

8 February 2011

CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2010

Financial Highlights

For the nine months ended 31 December 2010 (3Q FY2010)

	3Q FY2010		3Q FY2009
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	236,591	2,905,096	151,260
Operating income	9,380	115,177	26
Ordinary income	4,913	60,327	(2,779)
Net income	4,238	52,038	(5,486)
Earnings per share (yen)	24.35	\$0.3	(40.81)
	31 December 2010		31 March 2010
Total assets	416,460	5,113,703	405,960
Net assets	45,278	555,968	42,554

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 81.44 yen/dollar.

Business Results

1. Overview

For the nine months ended 31 December 2010, SEIKO HOLDINGS CORPORATION reported consolidated net sales of 236.5 billion yen, an increase of 85.3 billion yen from the same period of the previous year. The increase includes 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 and electronic components business recovered, but sales in the optical products business and other businesses declined. The Company reported operating income of 9.3 billion yen, up from 26 million yen in the same period of the previous year. Also, although interest expenses and foreign exchange losses increased, improved equity in the earnings of affiliates and other factors resulted in ordinary income of 4.9 billion yen compared to an ordinary loss of 2.7 billion

yen in the same period of the previous year. In addition, the Company recorded 2.4 billion yen in extraordinary income due mainly to capital gains in conjunction with exchanges of land lease rights and the reversal of provision for directors' retirement benefits at subsidiaries and recorded 0.8 billion yen in extraordinary losses due primarily to losses on retirement of fixed assets and application of the Accounting Standard for Asset Retirement Obligations. As a result, income after income taxes and minority interests was 4.2 billion yen (compared to a net loss of 5.4 billion yen in the same period of 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. Beginning with the first quarter of this fiscal year, Seiko Instruments' watch manufacturing and watch movements businesses were added to the watch business. Furthermore, the precision products business was combined with Seiko Instruments' mechatronics and electronic device businesses to form the new electronic components business. Also, in the quarter under review, the timepiece retail business was transferred from other businesses to the watch business. There have been no changes from the previous year 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 83.4 billion yen, an increase of 33.9 billion yen (68.6%) from the same period of the previous year. The effect on sales from the change to the consolidated management organization was 32.1 billion yen. In Japan, Grand Seiko sales, focused mainly on the 50th anniversary model, were robust, and sales of the high-priced products were up sharply from the previous year. Medium to low-priced products were steady on the whole, with Tissé ladies watches continuing to perform briskly. Overseas, although sales in Europe were slow to recover, sales in China and other Asian countries were brisk, and signs of recovery in the United States are appearing. Watch movement sales benefited from the market recovery and increased steadily in conjunction with the introduction of

new models. As a result, total sales were up from the same period of the previous year.

Thanks to higher sales and efforts to reduce operating expenses, operating income increased 5.3 billion yen from the same period of the previous year to 8.2 billion yen.

b. Electronic components business

The electronic components business reported sales of 124.3 billion yen and an operating income of 3.0 billion yen. The sales figure includes sales of 21.5 billion yen from businesses that were under the precision products business until the previous fiscal year. In the electronic devices segment, semiconductors enjoyed robust growth in the first half of the quarter due mainly to their use in flat-panel televisions and ICs for automobiles, but sales were sluggish in the second half because of falling prices. In the mechatronics segment, sales of hard disk components and other products remained brisk. In the system application business, sales of mobile communications modules for security-related products in Japan remained solid, but sales of large printers to the billboard industry have yet to recover. Also, sales of scientific instruments to Asian markets were firm.

c. Clock business

The clock business reported sales of 6.7 billion yen, up 4.0% from the same period of the previous year. Although sales volumes in Japan increased, sales remained sluggish as a result of falling average prices, but total sales were up from the same period of the previous year thanks to strong overseas sales. However, the sales-profit rate did not improve, and the clock business reported an operating loss of 0.5 billion yen (compared to an operating loss of 0.6 billion yen in the same period of the previous year).

