

To Shareholders with Voting Rights:

**Disclosures on the Internet pursuant to Laws and Regulations and the Articles of Incorporation
regarding the Notice of the 160th Ordinary General Meeting of Shareholders**

■ **“Overview of the system to ensure proper operations and the implementation status thereof” for the Business Report**

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■ **Consolidated Financial Statements**

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The above-mentioned documents are provided to our shareholders by posting on the Company's website (English: <https://www.seiko.co.jp/en/ir/>) (Japanese: <https://www.seiko.co.jp/ir/>) via the Internet pursuant to laws and regulations and Article 16 of the Articles of Incorporation of the Company.

Systems and policies of the Company

I. Overview of a resolution to establish systems to ensure the proper operations of the Company

(1) System to ensure that the duties of Directors and employees are executed in compliance with laws and regulations and the Articles of Incorporation

In order for Directors and employees to comply with corporate ethics, laws and regulations, and internal rules, the Company shall establish the “Basic Principles of Corporate Ethics” and the “Action Guidelines for Corporate Ethics” to thoroughly ensure their compliance with corporate ethics and laws and regulations, as follows:

- 1) The President shall repeatedly convey the spirit of the “Basic Principles of Corporate Ethics” to all Directors and employees to ensure that compliance with corporate ethics and the laws and regulations are the basis for every corporate activity.
- 2) The “Corporate Ethics Committee” chaired by the President shall discuss corporate ethical issues that might significantly affect the Company and its subsidiaries (the “Company Group”) and matters related to revisions of the system to comply with corporate ethics, and report the results of discussion to the Board of Directors.
- 3) The Company shall develop a system where any Director or employee who finds any action suspected of violating the laws and regulations can promptly report such findings to the “Corporate Ethics Committee”, and establish a “Corporate Ethics Helpline” as a means for reporting information.
- 4) The Company shall continuously provide training sessions on corporate ethics to Directors and employees to foster and enhance their awareness of compliance with corporate ethics and laws and regulations.

(2) System to store and manage information regarding execution of the duties of Directors

- (i) Pursuant to the “Internal Document Management Rules”, the Company shall record information regarding execution of the duties of Directors in a document or in an electromagnetic medium, and store and manage it properly.
- (ii) Directors and Corporate Auditors may inspect such document or medium at any time pursuant to the “Internal Document Management Rules”.

- (3) Regulations and systems for loss risk management of the Company and its subsidiaries
 - (i) Pursuant to the “Risk Management Rules”, the Company shall set forth the basic policy for risk management of the Company Group and develop a risk management system.
 - (ii) The Company shall establish the “Risk Management Committee” chaired by the President in order to build, develop and monitor risk management processes, including understanding business risks that might affect the activities of the Company Group, and identifying, analyzing, evaluating and monitoring risks.
 - (iii) The Risk Management Committee shall report the status of each risk to the Board of Directors, regularly or as necessary, pursuant to the “Risk Management Rules”.
- (4) System to ensure that the duties of Directors of the Company and its subsidiaries are efficiently executed
 - (i) The Company shall develop a Mid-Term Management Plan as the target to be shared by Directors and employees of the Company Group. It shall also review the progress of annual budgets consisting of the said plan on a quarterly basis using the management accounting method, and promote the efficiency of operation by considering and implementing an remedial measures for the progress of annual budget.
 - (ii) In order to respect autonomous and independent management of its subsidiaries while contributing to the proper and efficient operation of the Group management, the Company shall develop basic management rules therefor. It shall also establish the “Management Council” comprising standing Directors of the Company and respective President of major subsidiaries of the Companies, in order to share the management policy and management information of the Company Group.
 - (iii) The Company shall clarify the Director’s assignment of duties, and the responsibility and authority of each division/department, and secure the efficient execution of the Director’s duties.
- (5) System to ensure the proper operations of the Corporate Group comprising the Company and its subsidiaries
 - (i) The Company shall assist its subsidiaries to develop a system to comply with corporate ethics, and laws and regulations, and other systems to ensure their proper operations.

- (ii) Each subsidiary of the Company shall share the “Basic Principles of Corporate Ethics” and the “Action Guidelines for Corporate Ethics” established by the Company, and manage its operations pursuant to them. The Company shall set forth the rules for reporting any violation of laws and regulations by any subsidiary, and assist its subsidiaries to develop their internal reporting systems.
 - (iii) Pursuant to the “Consolidated Business Management Rules”, the Company shall request that each subsidiary consult in advance with, and report to, the Company regarding significant management-related matters, and whenever necessary, shall dispatch its officers or employees as Directors or Corporate Auditors of the subsidiary so as to properly supervise and audit the operation of subsidiary.
 - (iv) Pursuant to the “Consolidated Business Management Rules”, each subsidiary shall report its business results, financial position and other important matters to the Company, and whenever necessary, the President of the relevant subsidiary shall report the execution status of the operations to the Board of Directors of the Company.
 - (v) The Company’s Internal Audit Department shall conduct internal audits on each subsidiary regarding the execution status of the operations, compliance with laws and regulations, the Articles of Incorporation, and risk management.
- (6) Matters related to employees to assist the duties of Corporate Auditors
- (i) Internal Audit Department shall be responsible for assisting the duties of Corporate Auditors.
 - (ii) Employees who are assigned to the Internal Audit Department shall not concurrently hold duties related to the execution of operations.
 - (iii) Regarding any transfer of the General Manager of the Internal Audit Department, the President shall discuss with the Board of Corporate Auditors in advance, and shall respect the Board of Corporate Auditors’ opinions.
- (7) System for reporting to Corporate Auditors
- (i) Each Director and employee of the Company shall regularly report to Corporate Auditors the status of finance, compliance with corporate ethics, risk management, and internal audits. If any Director/employee finds any fact likely to significantly damage the Company or its subsidiaries,

any violation of laws and regulations or internal rules, he/she shall immediately report such findings to the Corporate Auditors of the Company.

- (ii) The Company shall develop a reporting system where if any Director, Corporate Auditor or employee of a subsidiary finds any material violation of laws and regulations or internal rules regarding the execution of operations of the Company or the subsidiary, or any fact which is likely to significantly damage the Company, he/she or the person who was reported by him/her shall report it to the Corporate Auditors of the Company.
 - (iii) The Company shall develop necessary systems to ensure that the person who makes the report in accordance with the preceding two (2) paragraphs might not be treated disadvantageously on the grounds of having made such report.
 - (iv) In conducting internal audits, the General Manager of the Internal Audit Department shall cooperate with Standing Corporate Auditors in advance, and make efforts to report important matters to Standing Corporate Auditors in a timely manner. In addition, the General Manager of the Internal Audit Department shall report the results of internal audits to Standing Corporate Auditors without delay, and regularly report such results to the Board of Corporate Auditors of the Company.
- (8) Other systems to ensure that audits by Corporate Auditors are effectively conducted
- (i) The Company shall ensure a system where, besides the Internal Audit Department, the General Affairs Department, the Finance & Accounting Department and the Corporate Strategy & Planning Department shall assist audits by Corporate Auditors from time to time based on respective instructions from Corporate Auditors.
 - (ii) The Company shall ensure that Corporate Auditors attend important meetings and committees which are established and held by the Board of Directors in a timely manner to ensure proper operations of the Company.
 - (iii) The President shall meet and consult with the Board of Corporate Auditors, as necessary, and exchange opinions regarding important management issues.
 - (iv) If a Corporate Auditor requests that the Company pay expenses incurred in connection with executing his/her duties, the Company shall promptly reimburse such expenses unless the Company proves that such expenses are not necessary for the Corporate Auditor to execute his/her duties.

