

November 11, 2014

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2014

Financial Highlights

For the six months ended September 30, 2014 (2Q FY2014)

	2Q FY2014		2Q FY2013
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	137,951	1,260,978	146,572
Operating income	7,547	68,985	8,659
Ordinary income	7,707	70,448	6,755
Net income	13,246	121,079	9,609
Earnings per share (yen)	¥ 64.10	US\$ 0.59	¥46.49
	September 30, 2014		March 31, 2014
Total assets	360,554	3,295,740	366,753
Net assets	88,688	810,676	64,766

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 109.4 yen/dollar.

Business Results

1. Overview

During the six-month period ended September 30, 2014, recovery in the world economy slowed down, as a result of factors including downward pressure exerted on the German economy in Europe by worsening corporate sentiment against the backdrop of issues in Russia and Ukraine, which offset continuing firmness in the United States economy centered on robust personal consumption. In China, the economy softened somewhat overall, reflecting weaker consumption by the high-income class attributable to the impact of tightened official discipline by the government among other matters, despite pump-priming efforts through repeated economic stimulus measures. The outlook bears careful watching amid considerable risk of an economic downswing owing to geopolitical factors such as the continuing tension in the situations in Ukraine and Iraq. In the Japanese economy, personal consumption continued to stagnate amid a temporary drop resulting from the impact of the consumption tax hike, added to a decrease in real income. The department store industry experienced a sales decline in reaction to the last minute demand at the end of the previous fiscal year, mainly for

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high-priced items such as high-end brands and jewelry, and sales at existing stores continue to fall below those of the previous year. In the electronic devices and semiconductor market, demand for smartphone and automobile-related products is increasing, but sales related to flat-screen TVs, digital cameras, and other areas continue to be sluggish. Growth is strong in the domestic information services market, due to factors including a recovery in demand from manufacturing and other industries following improvement in corporate earnings.

For the six-month period ended September 30, 2014, the Company reported consolidated net sales of 137.9 billion yen, a year-on-year decrease of 8.6 billion yen. This was largely impacted by the exclusion of the Optical Products Business from consolidation at the close of the previous fiscal year. On a per-segment basis, sales under the Watches Business grew steadily both within Japan and overseas, and the Electronic Devices Business continued to perform strongly mainly in automobile and smartphone-related products. Sales in the Systems Solutions Business were slightly down year on year. On an overall consolidated basis, domestic net sales came to 63.8 billion yen (a year-on-year decrease of 6.5%), and overseas net sales were 74.1 billion yen (a year-on-year decrease of 5.3%). Overseas net sales comprised 53.7% of net sales overall. In terms of income, operating income decreased 1.1 billion yen compared to the same period of the previous fiscal year to become 7.5 billion yen (a year-on-year decrease of 12.8%), reflecting factors such as the bringing forward of the occurrence of a portion of selling, general and administrative expenses. However, ordinary income increased by 0.9 billion yen over the same period of the previous fiscal year to become 7.7 billion yen (a year-on-year increase of 14.1%), due to a year-on-year improvement in non-operating income. Meanwhile, quarterly net income minus income taxes and minority interests in income came to 13.2 billion yen (a year-on-year increase of 37.9%), due primarily to gain on sales of non-current assets of 8.4 billion yen posted as extraordinary income, and loss on business withdrawal of 0.5 billion yen posted as extraordinary losses as a result of withdrawal from electronic dictionaries and other businesses in the Electronic Devices Business.

2. Results by Segment

Results for each segment are as follows:

a. Watches Business

Net sales under the Watches Business for the six-month period ended September 30, 2014 came to 74.0 billion yen, a year-on-year increase of 3.5 billion yen, or 5.1%. In Japan, sales were underpinned by factors including an increase in tourists from other countries even amid falling consumption mainly for high-value range products due to the impact of the consumption tax hike. Sales of men's watch models were driven by the launch in September of the second-generation model of ASTRON, which is the world's first GPS solar watch, and the Mechanical, while the LUKIA and TISSÉ ladies' watch models saw sales growth. As a result, overall sales for watch finished goods were up year on year. On the overseas front, ASTRON sales were favorable, as they

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were in Japan. In addition, the PROSPEX sports watch for serious sports enthusiasts commenced global sales from the current fiscal year, and in August, the Seiko Boutique was opened on New York's Madison Avenue in order to promote the brand's high-quality image in retail shops. As a result of these efforts, sales grew steadily in Europe and America, including the United States, France, and Germany. Meanwhile, in Asia, sales were down year on year in Thailand mainly due to political unrest, but Taiwan and other markets saw favorable growth in sales.