d. Optical products business

The optical products business reported sales of 17.2 billion yen (a 5.9% decline from the same period of the previous year). Although sales in Europe and the United States were solid, sales in Japan remained slow because of the effects of increasingly fierce competition in lenses for mass merchandisers. An operating loss of 0.2 billion yen was reported in the same period of the previous year, but thanks

to reductions in operating expenses, the optical products business reported operating income of 0.1 billion yen in the quarter under review.

e. Other businesses

Other businesses reported sales of 11.5 billion yen (47.4% decrease from the same period of the previous year) and an operating loss of 0.7 billion yen (compared to an operating loss of 1.0 billion yen in the same period the previous year). The effect on sales from the change to the consolidated management organization was minus 8.3 billion yen. There was some improvement starting in the third quarter, but not to the extent of recovering from the downturn through the second quarter.

Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets as of 31 December 2010 were 416.4 billion yen, an increase of 10.4 billion yen from the end of the previous consolidated fiscal year. Cash and deposits increased 4.6 billion yen and inventory assets increased 7.4 billion yen as a result of seasonal fluctuations, but notes and accounts receivable-trade decreased due to the effect of exchange rate changes. As a result, current assets increased by 12.0 billion yen. Although land acquired through exchanges and available-for-sale securities subject to the equity method increased, noncurrent assets fell by 1.5 billion yen primarily due to depreciation and amortization effects. Liabilities increased by 7.7 billion yen from the end of the previous fiscal year to 371.1 billion yen due mainly to a 14.2 billion yen increase in notes and accounts payable-trade and lower debt. Retained earnings increased 11.9 billion yen as a result primarily of a 7.6 billion yen drawdown of capital surplus and transferred to retained earnings and conclusions in earnings for the current term. Assets increased 2.7 billion yen from the end of the previous fiscal year to 45.2 billion yen due mainly to a 2.5 billion yen decline in foreign currency translation adjustments.

Cash Flows in the 3rd Quarter Are Summarized as Follows

Cash and cash equivalents at the end of the third quarter of the current fiscal year stood at 61.1 billion yen, an increase of 5.8 billion yen from the 55.3 billion yen reported at the end of the previous fiscal year. The primary factors behind the

increase are as follows:

- Cash flows from operating activities

Net cash inflow from operating activities was 24.8 billion yen: 6.4 billion yen in income before income taxes and minority interests, 12.1 billion yen in depreciation and amortization expenses, and a 17.4 billion yen increase in accounts payable contributed to an increase in cash flows, while a 1.9 billion yen increase in notes and accounts receivable-trade and a 9.0 billion yen increase in inventories contributed to a decrease in cash flows.

- Cash flows from investing activities

Net cash outflow from investing activities was 7.0 billion yen, due mainly to 10.6 billion yen in expenditures for the purchase of property, plant, and equipment and 2.8 billion yen in income from the sale of property, plant, and equipment.

- Cash flows from financing activities

Net cash outflow from financing activities was 10.6 billion yen due primarily to the repayment of long- and short-term loans.

In addition, there was also a 1.2 billion yen outflow as a result of the effect of exchange rate changes on cash and cash equivalents.

Outlook for the Year Ending 31 March 2011

Although economic growth will continue in emerging markets during the fourth quarter of the fiscal year ending 31 March 2011, the sense of uncertainty in the economies of developed countries including Japan will remain.

Consolidated financial results were solid through the third quarter. However, prospects remain uncertain, particularly in the electronic components business, and consequently, the outlook for consolidated financial results for the year remains unchanged from the projections released at the end of the second quarter.

Projections for results by segment have been revised as indicated below.

■ Forecast for the consolidated business results for the year ending 31 March 2011 (FY2010)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	330.0	143.0
Operating income	10.5	530.6
Ordinary income	5.5	–
Net income	4.0	–

■ Forecasted results by segment for the year ending 31 March 2011 (FY2010)

	Net Sales (Billions of yen)	Operating Income (Billions of yen)
Watch Business	110.0	7.5
Electronic Components Business	180.0	4.5
Clock Business	9.5	(0.5)
Optical Products Business	24.0	0.3
Other Businesses	15.0	(0.7)
Total for all business segments	338.5	11.1
Consolidated total	330.0	10.5

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.