II. Overview of the implementation status of the system to ensure proper operations

(1) System for compliance with corporate ethics and laws and regulations

- (i) The Company has established a “Corporate Ethics Committee” chaired by the President to discuss corporate ethical issues and the system for compliance with corporate ethics, including those relating to its subsidiaries, and reports the result of discussions to the Board of Directors. The Committee held four (4) meetings during the fiscal year ended March 31, 2021.
- (ii) The Company has established a “Corporate Ethics Helpline” internally and appointed a law firm as a reception to receive consultations or reports from employees regarding violations of laws and regulations within the Company. The Company has made sure all employees are well informed about how to use these helplines by posting them on its intranet and distributing portable cards, etc.
- (iii) The Company regularly provides training sessions on corporate ethics to enhance awareness of compliance with corporate ethics and laws and regulations. During the fiscal year ended March 31, 2021, the Company provided training sessions on “Anti-trust Risks” for standing officers and “Power Harassment” for employees.

(2) Risk management system

- (i) The Company has established the “Risk Management Committee” chaired by the President to discuss the Company Group’s risk management system and various risk issues. The Committee also reports to the Board of Directors the matters discussed thereat and important risks which require the Company Group to take comprehensive measure. The Committee held two (2) meetings during the fiscal year ended March 31, 2021. Further, the Company has established the “Group Risk Management Committee” consisting of respective standing Directors of the Company and Presidents of its subsidiaries, and confirms and shares the risks and the counter-measures against them experienced by each group company. The Committee held two (2) meetings during the fiscal year ended March 31, 2021.
- (ii) Regarding responses when risks occur, the “Crisis Management Manual” sets out for the Company’s basic policy therefor and measures to respond to respective risks, such as natural disasters.

- (3) System to ensure that the duties of Directors are efficiently executed
- (i) The Company has determined the assignment of duties for each Director upon a resolution of the Board of Directors, and the responsibility and authority of each division/department in accordance with the “Duty Assignment Rules”.
 - (ii) The Company has established a council called the “Strategic Conference for Management” where the President and Executive Directors exchange opinions and share information with other Directors, Corporate Auditors, or General Managers of divisions/departments when they decide on and execute important matters relating to execution of their duties. The Strategic Conference for Management held forty-four (44) meetings during the fiscal year ended March 31, 2021.
 - (iii) The Company has provided the “Consolidated Business Management Rules” for the execution of the operations of its subsidiaries in order to perform its management and support functions from the viewpoint of consolidated management.
- (4) System to ensure the proper operations of the Company Group
- (i) Pursuant to the “Consolidated Business Management Rules”, the Company properly discusses with its subsidiaries in advance regarding their business plan, annual budgets, and measures to respond to important corporate ethical issues, receives reports on material business matters from them, and dispatches its officers or employees to subsidiaries, as necessary, to supervise and audit them. As of the end of the fiscal year ended March 31, 2021, the Company has dispatched nine (9) Directors, two (2) Corporate Auditors, and eleven (11) employees.
- Furthermore, the President of each subsidiary reports the execution status of its operations to the Board of Directors of the Company as necessary. During the fiscal year ended March 31, 2021, four (4) subsidiaries made such reports.
- (ii) Each division/department of the Company assists its subsidiaries to develop a system to comply with corporate ethics and laws and regulations, and a system to comply with business operation laws. During the fiscal year ended March 31, 2021, training sessions and briefings were held for officers and employees of the Company’s subsidiaries to discuss topics such as “Anti-trust Risks” and “Power Harassment”.

- (5) System to ensure that audits by Corporate Auditors are effectively conducted
- (i) The Internal Audit Department holds a regular meeting once a month with Standing Corporate Auditors and reports the performance status of internal audits.
 - (ii) Standing Corporate Auditors attend important meetings such as the “Strategic Conference for Management”, “the Risk Management Committee”, and the “Corporate Ethics Committee”, etc.
 - (iii) The President attends the Board of Corporate Auditors’ meetings to exchange opinions and gather information relating to material business issues.

[Translation]

Consolidated Statements of Changes in Equity
(From April 1, 2020 to March 31, 2021)

Millions of yen

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 10,000 | 7,245 | 74,418 | -328 | 91,335 |
| Cumulative effects of changes in accounting policies | | | 82 | | 82 |
| Restated balance | 10,000 | 7,245 | 74,501 | -328 | 91,418 |
| Changes during period | | | | | |
| Dividends of surplus | | | -2,067 | | -2,067 |
| Profit attributable to owners of parent | | | 3,475 | | 3,475 |
| Purchase of treasury shares | | | | -0 | -0 |
| Disposal of treasury shares | | -0 | | 0 | 0 |
| Disposal of treasury stock by ownership plan trust | | | | 13 | 13 |
| Other | | | | -0 | -0 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | -0 | 1,408 | 12 | 1,420 |
| Balance at end of period | 10,000 | 7,245 | 75,909 | -315 | 92,839 |

Millions of yen

| | Accumulated other comprehensive income | | | | | | Non-controlling interests | Total net assets |
|--|---|------------------------------------|------------------------------|---|---|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 5,486 | 11 | 8,190 | -804 | -1,169 | 11,714 | 1,223 | 104,273 |
| Cumulative effects of changes in accounting policies | | | | | | | | 82 |
| Restated balance | 5,486 | 11 | 8,190 | -804 | -1,169 | 11,714 | 1,223 | 104,356 |
| Changes during period | | | | | | | | |
| Dividends of surplus | | | | | | | | -2,067 |
| Profit attributable to owners of parent | | | | | | | | 3,475 |
| Purchase of treasury shares | | | | | | | | -0 |
| Disposal of treasury shares | | | | | | | | 0 |
| Disposal of treasury stock by ownership plan trust | | | | | | | | 13 |
| Other | | | | | | | | -0 |
| Net changes in items other than shareholders' equity | 4,944 | -144 | - | 1,859 | 482 | 7,141 | 163 | 7,305 |
| Total changes during period | 4,944 | -144 | - | 1,859 | 482 | 7,141 | 163 | 8,726 |
| Balance at end of period | 10,431 | -133 | 8,190 | 1,055 | -687 | 18,856 | 1,387 | 113,082 |

(Note) The -0 million yen of "Other" under treasury shares represents changes due to a change in the ratio of equity interests of the Company's affiliates accounted for using equity method.

[Translation]

Notes to Consolidated Financial Statements

1. Notes to Important Matters that are the Basis for Preparation of Consolidated Financial Statements

(1) Matters relating to scope of consolidation

Number of consolidated subsidiaries: 61

SEIKO WATCH CORPORATION, Morioka Seiko Instruments Inc., Seiko Instruments Inc., SEIKO Solutions Inc., Seiko Clock Inc., WAKO Co., Ltd., Grand Seiko Corporation of America, Seiko Watch of America LLC, SEIKO U.K. Limited, SEIKO Hong Kong Ltd., SEIKO Manufacturing (H.K.) Ltd., SEIKO Manufacturing (Singapore) Pte. Ltd., Dalian Seiko Instruments Inc., Seiko Instruments Trading (H.K.) Ltd., Seiko Instruments (Thailand) Ltd., SEIKO Precision (Thailand) Co., Ltd., and others.

