

February 14, 2019

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2018

### Financial Highlights

For the nine months ended December 31, 2018 (3Q FY2018)

	3Q FY2018		3Q FY2017
	Millions of yen	Millions of US dollars	Millions of yen
Net sales	<b>188,168</b>	1,696.6	208,491
Operating profit	<b>10,141</b>	91.4	11,434
Ordinary profit	<b>12,527</b>	112.9	11,923
Profit attributable to owners of parent	<b>9,689</b>	87.4	4,470
Earnings per share (yen/USD)	<b>¥ 235.08</b>	US\$ 2.12	¥ 108.45
Diluted earnings per share (yen/USD)	<b>¥ 235.06</b>	US\$ 2.12	¥ 108.44
	<b>December 31, 2018</b>		March 31, 2018
Total assets	<b>305,494</b>	2,754.4	305,297
Net assets	<b>109,768</b>	989.7	105,170

Note1: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 110.91 yen/dollar.

Note2: The Company has conducted share consolidation by which five common shares have been consolidated into one share on October 1, 2017. Earnings per share results represent figures on the presumption that said share consolidation is performed at the beginning of the previous consolidated fiscal year (FY2017).

### Business Results

#### 1. Overview

During the nine-month period ended December 31, 2018, in the world economy, although the U.S. economy continued to recover steadily, the outlook for the world economy showed greater uncertainty, including growing destabilizing factors on the political and economic fronts in Europe. In Asia, the slowdown in the Chinese economy, which had seen continued stable growth, became clearer due to intensifying serious trade friction with the U.S.

The Japanese economy continued on a gradual recovery track backed by growth in personal consumption and favorable corporate capital investment.

For the nine-month period ended December 31, 2018, the Company reported consolidated net sales of 188.1 billion yen, a year-on-year decrease of 20.3 billion yen, or 9.7%. However, revenue grew if the impact of the exclusion of the semiconductor business from the scope of consolidation is

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excluded. On a per-segment basis, sales under the Watches Business, the Systems Solutions Business and Others grew compared to the same period of the previous fiscal year. Revenue in the Electronic Devices Business increased year on year as well, excluding the impact of the exclusion of the semiconductor business from the scope of consolidation. On an overall consolidated basis, domestic net sales came to 104.8 billion yen (a year-on-year decrease of 2.6%), and overseas net sales were 83.3 billion yen (a year-on-year decrease of 17.4%). Overseas net sales comprised 44.3% of net sales overall.

In terms of income as well, operating profit decreased only 1.2 billion yen compared to the same period of the previous fiscal year to 10.1 billion yen (a year-on-year decrease of 11.3%), despite the impact of the exclusion of the semiconductor business from the scope of consolidation. In addition, ordinary profit increased by 0.6 billion yen compared to the same period of the previous fiscal year to become 12.5 billion yen (a year-on-year increase of 5.1%), due to improvement in non-operating income and expenses mainly owing to an increase in share of profit of entities accounted for using equity method. Extraordinary income of 0.1 billion yen was posted in the three-month period ended June 30, 2018, and, as a result, profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests was 9.6 billion yen (a year-on-year increase of 116.8%).

The average exchange rates for the nine-month period ended December 31, 2018, were 111.1 yen to 1 US dollar and 129.5 yen to 1 euro.

## 2. Results by Segment

Results for each segment are as follows:

### a. Watches Business

Net sales under the Watches Business came to 109.8 billion yen, a year-on-year increase of 1.6 billion yen, or 1.5%. Net sales of watches in Japan continued to grow steadily, mainly for the Grand Seiko and Prospex. As in Japan, the Grand Seiko and Prospex performed favorably in many countries overseas, including the U.S. Sales of the Presage expanded in Asia, Europe and some other regions. Net sales of watch movements declined year on year owing to stagnant sales of watches in the affordable price range in global markets and other factors.

Operating profit was 10.3 billion yen, an increase of 27.4%, due to an increase in net sales as well as the effects of cost-reduction efforts carried out in the previous fiscal year.

### b. Electronic Devices Business

Net sales under the Electronic Devices Business came to 42.3 billion yen, a year-on-year decrease of 24.6 billion yen, or 36.8%. Operating profit was 1.7 billion yen, a year-on-year decrease of 3.8 billion yen, or 69.2%. Excluding the impact of the exclusion of the semiconductor business from the scope of consolidation, both income and earnings were up compared to the same period of the

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previous fiscal year, due to the favorable performance of products including thermal mini printer mechanisms and precision components.

## **c. Systems Solutions Business**

Net sales under the Systems Solutions Business came to 22.6 billion yen, a year-on-year increase of 2.8 billion yen, or 14.6%. Operating profit was 1.7 billion yen, a year-on-year increase of 0.6 billion yen, or 55.2%. The rise in net sales was driven by the mobile solutions business and expansion of system integration projects for the financial industry, among other factors.