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Balance Sheets

Seiko Holdings Corporation and Consolidated Subsidiaries

31 December 2010

	Millions of yen	
	31 December 2010	31 March 2010
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	61,187	56,548
Notes and accounts receivable-trade	49,904	50,918
Merchandise and finished goods	41,469	37,969
Work in process	12,863	10,890
Raw materials and supplies	10,896	8,912
Accounts receivable-other	3,713	3,339
Deferred tax assets	4,615	4,347
Other	5,015	4,777
Allowance for doubtful accounts	(1,345)	(1,402)
Total current assets	188,320	176,301
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	107,960	107,916
Machinery, equipment and vehicles	99,530	97,437
Tools, furniture and fixtures	35,344	35,067
Other	2,268	781
Accumulated depreciation	(166,184)	(161,075)
Land	83,452	80,739
Construction in progress	1,288	2,382
Subtotal	163,660	163,249
Intangible assets:		
Goodwill	11,398	12,075
Other	10,563	12,305
Subtotal	21,962	24,381
Investments and other assets:		
Investment securities	33,460	32,415
Deferred tax assets	2,399	2,939
Other	10,143	10,070
Allowance for doubtful accounts	(3,487)	(3,395)
Subtotal	42,516	42,028
Total noncurrent assets	228,139	229,659
Total assets	416,460	405,960

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	Millions of yen	
	31 December 2010	31 March 2010
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	55,083	40,798
Short-term loans payable	77,267	102,276
Current portion of long-term loans payable	31,590	59,777
Accounts payable-other	10,848	11,567
Income taxes payable	1,495	1,084
Deferred tax liabilities	32	21
Provision for bonuses	2,851	1,938
Other provision	621	552
Asset retirement obligations	44	-
Other	12,438	8,227
Total current liabilities	192,273	226,244
Noncurrent liabilities:		
Long-term loans payable	134,436	93,016
Deferred tax liabilities	5,119	5,207
Deferred tax liabilities for land revaluation	5,490	5,490
Provision for retirement benefits	25,796	26,398
Other provision	1,081	1,746
Asset retirement obligations	526	-
Negative goodwill	1,041	1,325
Other	5,415	3,976
Total noncurrent liabilities	178,907	137,161
Total liabilities	371,181	363,405

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	Millions of yen	
	31 December 2010	31 March 2010
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,174	14,770
Retained earnings	25,198	13,262
Treasury stock	(2,387)	(2,984)
Subtotal	39,986	35,048
Valuation and translation adjustments:		
Valuation difference on		
available-for-sale securities	1,522	1,388
Deferred gains or losses on hedges	30	44
Revaluation reserve for land	7,154	7,154
Foreign currency translation adjustment	(10,686)	(8,173)
Subtotal	(1,978)	414
Minority interests	7,271	7,092
Total net assets	45,278	42,554
Total liabilities and net assets	416,460	405,960

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Nine Months Ended 31 December 2010

	Millions of yen	
	3Q FY 2010	3Q FY 2009
	Amount	Amount
Net sales	236,591	151,260
Cost of sales	162,717	99,376
Gross profit	73,873	51,884
Selling, general and administrative expenses	64,493	51,857
Operating income	9,380	26
Non-operating income:		
Interest income	144	96
Dividends income	173	176
Equity in earnings of affiliates	919	-
Other	1,479	1,292
Subtotal	2,717	1,565
Non-operating expenses:		
Interest expenses	4,201	2,906
Foreign exchange losses	1,691	
Other	1,291	1,464
Subtotal	7,184	4,371
Ordinary income (loss)	4,913	(2,779)
Extraordinary income:		
Gain on exchanges of lands	2,191	-
Reversal of provision for directors' retirement benefits	225	-
Gain on sales of noncurrent assets	-	221
Subtotal	2,417	221
Extraordinary loss:		
Loss on adjustment for changes of accounting standard for asset retirement obligations	332	-
Provision of allowance for doubtful accounts for subsidiaries and affiliates	234	110
Loss on retirement of noncurrent assets	196	-
Loss on litigation	97	-
Impairment loss	-	456
Business structure improvement expenses	-	1,336
Subtotal	861	1,903
Income (loss) before income taxes and minority interests	6,469	(4,461)
Income taxes-current	2,074	1,141
Income taxes-deferred	(146)	(262)
Subtotal	1,927	878
Income before minority interests	4,541	-
Minority interests in income	303	146
Net income (loss)	4,238	(5,486)

