

10 August 2010

CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 30 JUNE 2010

Financial Highlights

For the three months ended 30 June 2010 (1Q FY2010)

	1Q FY2010		1Q FY2009
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	76,200	860,919	33,154
Operating income	2,766	31,250	2,826
Ordinary income	1,307	14,766	3,573
Net income	1,000	11,298	3,478
Earnings per share (yen)	5.78	\$0.06	30.25
	31 June 2010		31 March 2010
Total assets	401,596	4,537,295	405,960
Net assets	41,094	464,286	42,554

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 88.51 yen/dollar.

Business Results

1. Overview

For the three months ended 30 June 2010, SEIKO HOLDINGS CORPORATION reported consolidated net sales of 76.2 billion yen, an increase of 43.0 billion yen from the same period of the previous year. The increase includes 41.8 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, as well as sales recoveries mainly in watches and semiconductors. The Company reported operating income of 2.7 billion yen compared to the operating loss of 2.8 billion yen in the same period of the previous year. Although interest expenses increased, the Company also posted ordinary income of 1.3 billion yen compared to an ordinary loss of 3.5 billion yen in the same period of the previous year, mainly due to improved equity in earnings of affiliates. In addition, owing to extraordinary income of 0.2 billion

yen due to reversals of provision for directors' retirement benefits at subsidiaries and an extraordinary loss of 0.5 billion primarily due to the effects of applying the Accounting Standard for Asset Retirement Obligations, income after income taxes and minority interests stood at 1.0 billion yen (compared to a net loss of 3.4 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 quarter under review, 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. No changes took place from the previous year with respect to the makeup of the clock, optical products, and other businesses.

Results for each segment are as follows.

a. Watch business

The watch business reported an 8.8 billion yen increase in sales to 22.4 billion yen (a 65.4% increase from the same period in the previous year). The effects of the change to a consolidated management organization amounted to 8.2 billion yen. Domestically, Grand Seiko sales were robust focused mainly on the 50th anniversary model, and signs of a recovery in sales in the high-priced products were apparent. Medium to low-priced products were steady on the whole, with Tissé ladies watches continuing to perform briskly. Overseas, although sales in Europe and the United States were slow to recover, sales in China and other Asian countries rose from the same period of the previous year thanks to steady growth of sales. Watch movement sales grew robustly hand in hand with the recovery in market conditions.

With respect to income, thanks to efforts to reduce operating expenses along with the increase in sales, operating income increased 2.5 billion yen from the same period in the previous year to 1.9 billion yen.

b. Electronic components business

The electronic components business reported sales of 41.8 billion yen and an operating income of 1.0 billion yen. The figure includes sales of 7.3 billion yen from those businesses that during the previous fiscal year came under the precision products business. In the electronic device area, semiconductors continued from the previous fiscal year to experience robust growth, mainly due to their use in flat-panel televisions and in ICs for automobiles. In mechatronics, hard disc components continued to post strong sales. In the system application business, sales of mobile communications modules for security-related products grew steadily in Japan, but the slump in large printer sales continued both in Japan and overseas mainly because of sluggishness in the signboard market. In scientific instruments, sales to Asian markets were solid, but the recovery in domestic sales was slow.

c. Clock business

The clock business reported sales of 2.1 billion yen (a 5.5% increase from the same period in the previous year). In Japan, difficult conditions persisted due to sluggishness in consumer spending, but overall sales managed to grow compared to the previous year primarily thanks to overseas growth. However, turning to income the clock business reported an operating loss of 0.2 billion yen (compared to an operating loss of 0.1 billion yen in the same period of the previous year) owing to a worsening in the sales-profit rate.

d. Optical products business

The optical products business reported sales of 5.9 billion yen (a 3.8% decline from the same period in the previous year). Although sales in Europe grew steadily, in Japan the effects of an increasingly harsh competition in lenses for mass merchandisers continued and sales were down from the same period in the previous year. With respect to income, in contrast to the operating loss of 0.1 billion yen in the same period of the previous year, the business reported an operating income of 0.1 billion yen owing to the effect of operating expense reductions.

e. Other businesses

Other businesses reported sales of 6.6 billion yen (a 3.9% decline from the same

period in the previous year) and an operating loss of 0.2 billion yen (compared to an operating loss of 0.4 billion yen in the same period of the previous year). Domestic consumption remains sluggish, but efforts continue to be made by each business company to revive sales and streamline expenses.

Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets as of 30 June 2010 were 401.5 billion yen, a decrease of 4.3 billion yen compared to the end of the previous fiscal year. Notes and accounts receivable-trade decreased by 3.6 billion yen owing to seasonal fluctuations, but inventory assets increased by 3.4 billion yen and deferred tax assets (current) increased 1.0 billion yen. As a result, current assets increased 0.4 billion yen. Noncurrent assets fell 4.8 billion yen primarily due to a decline owing to depreciation and amortization effects, as well as a decline in the valuation difference on available-for-sale securities. Liabilities decreased 2.9 billion yen from the end of the previous fiscal year to 360.5 billion yen mainly due to lower debt. Retained earnings increased 8.6 billion yen owing to inclusions in earnings for the current term including the transfer of 7.6 billion yen of capital surplus to retained earnings. However, owing mainly to a decline in foreign currency translation adjustments, net assets fell 1.4 billion yen compared to the end of the previous fiscal year to 41.0 billion yen.

Cash Flows in the 1st Quarter Are Summarized as Follows

Cash and cash equivalents at the end of the first quarter of the current fiscal year stood at 54.9 billion yen, a decrease of 0.4 billion yen compared to the 55.3 billion yen reported at the end of the previous fiscal year.

The primary factors behind this are as follows.

-Cash flows from operating activities

Net cash inflow from operating activities was 9.0 billion yen due to the inclusion of 0.9 billion yen in income before income taxes and minority interests, 3.8 billion yen in depreciation and amortization expenses, and a 3.3 billion yen decrease in notes and accounts receivable-trade.

-Cash flows from investing activities

Net cash outflow from investing activities was 1.9 billion yen mainly due to 2.3 billion yen in expenditures for the purchase of property, plant, and equipment.

-Cash flows from financing activities

Net cash outflow from financing activities was 6.8 billion yen as a result of the repayment of long- and short-term loans.

In addition, there was also a 0.5 billion yen outflow due to the effect of exchange rate changes on cash and cash equivalents.

Outlook for the Year Ending 31 March 2011

The outlook for consolidated financial results in the fiscal year ending 31 March 2011 is as follows.

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

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	340.0	+147.3
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	90.0	4.5
Electronic Components Business	195.0	5.0
Clock Business	9.5	(0)
Optical Products Business	24.0	(0)
Other Businesses	30.0	(0)
Total for all business segments	348.5	9.5
Consolidated total	340.0	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

30 June 2010

	Millions of yen	
	30 June 2010	31 March 2010
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	55,910	56,548
Notes and accounts receivable-trade	47,280	50,918
Merchandise and finished goods	39,984	37,969
Work in process	11,648	10,890
Raw materials and supplies	9,566	8,912
Accounts receivable-other	3,109	3,339
Deferred tax assets	5,428	4,347
Other	5,208	4,777
Allowance for doubtful accounts	(1,385)	(1,402)
Total current assets	176,750	176,301
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	108,382	107,916
Machinery, equipment and vehicles	98,645	97,437
Tools, furniture and fixtures	34,938	35,067
Other	782	781
Accumulated depreciation	(164,105)	(161,075)
Land	80,689	80,739
Construction in progress	2,751	2,382
Subtotal	162,084	163,249
Intangible assets:		
Goodwill	11,850	12,075
Other	12,005	12,305
Subtotal	23,855	24,381
Investments and other assets:		
Investment securities	30,057	32,415
Deferred tax assets	2,651	2,939
Other	9,750	10,070
Allowance for doubtful accounts	(3,554)	(3,395)
Subtotal	38,905	42,028
Total noncurrent assets	224,845	229,659
Total assets	401,596	405,960

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	Millions of yen	
	30 June 2010	31 March 2010
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	43,686	40,798
Short-term loans payable	93,674	102,276
Current portion of long-term loans payable	59,375	59,777
Accounts payable-other	8,282	11,567
Income taxes payable	1,371	1,084
Deferred tax liabilities	15	21
Provision for bonuses	2,767	1,938
Other provision	656	552
Asset retirement obligations	40	-
Other	11,754	8,227
Total current liabilities	221,624	226,244
Noncurrent liabilities:		
Long-term loans payable	95,189	93,016
Deferred tax liabilities	4,564	5,207
Deferred tax liabilities for land revaluation	5,490	5,490
Provision for retirement benefits	26,317	26,398
Other provision	1,452	1,746
Asset retirement obligations	527	-
Negative goodwill	1,231	1,325
Other	4,105	3,976
Total noncurrent liabilities	138,877	137,161
Total liabilities	360,501	363,405

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	Millions of yen	
	30 June 2010	31 March 2010
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,076	14,770
Retained earnings	21,956	13,262
Treasury stock	(2,984)	(2,984)
Subtotal	36,048	35,048
Valuation and translation adjustments:		
Valuation difference on		
available-for-sale securities	(407)	1,388
Deferred gains or losses on hedges	(22)	44
Revaluation reserve for land	7,154	7,154
Foreign currency translation adjustment	(8,800)	(8,173)
Subtotal	(2,076)	414
Minority interests	7,121	7,092
Total net assets	41,094	42,554
Total liabilities and net assets	401,596	405,960