COSMO CO., LTD. and COSMO-GCC CO., LTD. were included in the scope consolidation from the 1st quarterly consolidated accounting period due to the acquisition of their shares.

The liquidation proceedings of Guangzhou Seiko Instruments Ltd. were completed in the 4th quarterly consolidated accounting period.

Non-consolidated subsidiaries:

AOBA WATCH SERVICE Co. Ltd. and others are of a small scale in terms of net sales, total assets, profit and loss, and retained earnings, and none of them have any material impact on the consolidated financial statements. Therefore, they were excluded from the scope of consolidation.

(2) Matters relating to the application of the equity method

Number of affiliates accounted for by the equity method: 5

SEIKO OPTICAL PRODUCTS CO., LTD., OHARA INC., and others.

The equity method has not been applied to ABLIC Inc. from the 1st quarterly consolidated accounting period due to a transfer of its shares.

Non-consolidated subsidiaries and affiliates not accounted for by the equity method:

AOBA WATCH SERVICE Co. Ltd. and others have a minimal impact on the consolidated net income and loss and retained earnings and are of little significance. Therefore, the equity method has not been applied to these companies.

(3) Standards and methods for evaluating significant assets

| | |
|-----------------|--|
| (i) Inventories | Basically stated at cost using the moving-average method (for values stated on the balance sheet, writing down the book values in response to decreased profitability) |
|-----------------|--|

| | |
|---------------------------------|--|
| (ii) Securities | |
| Available-for-sale securities | |
| Securities with market value | Market value method based on the market price as of the consolidated closing date (differences in valuation are included directly in net assets and the costs of securities sold are calculated using the moving-average method) |
| Securities without market value | Stated at cost using the moving-average method |

| (iii) Derivatives | Market value method |
|---|--|
| (4) Depreciation methods for significant depreciable assets | |
| (i) Property, plant and equipment (excluding leased assets and right-of-use assets) | As for domestic consolidated companies, basically the straight-line method is used for buildings (excluding equipment attached to buildings), and the declining-balance method for those other than buildings (except that the straight-line method is used for the equipment attached to buildings, and structures that were acquired on or after April 1, 2016); as for consolidated subsidiaries outside Japan, basically the straight-line method is used. The estimated economic life reflecting the usable period, the actual period of use, and other factors for each asset is used for a useful life. |
| (ii) Intangible assets (excluding leased assets) | The straight-line method is used. As for software for in-house use, the straight-line method is used with a usable period of 5 years. |
| (iii) Leased assets Leased assets relating to finance lease with transfer of ownership | The same depreciation method as applied to the property, etc. owned by the Company is used. |
| Lease assets relating to finance lease without transfer of ownership | The straight-line method is used with a useful life of the lease period and with a residue value of zero. |
| (iv) Right-of-use assets | The straight-line method is used with a useful life of the lease period and with a residue value of zero. |
| (5) Accounting standards for significant allowances and provisions | |
| (i) Allowance for doubtful accounts | In order to prepare for possible losses on uncollectible receivables held, estimated uncollectible amounts are posted: for general receivables, according to the historical percentage of uncollectibles, and for doubtful receivables, considering the probability of collection. |
| (ii) Allowance for investment loss of subsidiaries and affiliates | In order to prepare for possible losses on investments to subsidiaries and affiliates, an amount deemed necessary is provided after considering the financial position of each company and based on a respective review. The allowance for investment loss of subsidiaries and affiliates of 4 million yen is directly reduced from the amount of investment securities. |
| (iii) Provision for bonuses | In order to prepare for payment of bonuses to employees, a provision is made based on the estimated bonus payments, which are attributable to the consolidated fiscal year under review. |
| (iv) Provision for goods warranties | To provide for warranties of the goods sold at some of the consolidated subsidiaries outside Japan, respective estimated amount based on the past experience is posted. |

- | | |
|---|--|
| (v) Provision for loss on lease contracts | To provide for the loss expected to incur during the non-cancellable periods, an amount equivalent to the portion of rents for the real estate deemed likely to be non-performing up to the expiry of lease agreements is posted. |
| (vi) Provision for stock benefits | The Company has posted an estimated amount, as of the end of the consolidated fiscal year under review, for the obligation to deliver shares, as a provision for the delivery of its shares to its Executive Directors in accordance with the Rules for Delivery of Shares to Officers. |
| (vii) Provision for gift certificate exchange losses | In order to prepare for possible losses relating to gift certificates collected after cancelling their inclusion in liabilities, provision is made for an estimated redemption amount according to the historical percentage of collection of such gift certificates. |
| (viii) Provision for retirement benefits for directors (and other officers) | Some of the domestic consolidated companies passed a resolution to discontinue their respective directors' retirement benefit systems during the fiscal year ended March 2005 and that ended March 2014. Accordingly, the amount of retirement benefits for incumbent officers is posted corresponding to the terms of office till the end of the Ordinary General Meeting of Shareholders during the relevant consolidated fiscal year. |
- (6) Accounting standards for significant income and expenses
- Accounting standards for the amount of completed work and cost of completed work
- Regarding the portions of work that were definitely completed by the end of the consolidated fiscal year under review, a percentage-of-completion method is used, and for other portions of work, a work-completion method is used.
- (7) Standards for translation of significant foreign currency-denominated assets or liabilities into Japanese yen
- Foreign currency receivables/payables are translated into yen using the spot foreign exchange rate on the consolidated closing date, and translation differences are treated as income or loss. The assets and liabilities of subsidiaries outside Japan are translated into yen using the spot foreign exchange rate on the consolidated closing date; income and expenses are translated into yen using an average market rate during the period, and translation differences are included in "Foreign currency translation adjustment" and "Non-controlling interests" of the "Net assets".

(8) Significant hedge accounting methods

(i) Hedge accounting method

Deferred hedge accounting is employed. However, regarding domestic consolidated companies, basically deferral hedge accounting (“*furiate-shori*”) is employed for foreign currency receivables/payables with forward exchange contracts or the like, and with regard to interest-rate swaps that meet the requirements for exceptional accounting (“*tokurei-shori*”), exceptional accounting is employed.

(ii) Means of hedging and hedged items

Forward exchange contracts and foreign currency deposits to hedge foreign exchange-rate fluctuation risks regarding foreign currency-denominated trade payables and receivables; and interest-rate swaps to avoid fluctuation risks regarding borrowings on floating interest rates. Forward exchange contracts, foreign currency deposits and interest-rate swaps are hedged to avoid exchange- and interest-rate fluctuation risks present in hedged items in accordance with the internal rules of the respective companies, and no speculative transactions are conducted.

(iii) Hedging policy

For interest-rate swaps, hedge effectiveness is assessed by analysis of the percentage between the accumulated cash flow changes of hedged items and the accumulated cash flow changes by means of hedging. However, the assessment of hedge effectiveness is omitted if the material conditions of the means of hedging and the hedged items are the same.