With regards to income, the increase in net sales and improvement in gross profit ratio yielded a year-on-year increase of 0.3 billion yen in operating income, bringing it to 8.0 billion yen (a year-on-year increase of 4.1%).

b. Electronic Devices Business

Net sales in the Electronic Devices Business came to 47.4 billion yen (a year-on-year increase of 1.3%), and operating income to 1.0 billion yen (a year-on-year decrease of 30.6%). On a per-domain basis, sales of semiconductors, particularly those for automobiles and smartphones, saw strong growth, and printer-related sales also progressed steadily. However, sales of batteries and radiation measuring equipment stagnated.

c. Systems Solutions Business

Net sales in the Systems Solutions Business came to 10.1 billion yen (a year-on-year decrease of 2.5%). Although sales of network equipment, communication modules, order entry systems, and other products were robust, sales of payment terminal-related products, etc. fell year on year. In terms of profits, operating losses came to 67 million yen (compared to operating income of 80 million yen for the same period of the previous fiscal year), due to further advances in yen depreciation among other factors.

d. Others

Net sales in Others amounted to 11.2 billion yen. Among segments included in Others, sales under the Clock Business were flat year on year amid the impact of the consumption tax hike. Under the Wako Business, sales were sluggish at the beginning of the period mainly for jewelry and other high-priced products, but tended to pick up from summer onward. In addition, the exclusion of the Optical Products Business from consolidation at the close of the previous fiscal year resulted in a substantial decrease in net sales in Others. Operating losses of 0.4 billion yen was recorded (compared to operating losses of 0.1 billion yen for the same period of the previous fiscal year).

Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets at the close of the six-month period ended September 30, 2014 amounted to 360.5 billion yen, a decrease of 6.1 billion yen from the close of the previous fiscal year. Current assets came to 172.8 billion yen, an increase of 14.5 billion yen. This was mainly due to a 10.5 billion-yen increase in cash and deposits and a 7.3 billion-yen increase in inventories, while recording a 2.2 billion-yen decrease in notes and accounts receivable-trade. Under non-current assets, property, plant and equipment decreased by 39.0 billion yen due to factors such as sales of the lands and buildings owned by the Company (located in Minato-ku, Tokyo) and those owned by the Company's subsidiary, Seiko Instruments Inc. (located in Chiba-shi, Chiba). Even so, investments and other assets increased by 18.5 billion yen, resulting in total non-current assets of 187.6 billion yen, a decrease of 20.7 billion yen.

For liabilities, the Company posted 271.8 billion yen in total liabilities, a decrease of 30.1 billion yen over the close of the previous fiscal year. This was mainly attributable to a decrease of 39.7 billion yen in long- and short-term loans payable and a decrease of 3.5 billion yen in accounts payable-other, which offset an increase of 5.3 billion yen in notes and accounts payable-trade and an increase of 6.1 billion yen in deferred tax liabilities (non-current liabilities). Because of the decrease in long- and short-term loans payable, the reduction target of interest-bearing debt for the final fiscal year under the Fifth Mid-Term Management Plan, of which the current fiscal year corresponds to the second year, has been achieved ahead of schedule.

Additionally, thanks to an increase of 10.9 billion yen in shareholders' equity mainly due to the recording of net income and an increase of 12.7 billion yen in total accumulated other comprehensive income, total net assets increased by 23.9 billion yen over the close of the previous fiscal year to become 88.6 billion yen.

Cash Flows in the Current Period are Summarized as Follows:

The balance of cash and cash equivalents at the end of the six-month period ended September 30, 2014 came to 53.1 billion yen, an increase of 10.5 billion yen from the end of the previous fiscal year. This is primarily due to the following factors:

- Cash flow from operating activities

Net cash flow from operating activities came to 10.1 billion yen, an increase of 8.2 billion yen over the same period of the previous fiscal year (compared to a positive cash flow of 1.9 billion yen). This was the result of the Company posting 15.5 billion yen in income before income taxes and minority interests; factoring in depreciation amounting to 5.3 billion yen, a 3.9 billion-yen decrease in notes and accounts receivable-trade, and a 3.8 billion-yen increase in notes and accounts payable-trade that were added to cash flow, as well as a 6.3 billion-yen increase in inventories, a 2.8 billion-yen decrease in accounts payable-other, and gain on sales of non-current assets of 8.4 billion yen that were deducted from cash flow.