## **d. Others**

Net sales under Others amounted to 20.5 billion yen, a year-on-year increase of 0.3%. Operating profit was 0.2 billion yen, a year-on-year decrease of 49.9%.

Net sales exceeded those of the previous year in the Wako Business and other businesses, although operating profit fell below that of the previous year.

## **3. Financial Condition**

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

#### **-Assets**

Total assets at the close of the nine-month period ended December 31, 2018 amounted to 305.4 billion yen, an increase of 0.1 billion yen from the close of the previous fiscal year. Total current assets came to 141.7 billion yen, an increase of 3.5 billion yen from the close of the previous fiscal year. This was due to a decrease of 1.7 billion yen in cash and deposits, offsetting increases of 4.2 billion yen in inventories and 1.7 billion yen in notes and accounts receivable - trade. Under non-current assets, decreases of 0.3 billion yen in property, plant and equipment, 0.6 billion yen in intangible assets and 2.3 billion yen in investments and other assets resulted in total non-current assets of 163.7 billion yen, a decrease of 3.3 billion yen relative to the close of the previous fiscal year.

#### **-Liabilities**

For liabilities, total loans came to 106.8 billion yen, due to decreases of 0.4 billion yen in short-term loans payable, 1.7 billion yen in current portion of long-term loans payable and 2.4 billion yen in long-term loans payable. In addition, notes and accounts payable - trade increased by 4.0 billion yen, while accounts payable - other decreased by 1.8 billion yen, electronically recorded obligations - operating decreased by 1.0 billion yen and provision for bonuses decreased by 1.0 billion yen. As a result, total liabilities amounted to 195.7 billion yen, a decrease of 4.4 billion yen from the close of the previous fiscal year.

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## -Net assets

With regard to net assets, total net assets increased by 4.5 billion yen over the close of the previous fiscal year to become 109.7 billion yen, owing to an increase of 6.5 billion yen in shareholders' equity, despite a decrease of 1.9 billion yen in total accumulated other comprehensive income mainly resulting from a decrease in valuation difference on available-for-sale securities.

## 4. Outlook for the Year Ending March 31, 2019

Business performance progressed favorably during the nine-month period ended December 31, 2018, mainly in the Watches Business. However, the Company has revised the previous consolidated financial outlook for the year ending March 31, 2019 (FY2018), and the financial outlook by segment for the year ending March 31, 2019 (FY2018), as follows, owing to expected deterioration of the external environment, including recent concerns about the China's economic slowdown.

Note that the assumed exchange rates for preparation of the financial outlook were 110.0 yen to 1 US dollar and 125.0 yen to 1 euro for the fourth quarter.

The revised financial outlook is as follows:

### ■ Forecast for the consolidated business results for the year ending March 31, 2019 (FY2018)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	250.0	93.1
Operating profit	9.0	83.1
Ordinary profit	11.0	100.8
Profit attributable to owners of parent	8.0	69.3
Earnings per share (yen)	¥ 194.10	

### ■ Forecasted results by segment for the year ending March 31, 2019 (FY2018)

	Net Sales (Billions of yen)	Operating Profit (Billions of yen)
Watches Business	143.0	10.0
Electronic Devices Business	56.0	1.5
Systems Solutions Business	30.0	2.3
Total for all business segments	229.0	13.8
Others	30.0	0.5

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Consolidated total	250.0	9.0
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Note: Consolidated total represents figures after consolidation adjustment such as the elimination of inter-segment 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

(Millions of yen)

	As of Dec. 31, 2018	As of Mar. 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	32,523	34,229
Notes and accounts receivable - trade	39,906	38,109
Inventories	61,255	57,011
Accounts receivable - other	1,854	3,537
Other	7,426	6,589
Allowance for doubtful accounts	(1,174)	(1,206)
Total current assets	141,792	138,271
Non-current assets		
Property, plant and equipment		
Buildings and structures	73,659	72,303
Machinery, equipment and vehicles	80,404	80,147
Tools, furniture and fixtures	31,379	30,419
Other	1,792	1,766
Accumulated depreciation	(148,617)	(145,116)
Land	49,106	49,199
Construction in progress	1,445	779
Total property, plant and equipment	89,170	89,498
Intangible assets		
Goodwill	8,504	9,149
Other	8,932	8,887
Total intangible assets	17,436	18,036
Investments and other assets		
Investment securities	44,855	46,774
Deferred tax assets	4,239	4,015
Other	8,163	8,908
Allowance for doubtful accounts	(163)	(208)
Total investments and other assets	57,095	59,490
Total non-current assets	163,702	167,025
<b>Total assets</b>	<b>305,494</b>	<b>305,297</b>

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(Millions of yen)