(iv) Assessment of hedge effectiveness

(9) Accounting for employees’ retirement benefits

In order to prepare to pay retirement benefits to employees, the net defined benefit liability is posted based on the estimated amount of retirement benefit obligations minus the amount of plan assets as of the end of the consolidated fiscal year under review. To calculate retirement benefit obligations, the benefit formula method is adopted as a method to attribute the estimated retirement benefits to the periods up to the end of the consolidated fiscal year under review. The actuarial differences that resulted are recognized in the following consolidated fiscal year by the straight-line method over various periods (5 to 8 years) that are not more than the average remaining service period of employees at the time of the accrual of a difference. Prior service costs are basically recognized by the straight-line method over various periods that are not more than the average remaining service period of employees at the time of the accrual thereof. Unrecognized actuarial differences and unrecognized prior service costs after tax effect adjustment are posted in “Remeasurements of defined benefit plans”, “Accumulated other comprehensive income” in “Net assets”.

(10) Matters relating to accounting for consumption taxes, etc.

Consumption taxes and local consumption taxes payable by domestic consolidated companies are accounted for by the tax exclusion method.

- (11) Matters relating to application of consolidated taxation system

Consolidated taxation system is applied.

- (12) Adoption of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

As for the items subjected to the transition to the group tax sharing system established under the “Act on Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), as well as the items reviewed under the non-consolidated taxation system in conjunction with the transition to the group tax sharing system, domestic consolidated companies excluding a few exceptions have not adopted the provisions of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, issued on February 16, 2018) in accordance with the treatment under 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” (PITF No. 39, issued on March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are calculated based on the provisions of the Income Tax Act before the revision.

- (13) Method and period of amortization of goodwill

Goodwill is equally amortized for 5 to 20 years; minor goodwill is entirely amortized upon accrual.

2. Notes to Changes in Accounting Policies

Among the consolidated subsidiaries outside Japan, certain subsidiaries in the U.S. have adopted ASU No. 2016-02 “Leases” from the beginning of the fiscal year under review. As a result, right-of-use assets and lease obligations are recognized in all leases in principle, for the lease transactions as lessees.

In adopting ASU No. 2016-02, the Company has adopted a method approved as a transitional measure, whereby the cumulative impact of the adoption of the standard is recognized on the date of adoption.

As a result of the adoption of the standard, property, plant and equipment, current liabilities and non-current liabilities have increased by 781 million yen, 258 million yen and 576 million yen, respectively. The impact on retained earnings at the beginning of the fiscal year under review, as well as the profit or loss and per-share information for the fiscal year under review is minimal.

3. Notes to Changes in Presentation Methods

(Consolidated statements of income)

- (1) “House rent and other rental revenues” that were included in “Other” under “Non-operating income” in the previous fiscal year are separately itemized in the fiscal year under review due to its increased financial significance.

“House rent and other rental revenues” in the previous fiscal year are 340 million yen.

- (2) “Royalty income” that was included in “Other” under “Non-operating income” in the previous fiscal year is separately itemized in the fiscal year under review due to its increased financial significance.

“Royalty income” in the previous fiscal year is 367 million yen.

(Adoption of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued on March 31, 2020) to the consolidated financial statements as of the end of the fiscal year under review, and accordingly has included notes of significant accounting estimates to the financial statements.

4. Notes to Accounting Estimates

(1) Valuation of inventories

- (i) Amounts posted in the consolidated financial statements for the fiscal year under review

| | |
|-----------------------------|--------------------|
| Watches Business | 44,321 million yen |
| Electronic Devices Business | 14,060 million yen |
| Systems Solutions Business | 4,274 million yen |
| Others | 6,326 million yen |
| Adjustment | -558 million yen |
| Consolidated total | 68,424 million yen |

(ii) Information useful for understanding the content of accounting estimates

The Company Group evaluates inventories by writing down book values based on a decrease in profitability.

For products, etc. of each business company exceeding a given holding period and volume that are no longer part of the normal operating cycle, a decrease in profitability is reflected through a systematic write-down method, which has been determined mainly based on past sales and disposal results.

However, products, etc. that are considered to be still in the process of the normal operating cycle in light of recent sales results and future sales estimates, despite exceeding a given holding period and volume, are exempted from systematic write-downs, in whole or in part.

The Watches Business handles products, etc. directly related to personal consumption. Consequently, the business results and profitability of products, etc. are strongly affected by economic trends in Japan and overseas, especially personal consumption. The business results and profitability of products, etc. of the Electronic Devices Business are affected by trends of demand for electronic devices, etc. in Japan and overseas. Economic trends and personal consumption may fluctuate considerably due to factors that are out of the Company Group's control, and thus are difficult to predict. Accordingly, in determining a systematic write-down method to reflect a decrease in profitability, significant judgments and assumptions are incorporated. Furthermore, determining whether products, etc. that are exempted from systematic write-downs are no longer in the process of the normal operating cycle also entails significant judgments.

These estimates entailing judgments and assumptions may be affected by future trends in personal consumption and may significantly affect the amount of inventories in the consolidated financial statements for the following consolidated fiscal year.

(2) Valuation of deferred tax assets

(i) Amount posted in the consolidated financial statements for the fiscal year under review

| | |
|---------------------|-------------------|
| Deferred tax assets | 2,273 million yen |
|---------------------|-------------------|

(ii) Information useful for understanding the content of accounting estimates

Deferred tax assets are posted if they are judged to be recoverable by making reasonable estimates of when future taxable income will occur and its amount based on business plans, etc. Such estimates may be affected by changes in uncertain economic conditions, etc. in the future. If the actual timing of when the taxable income occurs and its amount differ from the estimates, it may significantly affect the amount of deferred tax assets in the consolidated financial statements for the following consolidated fiscal year.

(Accounting estimates associated with the spread of the novel coronavirus)

Although it is still difficult to predict when the novel coronavirus will be contained, the Company has made accounting estimates of the recoverability, etc. of deferred tax assets, based on an assumption that economic activities will recover in Japan and overseas throughout the following consolidated fiscal year.

5. Notes to Consolidated Balance Sheet

(1) Assets provided as security and secured obligations

Assets provided as security

| | |
|---|-----------------------|
| Cash and deposits | 28 million yen |
| Buildings | 51 million yen |
| Land | 360 million yen |
| Investment securities | 85 million yen |
| Deposits (Investments and other assets) | 379 million yen |
| <hr/> Total | <hr/> 904 million yen |

Secured obligations

| | |
|--|-----------------------|
| Accounts payable - other | 0 million yen |
| Gift certificates (Current liabilities; Other) | 76 million yen |
| Long-term borrowings | 220 million yen |
| <hr/> Total | <hr/> 296 million yen |

(2) Guarantee obligation

The Company has guaranteed borrowings extended to its employees from financial institutions, as follows.

Employee (housing fund) 3 million yen

(3) Amount of discount on negotiable instruments receivable 919 million yen

(4) Land for business use was revaluated pursuant to the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998), and valuation differences which correspond to taxes are posted as “Deferred tax liabilities for land revaluation” of “Liabilities” and the balance thereof is posted as “Revaluation reserve for land” of “Net assets”.

(i) Method of revaluation

Land for business use was evaluated based on the main-street land price set forth in Article 2, item 4 of the “Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998), and that land without a main-street land price was evaluated based on the assessed value of fixed assets as set forth in item 3 thereof, with reasonable adjustment.

(ii) Date of revaluation: March 31, 2001

(5) Out of investment securities, 368 million yen is for lending stock.