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Three Months Ended 30 June 2010

	Millions of yen	
	1Q FY 2010	1Q FY 2009
	Amount	Amount
Net sales	76,200	33,154
Cost of sales	52,193	21,543
Gross profit	24,007	11,611
Selling, general and administrative expenses	21,240	14,437
Operating income (loss)	2,766	(2,826)
Non-operating income:		
Interest income	41	22
Dividends income	89	173
Equity in earnings of affiliates	244	-
Other	436	390
Subtotal	812	586
Non-operating expenses:		
Interest expenses	1,353	716
Foreign exchange losses	811	-
Equity in losses of affiliates	-	467
Other	106	148
Subtotal	2,271	1,332
Ordinary income (loss)	1,307	(3,573)
Extraordinary income:		
Reversal of provision for directors' retirement benefits	225	-
Subtotal	225	-
Extraordinary loss:		
Loss on adjustment for changes of accounting standard for asset retirement obligations	332	-
Provision of allowance for investment loss of subsidiaries and affiliates	227	-
Subtotal	560	-
Income (loss) before income taxes and minority interests	972	(3,573)
Income taxes-current	717	168
Income taxes-deferred	(870)	(249)
Subtotal	(152)	(80)
Income before minority interests	1,124	-
Minority interests in income (loss)	124	(15)
Net income (loss)	1,000	(3,478)

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Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Three Months Ended 30 June 2010

	Millions of yen	
	1Q FY 2010	1Q FY 2009
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	972	(3,573)
Depreciation and amortization	3,860	1,440
Increase (decrease) in provision for retirement benefits	(43)	(84)
Increase (decrease) in provision for directors' retirement benefits	(287)	(7)
Increase (decrease) in allowance for doubtful accounts	194	75
Interest and dividends income	(130)	(195)
Proceeds from dividends income from affiliates accounted for by equity method	7	99
Interest expenses	1,353	716
Foreign exchange losses (gains)	610	(122)
Equity in (earnings) losses of affiliates	(244)	467
Loss on retirement of noncurrent assets	70	12
Decrease (increase) in notes and accounts receivable-trade	3,385	2,262
Decrease (increase) in inventories	(3,845)	(503)
Increase (decrease) in notes and accounts payable-trade	3,113	(57)
Increase (decrease) in accounts payable-other	(3,013)	(1,417)
Increase (decrease) in other current liabilities	2,456	-
Other, net	2,018	(218)
Subtotal	10,476	(1,105)
Interest and dividends income received	131	195
Interest expenses paid	(1,114)	(686)
Income taxes paid	(444)	(193)
Net cash provided by (used in) operating activities	9,048	(1,789)
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(2,386)	(363)
Proceeds from sales of property, plant and equipment	78	3
Purchase of investment securities	(48)	0
Proceeds from sales of investment securities	8	0
Payments of loans receivable	(129)	(108)
Collection of loans receivable	122	149
Other, net	358	(60)
Net cash provided by (used in) investing activities	(1,996)	(378)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	150,480	115,504
Decrease in short-term loans payable	(152,967)	(116,402)
Proceeds from long-term loans payable	2,000	6,000
Repayment of long-term loans payable	(6,329)	(3,305)
Cash dividends paid	-	(290)
Other, net	(62)	(56)
Net cash provided by (used in) financing activities	(6,879)	1,449
Effect of exchange rate change on cash and cash equivalents	(598)	178
Net increase (decrease) in cash and cash equivalents	(425)	(540)
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	-	(84)
Cash and cash equivalents at end of period	54,905	16,216

Segment Information

1. Information about Business Segment (For the Three Months Ended 30 June)

Millions of yen

	Sales	Operating Income
	1Q FY 2009	1Q FY 2009
Watch Business	13,546	(576)
Precision Products Business	6,012	(624)
Optical Products Business	6,210	(191)
Clock Business	2,064	(186)
Other businesses	6,926	(442)
Total for all business segments	34,760	(2,022)
Eliminations and common	(1,605)	(804)
Total	33,154	(2,826)

2. Information about Sales (Loss) by Reported Segment (For the Three Months Ended 30 June 2010)

Millions of yen

	Sales	Operating Income
	1Q FY 2010	1Q FY 2010
Watch Business	22,409	1,965
Electronics Components Business	41,848	1,022
Clock Business	2,177	(219)
Optical Products Business	5,977	142
Other businesses	6,655	(238)
Total for all business segments	79,067	2,672
Eliminations and common	(2,866)	93
Total	76,200	2,766

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

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