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- Cash flow from investment activities

Net cash flow from investment activities came to 41.2 billion yen (compared to a negative cash flow of 4.9 billion yen for the same period of the previous fiscal year) due to cash inflows consisting mostly of 47.5 billion yen in sales of property, plant and equipment and outflows consisting mainly of 4.0 billion yen in purchase of property, plant and equipment.

- Cash flow from financing activities

Net cash flow from financing activities came to negative 41.7 billion yen (compared to a positive cash flow of 2.4 billion yen for the same period of the previous fiscal year) due mainly to repayments and borrowings of short- and long-term loans payable.

Outlook for the Year Ending March 31, 2015

Although the Watches Business performed strongly during the six-month period under review, in light of the fact that sales in the Systems Solutions Business have been stagnant, the Company has revised the forecasts for net sales and operating income under the Watches Business and the Systems Solutions Business from the previously released business results forecast as follows. There is no change, however, to consolidated totals for net sales or operating income. Furthermore, considering the improvement in the foreign exchange climate during the six-month period under review, the forecasts for ordinary income and net income have also been revised in the consolidated business results forecast as indicated below.

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The Company's business results forecast following revision is as follows:

■ Forecast for the consolidated business results for the year ending March 31, 2015 (FY2014)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	290.0	94.1
Operating income	16.0	114.2
Ordinary income	14.0	137.7
Net income	18.0	242.5
Earnings per share (yen)	JPY 87.10	

■ Forecasted results by segment for the year ending March 31, 2015 (FY2014)

	Net Sales (Billions of yen)	Operating Income (Billions of yen)
Watches Business	155.0	12.5
Electronic Devices Business	100.0	4.0
Systems Solutions Business	20.0	0.5
Total for all business segments	275.0	17.0
Others	25.0	0.5
Consolidated total	290.0	16.0

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

The forecasted results which appear in this report are based on the information which we have obtained as of now, and on certain assumptions deemed reasonable. As a result, actual results, etc. may differ significantly from the forecasted figures due to a wide range of factors.

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Balance Sheets

Seiko Holdings Corporation and Consolidated Subsidiaries

September 30, 2014

	Millions of yen	
	September 30, 2014	March 31, 2014
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	53,506	43,002
Notes and accounts receivable - trade	42,198	44,462
Inventories	64,368	57,022
Accounts receivable - other	1,870	3,016
Deferred tax assets	5,465	5,131
Other	6,985	7,152
Allowance for doubtful accounts	(1,500)	(1,418)
Total current assets	172,894	158,369
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	73,177	103,833
Machinery, equipment and vehicles	101,381	100,575
Tools, furniture and fixtures	34,064	33,526
Other	4,492	4,313
Accumulated depreciation	(165,229)	(180,292)
Land	50,596	75,965
Construction in progress	906	559
Total property, plant and equipment	99,387	138,481
Intangible assets:		
Goodwill	8,522	8,872
Other	6,938	6,768
Total intangible assets	15,460	15,641
Investments and other assets:		
Investment securities	63,834	46,866
Deferred tax assets	1,744	1,709
Other	9,945	8,391
Allowance for doubtful accounts	(2,713)	(2,707)
Total investments and other assets	72,811	54,261
Total non-current assets	187,660	208,384
Total assets	360,554	366,753

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	Millions of yen	
	September 30, 2014	March 31, 2014
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	30,140	24,752
Electronically recorded obligations - operating	7,309	7,153
Short-term loans payable	56,607	56,750
Current portion of long-term loans payable	37,234	46,180
Accounts payable - other	10,431	13,934
Income taxes payable	1,973	1,744
Deferred tax liabilities	29	203
Provision for bonuses	4,587	3,938
Other provision	1,155	1,506
Asset retirement obligations	16	16
Other	10,836	10,094
Total current liabilities	160,323	166,275
Non-current liabilities:		
Long-term loans payable	62,360	93,040
Deferred tax liabilities	15,784	9,597
Deferred tax liabilities for land revaluation	4,218	4,218
Other provision	1,121	1,070
Net defined benefit liability	19,066	18,628
Asset retirement obligations	608	345
Other	8,383	8,811
Total non-current liabilities	111,542	135,711
Total liabilities	271,865	301,987