(6) Loan commitment agreement

The Company has concluded loan commitment agreements with two banks in order to carry out efficient funding of working capital. The balance of unused line of credit, etc. under the loan commitment agreements at the end of the consolidated fiscal year under review is as follows.

| | |
|---------------------------------|--------------------|
| Total amount of loan commitment | 28,500 million yen |
| Borrowing balance | 12,700 million yen |
| Balance | 15,800 million yen |

6. Notes to Consolidated Statements of Income

“Loss on the spread of infectious disease” under extraordinary losses in the fiscal year under review is mainly for fixed costs incurred during the suspension of operations and business.

7. Notes to Consolidated Statements of Changes in Equity

(1) Matters relating to type and total number of issued shares, and type and number of treasury shares

(Thousands of shares)

| | Number of shares at the beginning of the consolidated fiscal year under review | Number of shares increased during the consolidated fiscal year under review | Number of shares decreased during the consolidated fiscal year under review | Number of shares at the end of the consolidated fiscal year under review |
|----------------------|--|---|---|--|
| Issued shares | | | | |
| Common shares | 41,404 | — | — | 41,404 |
| Total | 41,404 | — | — | 41,404 |
| Treasury shares | | | | |
| Common shares (Note) | 183 | 0 | 8 | 175 |
| Total | 183 | 0 | 8 | 175 |

(Note) The number of common shares held as treasury shares at the end of the consolidated fiscal year under review includes 94 thousand shares of the Company held in the Board Benefit Trust (BBT). 0 thousand shares of increase in common shares held as treasury shares is due to the purchase of fractional shares and a change in the ratio of equity interests of affiliates accounted for using equity method. 8 thousand shares of decrease in common shares held as treasury shares is due to the disposal of the Company shares through the Board Benefit Trust (BBT) and the demand for sale of fractional shares.

(2) Matters relating to dividend

(i) Amount of dividend paid

| Resolution | Type of shares | Total dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|----------------|------------------------------|--------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders on June 26, 2020 | Common share | 1,550 | 37.50 | March 31, 2020 | June 29, 2020 |
| Board of Directors meeting on November 10, 2020 | Common share | 516 | 12.50 | September 30, 2020 | December 7, 2020 |

(Note 1) The total amount of dividend approved by a resolution of the Ordinary General Meeting of Shareholders on June 26, 2020 includes a dividend of 3 million yen payable for the Company shares held in the Board Benefit Trust (BBT).

(Note 2) The total amount of dividend approved by a resolution of the Board of Directors meeting on November 10, 2020 includes a dividend of 1 million yen payable for the Company shares held in the Board Benefit Trust (BBT).

(ii) Dividend for which the record date falls in the consolidated fiscal year under review but the effective date comes after the end of that consolidated fiscal year

| Resolution | Type of shares | Total dividend (million yen) | Source for dividend | Dividend per share (yen) | Record date | Effective date |
|---|----------------|------------------------------|---------------------|--------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders on June 29, 2021 | Common Share | 1,033 | Retained earnings | 25.00 | March 31, 2021 | June 30, 2021 |

(Note) The total amount of dividend proposed for approval by a resolution of the Ordinary General Meeting of Shareholders on June 29, 2021 includes a dividend of 2 million yen payable for the Company shares held in the Board Benefit Trust (BBT).

8. Notes to Financial Instruments

(1) Matters relating to status of financial instruments

The Company Group raises funds (mainly borrowing from banks) necessary in light of respective business plans of business companies. Temporary surplus funds are invested in more safe financial assets.

Notes and accounts receivable - trade (which are operating receivables) are exposed to customers' credit risks; as such, the Company controls each customer's due date and balance, and understands major customers' credit status. Exchange-rate fluctuation risks for foreign currency operating receivables due to the Company's global development are almost set off by the risks resulting from foreign currency operating payables, some of which are hedged using

forward exchange contracts. Investment securities are mainly shares of customers, and exposed to market price fluctuation risks.

Most of the notes and accounts payable - trade (which are operating payables) are due within one year. Borrowings and bonds payable are mainly to raise funds for operating transactions, and interest-rate swaps are used to hedge part of exchange-rate fluctuation risks of borrowings.

Derivatives include forward exchange contracts to hedge exchange-rate fluctuation risks present in foreign currency receivables/payables, and interest-rate swaps to hedge fluctuation risks of interest rates payable on borrowings.

(2) Matters relating to market value, etc. of financial instruments

Amounts posted on the Consolidated Balance Sheet, market values, and the corresponding differences between the two as of March 31, 2021, are as follows.

Items, for which ascertaining market values is extremely difficult, are not included in the table below.

(Millions of yen)

| | Amounts posted on the Consolidated Balance Sheet (*) | Market value (*) | Difference |
|--|--|---------------------|------------|
| (1) Cash and deposits | 32,611 | 32,611 | - |
| (2) Notes and accounts receivable - trade | 37,185 | 37,185 | - |
| (3) Accounts receivable - other | 4,932 | 4,932 | - |
| (4) Investment securities | | | |
| (i) Shares of subsidiaries and associates | 15,383 | 17,425 | 2,041 |
| (ii) Available-for-sale securities | 22,619 | 22,619 | - |
| (5) Notes and accounts payable - trade | (19,310) | (19,310) | - |
| (6) Electronically recorded obligations - operating | (6,048) | (6,048) | - |
| (7) Short-term borrowings | (72,611) | (72,611) | - |
| (8) Current portion of bonds payable | (350) | (350) | -0 |
| (9) Current portion of long-term borrowings | (17,315) | (17,317) | -2 |
| (10) Accounts payable - other | (9,266) | (9,266) | - |
| (11) Bonds payable | (450) | (450) | -0 |
| (12) Long-term borrowings | (35,263) | (35,291) | -28 |
| (13) Derivatives | (258) | (258) | - |

(*) Items posted as liabilities are enclosed in brackets.

(Note 1)

Calculation methods for the market value of financial instruments and transactions involving securities and derivatives

(1) Cash and deposits, (2) Notes and accounts receivable - trade, and (3) Accounts receivable - other:

These are settled within a short time frame and therefore have a market value nearly equivalent to their book value; as such, these are posted according to their book value.

(4) Investment securities:

Equities are based on their value on exchanges.

(5) Notes and accounts payable - trade, (6) Electronically recorded obligations - operating, (7) Short-term borrowings, and (10) Accounts payable - other:

These are settled within a short time frame and therefore have a market value nearly equivalent to their book value; as such, these are posted according to their book value.

(8) Current portion of bonds payable, and (11) Bonds payable:

The market value of bonds payable, which are bonds issued by subsidiaries, and as such have no market price, is calculated by discounting the total amount of principal and interest by an interest rate that takes into account the remaining term and credit risk of the bonds.

(9) Current portion of long-term borrowings, and (12) Long-term borrowings:

The market value of long-term borrowings is calculated by taking into account the total amount of principal and interest and discounting it by the assumed interest rate that would be applied when new borrowings are conducted. The market value of long-term borrowings that are subject to exceptional accounting treatment for interest-rate swaps is calculated by discounting the total amount of principal and interest, which is treated as one with the interest-rate swap in question, by a logically estimated interest rate that would be applied when similar borrowings are conducted.

(13) Derivatives:

Derivatives conducted through exceptional accounting treatment of interest-rate swaps are treated as being one with the long-term borrowings under the relevant hedge. As such, the market value of such transactions is presented as being included in the market value for the long-term borrowings concerned.

