabilities and net assets	400,457	405,960

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 11/17

Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For Year Ended 31 March 2011

	Millions of yen	
	FY 2010	FY 2009
	Amount	Amount
Net sales	313,881	230,766
Cost of sales	217,242	154,464
Gross profit	96,638	76,302
Selling, general and administrative expenses	84,981	74,323
Operating income	11,656	1,979
Non-operating income:		
Interest income	199	145
Dividends income	173	176
Equity in earnings of affiliates	1,058	–
Amortization of negative goodwill	378	378
Other	1,594	1,790
Subtotal	3,404	2,491
Non-operating expenses:		
Interest expenses	5,555	4,306
Foreign exchange losses	1,230	–
Equity in losses of affiliates	–	1,124
Other	1,690	980
Subtotal	8,475	6,410
Ordinary income (loss)	6,585	(1,940)
Extraordinary income:		
Gain on exchanges of land and others	2,191	–
Gain on sales of investment securities	293	–
Reversal of provision for directors' retirement benefits	225	–
Gain on exchange of land	–	7,957
Gain on sales of noncurrent assets	–	221
Compensation for damage received	–	117
Subtotal	2,710	8,297
Extraordinary loss:		
Loss on disaster	1,523	–
Losses on retirement of noncurrent assets	814	–
Loss on change in equity	705	–
Loss on adjustment for changes of accounting standard for asset retirement obligations	332	–
Provision of allowance for doubtful accounts for subsidiaries and affiliates	291	–
Provision for loss on transfer of business	290	–
Impairment loss	187	6,081
Loss on litigation	73	–
Business structure improvement expenses	–	2,090
Loss on retirement of noncurrent assets	–	341
Provision for environmental measures	–	279
Subtotal	4,219	8,793

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 12/17

	Millions of yen	
	FY 2010	FY 2009
	Amount	Amount
Income (loss) before income taxes and minority interests	5,076	(2,435)
Income taxes-current	2,417	1,539
Income taxes-deferred	(129)	(494)
Subtotal	2,288	1,045
Income before minority interests	2,788	–
Minority interests in income	607	151
Net income (loss)	2,181	(3,632)

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 13/17

Statements of Comprehensive Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For Year Ended 31 March 2011

	Millions of yen	
	FY 2010	FY 2009
	Amount	Amount
Income before minority interests	2,788	–
Other comprehensive income		
Valuation difference on available-for-sale securities	(617)	–
Deferred gains or losses on hedges	54	–
Foreign currency translation adjustment	(2,339)	–
Share of other comprehensive income of associates accounted for using equity method	(113)	–
Subtotal	(3,015)	–
Comprehensive income	(226)	–
Comprehensive income attributable to owners of the parent	(690)	–
Comprehensive income attributable to minority interests	464	–

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 14/17

Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries
For Year Ended 31 March 2011

	Millions of yen	
	FY 2010	FY 2009
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	5,076	(2,435)
Depreciation and amortization	16,845	11,553
Increase (decrease) in provision for retirement benefits	(1,069)	(1,187)
Increase (decrease) in provision for directors' retirement benefits	(534)	17
Increase (decrease) in allowance for doubtful accounts	60	(325)
Interest and dividends income	(373)	(322)
Dividends income from equity method affiliate	207	354
Interest expenses	5,555	4,306
Foreign exchange losses (gains)	(45)	(338)
Equity in (earnings) losses of affiliates	(1,058)	1,124
Impairment loss	187	6,081
Loss (gain) on sales of investment securities	(293)	–
Loss (gain) on sales of noncurrent assets	(2,191)	(8,179)
Loss on retirement of noncurrent assets	783	371
Decrease (increase) in notes and accounts receivable-trade	(2,790)	(1,439)
Decrease (increase) in inventories	(4,475)	7,248
Increase (decrease) in notes and accounts payable-trade	7,406	2,833
Other, net	4,336	1,047
Subtotal	27,627	20,710
Interest and dividends income received	373	322
Interest expenses paid	(5,632)	(4,325)
Income taxes paid	(1,869)	(1,049)
Net cash provided by (used in) operating activities	20,498	15,658
Net cash provided by (used in) investing activities		
Proceeds from withdrawal of time deposits		9,089
Purchase of property, plant and equipment	(13,349)	(4,157)
Proceeds from sales of property, plant and equipment	3,197	4,443
Purchase of investment securities	(50)	(304)
Proceeds from sales of investment securities	1,217	52
Proceeds from redemption of investment securities	–	3,600
Payments of loans receivable	(537)	(793)
Collection of loans receivable	575	808
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	–	174
Other, net	250	(1,599)
Net cash provided by (used in) investing activities	(8,696)	11,314

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 15/17

	Millions of yen	
	FY 2010	FY 2009
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	581,265	529,899
Decrease in short-term loans payable	(601,520)	(535,462)
Proceeds from long-term loans payable	65,947	43,380
Repayment of long-term loans payable	(62,246)	(51,297)
Cash dividends paid	–	(290)
Proceeds from sales of treasury stock	2,540	
Other, net	(381)	(332)
Net cash provided by (used in) financing activities	(14,394)	(14,104)
Effect of exchange rate change on cash and cash equivalents	(837)	178
Net increase (decrease) in cash and cash equivalents	(3,429)	13,047
Cash and cash equivalents at beginning of period	55,331	16,841
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	–	25,442
Cash and cash equivalents at end of period	51,901	55,331

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 16/17

Segment Information

1. Information about Business Segment (For Year Ended 31 March 2010)

	Millions of yen	
	Sales	Operating Income
	FY 2009	FY 2009
Watch Business	64,563	2,231
SEIKO Instruments Business	85,037	5,160
Precision Products Business	29,472	434
Optical Products Business	24,351	(462)
Clock Business	9,054	(766)
Other businesses	29,683	(785)
Total for all business segments	242,163	5,812
Eliminations and common	(11,397)	(3,833)
Total	230,766	1,979

2. Information about Sales (Loss) by Reported Segment (For Year Ended 31 March 2011)

	Millions of yen	
	Sales	Operating Income
	FY 2010	FY 2010
Watch Business	106,965	7,965
Electronic Components Business	167,454	6,204
Clock Business	9,394	(520)
Optical Products Business	22,869	202
Other businesses	16,027	(916)
Total for all business segments	322,712	12,935
Eliminations and common	(8,831)	(1,278)
Total	313,881	11,656

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: Year Ended 31 March 2011

Page 17/17

Notes:

1. Outline of Reported Segments

Seiko Holdings Corporation is able to obtain the separate financial information of our constituent units. The Board of Directors regularly examines this financial information in order to make decisions on the distribution of management resources and to evaluate business performance.

As a holding corporation, Seiko adopts a management structure that undertakes the consolidated administration of each business company. Each business company drafts comprehensive domestic and overseas plans regarding products and commodities handled and incidental businesses, and develops its individual business activities.

Accordingly, Seiko Holdings Corporation comprises product- and commodity-specific segments centered on business companies. The five reported segments are the Watch Business, the Electronic Components Business, the Clock Business, the Optical Products Business and Other Businesses.

The main products and commodities of each reported segment are as follows:

Reported Segment	Main Products
Watch Business	Watches, watch movements
Electronic Components Business	Hard disk components, semiconductors, quartz crystals, LCD devices, micro batteries and materials, information systems, IC dictionaries, printers, scientific instruments, network systems, and shutters for cameras
Clock Business	Clocks
Optical Products Business	Optical lenses and frames
Other Businesses	Golf clubs, musical accessories, high-end clothing and miscellaneous goods, real estate rental, system clocks, and sports timing equipments

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