	As of Dec. 31, 2018	As of Mar. 31, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	28,922	24,921
Electronically recorded obligations - operating	6,866	7,956
Short-term loans payable	49,484	49,916
Current portion of long-term loans payable	19,688	21,476
Accounts payable - other	10,753	12,598
Income taxes payable	1,072	1,275
Provision for bonuses	2,525	3,534
Other provision	1,261	1,144
Asset retirement obligations	56	51
Other	12,641	11,589
<b>Total current liabilities</b>	<b>133,273</b>	<b>134,467</b>
Non-current liabilities		
Long-term loans payable	37,633	40,075
Deferred tax liabilities	2,414	2,521
Deferred tax liabilities for land revaluation	3,614	3,614
Other provision	2,297	2,550
Net defined benefit liability	10,805	10,810
Asset retirement obligations	884	676
Other	4,801	5,410
<b>Total non-current liabilities</b>	<b>62,452</b>	<b>65,660</b>
<b>Total liabilities</b>	<b>195,726</b>	<b>200,127</b>

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(Millions of yen)

	As of Dec. 31, 2018	As of Mar. 31, 2018
<b>Net assets</b>		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	7,245	7,245
Retained earnings	74,564	67,975
Treasury shares	(335)	(334)
<b>Total shareholders' equity</b>	<b>91,473</b>	<b>84,886</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,410	11,639
Deferred gains or losses on hedges	(132)	(294)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	408	468
Remeasurements of defined benefit plans	(729)	(879)
<b>Total accumulated other comprehensive income</b>	<b>17,147</b>	<b>19,123</b>
Non-controlling interests	1,146	1,159
<b>Total net assets</b>	<b>109,768</b>	<b>105,170</b>
<b>Total liabilities and net assets</b>	<b>305,494</b>	<b>305,297</b>



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## Statements of Income

(Millions of yen)

	3Q FY2018	3Q FY2017
Net sales	188,168	208,491
Cost of sales	113,494	128,956
Gross profit	74,674	79,534
Selling, general and administrative expenses	64,532	68,100
Operating profit	10,141	11,434
Non-operating income		
Interest income	134	108
Dividend income	773	734
Share of profit of entities accounted for using equity method	1,664	239
Other	1,568	1,289
Total non-operating income	4,141	2,372
Non-operating expenses		
Interest expenses	752	1,013
Other	1,003	869
Total non-operating expenses	1,755	1,883
Ordinary profit	12,527	11,923
Extraordinary income		
Gain on sales of memberships	106	-
Total extraordinary income	106	-
Extraordinary losses		
Business structure improvement expenses	-	1,260
Loss on liquidation of subsidiaries and associates	-	142
Total extraordinary losses	-	1,403
Income before income taxes	12,634	10,520
Income taxes	2,918	4,667
Profit	9,715	5,852
Profit attributable to non-controlling interests	26	1,382
Profit attributable to owners of parent	9,689	4,470

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## Statements of Comprehensive Income

(Millions of yen)

	3Q FY2018	3Q FY2017
Profit	9,715	5,852
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,846)	2,701
Deferred gains or losses on hedges	162	6
Foreign currency translation adjustment	39	1,669
Remeasurements of defined benefit plans, net of tax	121	104
Share of other comprehensive income of entities accounted for using equity method	542	862
Total other comprehensive income	(1,980)	5,345
Comprehensive income	7,735	11,197
Comprehensive income attributable to		
owners of parent	7,712	9,767
non-controlling interests	22	1,430

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc.)

The Company has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018), etc. from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

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## Segment Information

### Information about Sales and Income (Loss) by Reported Segment

For Year Ended December 31, 2017

	Sales 3Q FY2017	Operating Profit 3Q FY2017
Watches Business	108,128	8,123
Electronic Devices Business	67,032	5,544
Systems Solutions Business	19,777	1,100
Total for reported segments	194,939	14,768
Others	20,444	409
Total for all business segments	215,383	15,177
Adjustments	(6,892)	(3,743)
Total	208,491	11,434

- Notes:
- The "Others" category denotes business segments not included among reported segments, such as the Clocks Business.
  - Adjustments to segment income in the amount of -3,743 million yen include -424 million yen in the amortization of goodwill, 129 million yen that mainly consists of the elimination of inter-segment transactions, and -3,448 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses that fall under the parent company (holding company).
  - Segment income has been adjusted for alongside operating profit on the consolidated statements of income.

For Year Ended December 31, 2018

	Sales 3Q FY2018	Operating Profit (Loss) 3Q FY2018
Watches Business	109,801	10,352
Electronic Devices Business	42,386	1,709
Systems Solutions Business	22,659	1,709
Total for reported segments	174,847	13,771
Others	20,515	204
Total for all business segments	195,363	13,976
Adjustments	(7,194)	(3,834)
Total	188,168	10,141

- Notes:
- The "Others" category denotes business segments not included among reported segments, such as the Clocks Business.
  - Adjustments to segment income in the amount of -3,834 million yen include -424 million yen in the amortization of goodwill, 222 million yen that mainly consists of the elimination of inter-segment transactions, and -3,631 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses that fall under the parent company (holding company).
  - Segment income (loss) has been adjusted for alongside operating profit on the consolidated statements of income.

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