(Note 2)

Unlisted shares (posted as 572 million yen on the Consolidated Balance Sheet) and shares of unlisted subsidiaries and associates (posted as 2,888 million yen on the Consolidated Balance Sheet) have no market price, and it is recognized that ascertaining their market value is extremely difficult. As such, these items are not included in "(4) Investment securities".

9. Notes to Leased Property

The Company and some of its subsidiaries own real property for lease and others in Tokyo and other regions. Income or expenses from the leased property during the fiscal year ended March 2021 was 320 million yen (rent income was posted as non-operating income and expenses are posted as non-operating expenses), and gain on sales of non-current assets was 537 million yen (posted as extraordinary income).

The amount posted on the Consolidated Balance Sheet, major changes during the consolidated fiscal year under review, market value on the consolidated closing date, and the calculation method of such market value are as follows:

(Millions of yen)

| Amounts posted on the Consolidated Balance Sheet | | | Market value on the consolidated closing date |
|---|--|---|---|
| Balance at the beginning of the consolidated fiscal year under review | Amount of increases/decreases during the consolidated fiscal year under review | Balance at the end of the consolidated fiscal year under review | |
| 15,698 | 1,492 | 17,191 | 19,675 |

- (Note 1) Amounts posted on the Consolidated Balance Sheet were the acquisition costs minus accumulated depreciation and accumulated impairment loss.
- (Note 2) Of the change during the consolidated fiscal year under review, the amount of increases mainly consists of the reclassification of leased property from commercial real estate to rental real estate (1,410 million yen) and the acquisition of rental real estate (1,022 million yen). In addition, the amount of decreases mainly consists of the sale of rental real estate (463 million yen) and a decrease in the rate of rent (272 million yen).
- (Note 3) Calculation method of market value
Basically the amount based on a real-estate appraisal report prepared by a real-estate appraiser.

10. Notes to Per-Share Information

| | |
|---|------------------------|
| Net assets per share | 2,709.17 yen |
| Net income per share | 84.30 yen |
| (Calculation basis) Profit attributable to owners of parent | 3,475 million yen |
| Profit attributable to owners of parent, available to common shares | 3,475 million yen |
| Average number of shares during the fiscal year under review | 41,226 thousand shares |

(Note 1) For the purpose of calculating the net income per share, the treasury shares remaining in trust posted as treasury shares in the “Shareholders' equity” section are included in the treasury shares deducted in the calculation of the average number of shares during the fiscal year under review. For the purpose of calculating the net assets per share, the treasury shares so remaining in trust are included in the treasury shares deducted from the total number of shares issued and outstanding at the end of the fiscal year under review.

For the purpose of calculating the net income per share, the average number of treasury shares, so deducted, during the fiscal year under review was 96 thousand shares, and for the purpose of calculating the net assets per share, the number of treasury shares, so deducted, as at the end of the fiscal year under review was 94 thousand shares.

11. Additional Information

(Transfer of shares of an affiliated company accounted for using equity method and posting of extraordinary income)

A subsidiary of the Company, Seiko Instruments Inc. (hereinafter “SII”) concluded a share transfer agreement on December 17, 2019, with MinebeaMitsumi Inc. (hereinafter

“MinebeaMitsumi”) and Development Bank of Japan Inc. (hereinafter “DBJ”), to transfer all the shares held in ABLIC Inc. (hereinafter “ABLIC”), an affiliated company accounted for using equity method of the Company, to MinebeaMitsumi. In accordance with the agreement, the shares of ABLIC Inc. were transferred on April 30, 2020.

(1) Reason for the share transfer

In January 2016, SII transferred its semiconductor business to ABLIC (previous trade name: SII Semiconductor Corporation), a semiconductor company jointly funded by SII and DBJ. Initially, ABLIC was collaboratively managed by SII and DBJ, with a respective ownership ratio of 60% and 40%. However, later in January 2018, SII transferred 30% of its ownership to DBJ in pursuit of growth strategies.

In December 2019, an agreement was reached between MinebeaMitsumi, DBJ, and SII on the transfer of all shares in ABLIC held by DBJ and SII to MinebeaMitsumi, with a view toward further enhancing the corporate value of ABLIC and expanding its business. Businesses owned by MinebeaMitsumi have a great degree of affinity and complementarity with those owned by ABLIC, potentially creating synergistic effects not limited to the semiconductor field. Meanwhile, in the Seiko Holdings Group, this share transfer is believed to facilitate the effective utilization of management resources and reinforcement of the management foundation, including investments with a view toward creating sustainable value.

Following this share transfer, ABLIC is no longer an affiliated company accounted for using equity method of the Company.

(2) Name of the company the shares to be transferred

MinebeaMitsumi Inc.

(3) Name and business lines of the equity method affiliate to be transferred

Name: ABLIC Inc.
Business lines: Development, design, manufacture and sales of analog semiconductor products

(4) Timing of the share transfer

April 30, 2020

(5) Number of shares for transfer, transfer price and status of shareholding before and after transfer

Shareholding prior to transfer: 555,000 shares (Percentage of voting rights held: 30.0%)
Number of shares for transfer: 555,000 shares (Ratio to the number of shares issued: 30.0%)
Transfer price: 10.6 billion yen (*)
Shareholding after transfer: 0 share (Percentage of voting rights held: 0.0%)

(*) The transfer price includes the additional payment of 440 million yen to be payable depending on the business performance of the ABLIC Group during a certain period of time.

(6) Posting of extraordinary income

In association with this share transfer, 7.6 billion yen in gain on sale of investment securities has been posted under extraordinary income in the fiscal year under review. This gain on sale

of investment securities includes the realized portion of unrealized income of 3.3 billion yen. Such realized portion of unrealized income corresponds to the amount realized through this share transfer, out of the gain on transfer of business that accrued in 2016 at the time of transfer, and that had been eliminated in the consolidated financial statements.

12. Presentation of Amounts

In the Consolidated Balance Sheet, Consolidated Statement of Income, Consolidated Statements of Changes in Equity, and Notes to Consolidated Financial Statements, any amount less than one million yen is discarded.

[Translation]

Non-Consolidated Statements of Changes in Equity
(From April 1, 2020 to March 31, 2021)

Millions of yen

| | Shareholders' equity | | | | | | | | Total shareholders' equity |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|--|-------------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | | | Retained earnings | | | Treasury shares | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings Retained earnings brought forward | Total retained earnings | | |
| Balance at beginning of period | 10,000 | 2,378 | 4,246 | 6,625 | 121 | 21,695 | 21,817 | -301 | 38,140 |
| Changes during period | | | | | | | | | |
| Dividends of surplus | | | | | | -2,067 | -2,067 | | -2,067 |
| Profit | | | | | | 1,560 | 1,560 | | 1,560 |
| Purchase of treasury shares | | | | | | | | -0 | -0 |
| Disposal of treasury shares | | | -0 | -0 | | | | 0 | 0 |
| Disposal of treasury stock by ownership plan trust | | | | | | | | 13 | 13 |
| Net changes of items other than shareholders' equity | | | | | | | | | |
| Total changes during period | - | - | -0 | -0 | - | -506 | -506 | 12 | -493 |
| Balance at end of period | 10,000 | 2,378 | 4,246 | 6,625 | 121 | 21,189 | 21,310 | -288 | 37,646 |