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Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Nine Months Ended 31 December 2010

	Millions of yen	
	3Q FY 2010	3Q FY 2009
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	6,469	(4,461)
Depreciation and amortization	12,195	7,153
Increase (decrease) in provision for retirement benefits	(502)	(500)
Increase (decrease) in provision for directors' retirement benefits	(549)	1
Increase (decrease) in allowance for doubtful accounts	133	124
Interest and dividends income	(318)	(273)
Proceeds from dividends income from affiliates accounted for by equity method	7	204
Interest expenses	4,201	2,906
Foreign exchange losses (gains)	294	(225)
Equity in (earnings) losses of affiliates	(919)	845
Impairment loss	-	456
Loss (gain) on sales of noncurrent assets	(2,191)	(221)
Loss on retirement of noncurrent assets	271	95
Decrease (increase) in notes and accounts receivable-trade	(1,928)	(3,601)
Decrease (increase) in inventories	(9,038)	1,953
Decrease (Increase) in accounts receivable-other		2,217
Increase (decrease) in notes and accounts payable-trade	17,402	8,293
Increase (decrease) in other current liabilities	3,260	
Other, net	1,365	(452)
Subtotal	30,153	14,514
Interest and dividends income received	318	273
Interest expenses paid	(4,009)	(2,619)
Income taxes paid	(1,605)	(941)
Net cash provided by (used in) operating activities	24,857	11,227
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(10,618)	(1,963)
Proceeds from sales of property, plant and equipment	2,839	471
Purchase of investment securities	(49)	(264)
Proceeds from sales of investment securities	44	46
Proceeds from redemption of investment securities	-	3,600
Payments of loans receivable	(467)	(572)
Collection of loans receivable	491	548
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	-	174
Other, net	684	558
Net cash provided by (used in) investing activities	(7,074)	2,598

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	Millions of yen	
	3Q FY 2010	3Q FY 2009
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	436,351	349,224
Decrease in short-term loans payable	(454,649)	(357,001)
Proceeds from long-term loans payable	60,447	31,380
Repayment of long-term loans payable	(53,273)	(26,291)
Cash dividends paid	–	(290)
Other, net	450	(248)
Net cash provided by (used in) financing activities	(10,673)	(3,227)
Effect of exchange rate change on cash and cash equivalents	(1,259)	26
Net increase (decrease) in cash and cash equivalents	5,850	10,625
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	61,182	52,909

Segment Information

1. Information about Business Segment (For the Nine Months Ended 31 December 2009)

	Millions of yen	
	Sales 3Q FY 2009	Operating Income 3Q FY 2009
Watch Business	49,481	2,856
SEIKO Instruments Business	40,805	1,582
Precision Products Business	21,584	72
Optical Products Business	18,295	(287)
Clock Business	6,529	(611)
Other businesses	21,867	(1,026)
Total for all business segments	158,563	2,586
Eliminations and common	(7,303)	(2,560)
Total	151,260	26

2. Information about Sales (Loss) by Reported Segment (For the Nine Months Ended 31 December 2010)

	Millions of yen	
	Sales 3Q FY 2010	Operating Income 3Q FY 2010
Watch Business	83,421	8,216
Electronic Components Business	124,360	3,043
Clock Business	6,791	(532)
Optical Products Business	17,224	137
Other businesses	11,512	(774)
Total for all business segments	243,310	10,090
Eliminations and common	(6,719)	(710)
Total	236,591	9,380

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

For further information, please contact:

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