Millions of yen

| | Valuation and translation adjustments | | | | Total net assets |
|--|---|------------------------------------|------------------------------|---|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Total valuation and translation adjustments | |
| Balance at beginning of period | 4,547 | -196 | 8,190 | 12,541 | 50,681 |
| Changes during period | | | | | |
| Dividends of surplus | | | | | -2,067 |
| Profit | | | | | 1,560 |
| Purchase of treasury shares | | | | | -0 |
| Disposal of treasury shares | | | | | 0 |
| Disposal of treasury stock by ownership plan trust | | | | | 13 |
| Net changes of items other than shareholders' equity | 5,245 | 62 | - | 5,308 | 5,308 |
| Total changes during period | 5,245 | 62 | - | 5,308 | 4,814 |
| Balance at end of period | 9,792 | -133 | 8,190 | 17,849 | 55,495 |

[Translation]

Notes to Non-Consolidated Financial Statements

1. Notes to Significant Accounting Policies
 - (1) Standards and methods for evaluating securities
 - (i) Shares in subsidiaries and affiliates:
Stated at cost using the moving-average method
 - (ii) Available-for-sale securities:
Securities with market value:
Market value method based on the market price as of the closing date (differences in valuation are included directly in net assets and the costs of securities sold are calculated using the moving-average method)

Securities without market value:
Stated at cost using the moving-average method
 - (2) Standards and methods for evaluating derivatives
 - (i) Derivatives:
Market value method
 - (3) Depreciation methods for non-current assets
 - (i) Property, plant and equipment (excluding leased assets):
The straight-line method is used for buildings (excluding equipment attached to buildings), and equipment attached to buildings, and structures acquired on or after April 1, 2016, and the declining-balance method for other property, plant and equipment. For a useful life, the estimated economic life is used, which reflects the usable period, actual period of use, and other factors for each asset.
 - (ii) Intangible assets (excluding leased assets)
The straight-line method is used. As for software for in-house use, the straight-line method is used with a usable period of 5 years.
 - (iii) Leased assets
Lease assets relating to finance lease without transfer of ownership:
The straight-line method is used with a useful life of the lease period and with a residue value of zero.
 - (4) Accounting standards for significant allowances and provisions
 - (i) Allowance for doubtful accounts:
In order to prepare for possible losses on uncollectible receivables held, estimated uncollectible amounts are posted: for general receivables, according to the historical percentage of uncollectibles, and for doubtful receivables, considering the probability of collection.
 - (ii) Provision for bonuses:
In order to prepare for payment of bonuses to employees, a provision is made based on the estimated bonus payments, which are attributable to the fiscal year under review.

- (iii) Provision for loss of subsidiaries and associates:
In order to prepare for possible losses exceeding the book value of investments to any subsidiary or associate, an amount deemed necessary is provided for the loss exceeding the amount of receivables from such subsidiary or associate.
 - (iv) Allowance for investment loss of subsidiaries and associates:
In order to prepare for possible losses on investments to subsidiaries and associates, an amount deemed necessary is provided after considering the financial position of each company and based on a respective review. The allowance for investment loss of subsidiaries and associates of 4 million yen is directly reduced from the amount of shares of subsidiaries and associates.
 - (v) Provision for stock benefits:
The Company has posted an estimated amount, as of the end of the fiscal year under review, for the obligation to deliver shares, as a provision for the delivery of its shares to its Executive Directors in accordance with the Rules for Delivery of Shares to Officers.
- (5) Hedge accounting method
- (i) Hedge accounting method
Deferred hedge accounting is employed. However, with regard to forward exchange contracts and the like that meet the requirements for deferral hedge accounting (“*furiate-shori*”), deferral hedge accounting is employed; with regard to interest-rate swaps that meet the requirements for exceptional accounting (“*tokurei-shori*”), exceptional accounting is employed.
 - (ii) Means of hedging and hedged items:
Forward exchange contracts and foreign currency deposits to hedge foreign exchange-rate fluctuation risks regarding foreign currency-denominated trade payables and receivables and the like; and interest-rate swaps to avoid fluctuation risks regarding borrowings on floating interest rate.
 - (iii) Hedging policy
Forward exchange contracts, foreign currency deposits and interest-rate swaps are hedged to avoid exchange- and interest-rate fluctuation risks present in hedged items in accordance with the Company’s internal rules, and no speculative transactions are conducted.
 - (iv) Assessment of hedge effectiveness
Hedge effectiveness is assessed by analysis of the percentage between the accumulated cash flow changes of hedged items and the accumulated cash flow changes by means of hedging. However, the assessment of hedge effectiveness is omitted if the material conditions of the means of hedging and the hedged items are the same.
- (6) Accounting for consumption tax, etc.
- Consumption taxes and local consumption taxes are accounted for by the tax exclusion method.
- (7) Application of consolidated taxation system
- Consolidated taxation system is applied.

- (8) Adoption of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

As for the items subjected to the transition to the group tax sharing system established under the “Act on Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), as well as the items reviewed under the non-consolidated taxation system in conjunction with the transition to the group tax sharing system, the provisions of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, issued on February 16, 2018) are not adopted in accordance with the treatment under 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” (PITF No. 39, issued on March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are calculated based on the provisions of the Income Tax Act before the revision.

2. Notes to Presentation Methods

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued on March 31, 2020) to the financial statements as of the end of the fiscal year under review, and accordingly has included notes of significant accounting estimates to the financial statements.

3. Notes to Accounting Estimates

- (1) Amount posted in the financial statements for the fiscal year under review

| | |
|--------------------------|-------------------|
| Deferred tax liabilities | 3,654 million yen |
|--------------------------|-------------------|

As stated in “5. Notes to Tax Effect Accounting” of the Notes to Non-Consolidated Financial Statements, deferred tax assets of 740 million yen and deferred tax liabilities of 4,394 million yen are presented after offsetting.

- (2) Information useful for understanding the content of accounting estimates

Deferred tax assets are posted if they are judged to be recoverable by making reasonable estimates of when future taxable income will occur and its amount based on business plans, etc. Such estimates may be affected by changes in uncertain economic conditions, etc. in the future. If the actual timing of when the taxable income occurs and its amount differ from the estimates, it may significantly affect the amount of deferred tax assets in the financial statements for the following fiscal year.

As stated in “1. Notes to Significant Accounting Policies (7),” the Company has applied the consolidated taxation system. Accordingly, estimates for the income tax portion have been made for the entire consolidated taxation group.

(Accounting estimates associated with the spread of the novel coronavirus)

Although it is still difficult to predict when the novel coronavirus will be contained, the Company has made accounting estimates of the recoverability, etc. of deferred tax assets, based on an assumption that economic activities will recover in Japan and overseas throughout the following fiscal year.

4. Notes to Non-Consolidated Balance Sheet, Statements of Income, and Statements of Changes in Equity

| | | |
|-----|---|--------------------|
| (1) | Accumulated depreciation of Property, plant and equipment | 9,831 million yen |
| (2) | Monetary claims, monetary debts and transactions with subsidiaries and associates | |
| | (i) Short-term receivables | 62,137 million yen |
| | (ii) Short-term payables | 6,914 million yen |
| | (iii) Long-term receivables | 12,413 million yen |
| | (iv) Long-term payables | 1,582 million yen |
| | (v) Operating revenue | 11,011 million yen |
| | (vi) Operating expenses | 4,672 million yen |
| | (vii) Transactions other than operating transactions | 5,684 million yen |

(3) Revaluation of land for business use

Land for business use was revaluated pursuant to the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998), and valuation differences which correspond to taxes are posted as “Deferred tax liabilities for land revaluation” of “Liabilities” and the balance thereof is posted as “Revaluation reserve for land” of “Net assets”.

(i) Date of revaluation: March 31, 2001

(ii) Method of revaluation:

Land for business use was evaluated based on the main-street land price set forth in Article 2, item 4 of the “Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998), and that land without a main-street land price was evaluated based on the assessed value of fixed assets as set forth in item 3 thereof, with reasonable adjustment.

(4) Notes to lending stock

Out of shares of subsidiaries and associates, 46 million yen is for lending stock.

(5) Loan commitment agreement

The Company has concluded loan commitment agreements with two banks in order to carry out efficient funding of working capital. The balance of unused line of credit, etc. under the loan commitment agreements at the end of the fiscal year under review is as follows.

| | |
|---------------------------------|--------------------|
| Total amount of loan commitment | 28,500 million yen |
| Borrowing balance | 12,700 million yen |
| Balance | 15,800 million yen |

(6) Notes to Statements of Income

“Provision of allowance for investment loss of subsidiaries and associates” under “Extraordinary losses” consists of provision of allowance for doubtful accounts for subsidiaries and associates (423 million yen) and provision for loss of subsidiaries and associates (567 million yen).

In addition, “Loss on the spread of infectious disease” under extraordinary losses is mainly for fixed costs incurred during the suspension of business.

(7) Notes to Statements of Changes in Equity

Type and number of treasury shares at the end of the fiscal year under review
 Common shares 154,525 shares

The number of shares above includes 94,300 shares of the Company held in the Board Benefit Trust (BBT) as a result of the introduction of the BBT plan.

5. Notes to Tax Effect Accounting

Breakdown by major reason for incurring deferred tax assets and deferred tax liabilities

| | |
|---|----------------------------|
| Deferred tax assets | |
| Provision for bonuses | 88 million yen |
| Allowance for doubtful accounts | 3,800 million yen |
| Loss on valuation of shares in subsidiaries | 6,103 million yen |
| Allowance for investment loss of subsidiaries and associates | 1 million yen |
| Provision for loss of subsidiaries and associates | 600 million yen |
| Impaired loss on non-current assets | 713 million yen |
| Assets for adjustment of profit and loss due to transfer | 1,202 million yen |
| Long-term accounts payable - other | 8 million yen |
| Loss carried forward | 2,534 million yen |
| Other | 202 million yen |
| Deferred tax assets - subtotal | <u>15,256 million yen</u> |
| Valuation-related reserves concerning loss carried forward | -2,279 million yen |
| Valuation-related reserves concerning the sum of deductible temporary differences | -12,236 million yen |
| Valuation-related reserves-subtotal | <u>-14,516 million yen</u> |
| Deferred tax assets - total | 740 million yen |
| Deferred tax liabilities | |
| Assets for adjustment of profit and loss due to transfer | 20 million yen |
| Valuation difference on available-for-sale securities | 4,321 million yen |
| Other | 51 million yen |
| Deferred tax liabilities - total | <u>4,394 million yen</u> |
| Net deferred tax assets (liabilities) | <u>-3,654 million yen</u> |

Other than the above items, “deferred tax liabilities” concerning “revaluation reserve for land” was 3,614 million yen.

6. Notes to Transactions with Related Parties

(1) Parent company and major corporate shareholders

| Attributes | Name of company | Ratio of voting rights held (%) | Relationship with related party | Content of transaction | Transaction amount (million yen) | Item | Term-end balance (million yen) |
|-----------------------------------|------------------|--|---------------------------------|------------------------|----------------------------------|------|--------------------------------|
| Major shareholder (company, etc.) | Sanko Kigyo K.K. | (Direct) 10.8 | Property lease-in, etc. | Property lease-in | 825 | - | - |
| | | (Closer parties or agreed parties) 6.2 | | Property acquisition | 5,500 | - | - |

(2) Subsidiaries and associates, etc.

| Attributes | Name of company | Ratio of holding of voting rights, etc. (%) | Relationship with related party | Content of transaction | Transaction amount (million yen) | Item | Term-end balance (million yen) |
|------------|----------------------------|---|---------------------------------|---|----------------------------------|-----------------------------|--------------------------------|
| Subsidiary | SEIKO WATCH CORPORATION | (direct) 100.0 | Interlocking directorate | Royalty income | 1,626 | Accounts receivable - other | 1,035 |
| | WAKO Co., Ltd. | (direct) 100.0 | Interlocking directorate | Property lease-out | 558 | Accrued income | 75 |
| | Shirakawa Estate Co., Ltd. | (direct) 100.0 | Interlocking directorate | Property lease-in | 240 | Accounts payable - other | 0 |
| | Seiko Instruments Inc. | (direct) 100.0 | Interlocking directorate | Property lease-in | 557 | Accounts payable - other | 98 |
| | | | | Property lease-out | 225 | Accrued income | 74 |
| | | | | Personnel expenses for seconded individuals | 1,631 | Accounts payable - other | 128 |
| | SEIKO Solutions Inc. | (direct) 100.0 | Interlocking directorate | Property lease-out | 693 | Accrued income | 13 |

(Note 1) Transaction terms and policies to determine them

- 1) The terms for property lease-in are determined based on the same standards as for general transaction terms after considering market price. In the Statements of Income, the property rents payable are offset with property rents receivable.
- 2) Property acquisition prices are determined upon negotiations based on a professional valuation.
- 3) Royalty income is determined based on the standards similar to general transaction terms.
- 4) Regarding property rents receivable, those of owned property leased out for business use are determined linked to relevant income, and those leased out as office or the like are determined based on a professional valuation. In the Statements of Income, property rents receivable are offset with property rents payable.
- 5) Regarding personnel expenses for seconded individuals, personnel expenses corresponding to the seconded individuals are paid based on a secondment agreement.

(Note 2) Transaction amounts do not include consumption tax, etc.; the term-end balance includes consumption tax, etc.

7. Notes to Per-Share Information

| | |
|--|------------------------|
| Net assets per share | 1,345.36 yen |
| Net income per share | 37.83 yen |
| (Calculation basis) Profit | 1,560 million yen |
| Profit available to common shares | 1,560 million yen |
| Average number of shares during the fiscal year under review | 41,248 thousand shares |

(Note 1) For the purpose of calculating the net income per share, the treasury shares remaining in trust posted as treasury shares in the “Shareholders' equity” section are included in the treasury shares deducted in the calculation of the average number of shares during the fiscal year under review. For the purpose of calculating the net assets per share, the treasury shares so remaining in trust are included in the treasury shares deducted from the total number of shares issued and outstanding at the end of the fiscal year under review.

For the purpose of calculating the net income per share, the average number of treasury shares, so deducted, during the fiscal year under review was 96 thousand shares, and for the purpose of calculating the net assets per share, the number of treasury shares, so deducted, as at the end of the fiscal year under review was 94 thousand shares.

8. Notes to Companies subject to Restriction on Consolidated Dividend

The Company will become a company subject to restriction on consolidated dividend from when the last day of the fiscal year under review is the last day of the last fiscal year.

9. Presentation of Amounts

In the Non-Consolidated Balance Sheet, Non-Consolidated Statements of Income, Non-Consolidated Statements of Changes in Equity, and Notes to Non-Consolidated Financial Statements, any amount less than one million yen is discarded.