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	Millions of yen	
	September 30, 2014	March 31, 2014
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,414	7,414
Retained earnings	39,780	28,837
Treasury shares	(147)	(146)
Total shareholders' equity	57,046	46,104
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	21,200	10,601
Deferred gains or losses on hedges	(56)	(185)
Revaluation reserve for land	7,617	7,617
Foreign currency translation adjustment	1,045	(992)
Remeasurements of defined benefit plans	(257)	(273)
Total accumulated other comprehensive income	29,549	16,766
Minority interests	2,093	1,895
Total net assets	88,688	64,766
Total liabilities and net assets	360,554	366,753

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended September 30, 2014

	Millions of yen	
	2Q FY 2014	2Q FY 2013
	Amount	Amount
Net sales	137,951	146,572
Cost of sales	88,780	96,663
Gross profit	49,171	49,909
Selling, general and administrative expenses	41,624	41,249
Operating income	7,547	8,659
Non-operating income:		
Interest income	118	71
Dividend income	304	70
Foreign exchange gains	740	255
Other	1,207	897
Total non-operating income	2,370	1,295
Non-operating expenses:		
Interest expenses	1,808	2,129
Other	401	1,069
Total non-operating expenses	2,210	3,199
Ordinary income	7,707	6,755
Extraordinary income:		
Gain on sales of non-current assets	8,433	-
Insurance income	-	4,628
Gain on sales of investment securities	-	857
Reversal of allowance for doubtful accounts for subsidiaries and affiliates	-	122
Total extraordinary income	8,433	5,607
Extraordinary losses:		
Loss on business withdrawal	589	-
Provision of reserve for loss on lease contracts	-	613
Total extraordinary losses	589	613
Income before income taxes and minority interests	15,552	11,749
Income taxes	2,155	1,917
Income before minority interests	13,396	9,832
Minority interests in income	150	223
Net income	13,246	9,609

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Statements of Comprehensive Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended September 30, 2014

	Millions of yen	
	2Q FY 2014	2Q FY 2013
	Amount	Amount
Income before minority interests	13,396	9,832
Other comprehensive income		
Valuation difference on available-for-sale securities	10,559	4,595
Deferred gains or losses on hedges	129	44
Foreign currency translation adjustment	1,882	1,370
Remeasurements of defined benefit plans, net of tax	16	-
Share of other comprehensive income of entities accounted for using equity method	296	1,364
Total other comprehensive income	12,883	7,375
Comprehensive income	26,280	17,207
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	26,028	16,973
Comprehensive income attributable to minority interests	251	234

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Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended September 30, 2014

	Millions of yen	
	2Q FY 2014	2Q FY 2013
Cash flows from operating activities		
Income before income taxes and minority interests	15,552	11,749
Depreciation	5,357	5,910
Increase (decrease) in provision for directors' retirement benefits	(2)	(125)
Increase (decrease) in allowance for doubtful accounts	59	(176)
Increase (decrease) in provision for retirement benefits	-	(856)
Increase (decrease) in net defined benefit liability	(237)	-
Interest and dividend income	(422)	(141)
Interest expenses	1,808	2,129
Foreign exchange losses (gains)	(372)	620
Share of (profit) loss of entities accounted for using equity method	(282)	413
Loss (gain) on sales of investment securities	-	(857)
Loss (gain) on sales of non-current assets	(8,433)	-
Insurance income	-	(4,628)
Loss on retirement of non-current assets	28	35
Decrease (increase) in notes and accounts receivable - trade	3,916	1,446
Decrease (increase) in inventories	(6,305)	(3,945)
Increase (decrease) in notes and accounts payable - trade	3,819	(4,135)
Increase (decrease) in accounts payable - other	(2,853)	(4,368)
Other, net	3,175	1,879
Subtotal	14,808	4,950
Interest and dividend income received	423	141
Proceeds from dividend income from entities accounted for using equity method	11	9
Interest expenses paid	(1,829)	(2,164)
Proceeds from insurance income	-	2,346
Payments for extra retirement payments	(1,136)	(2,183)
Income taxes paid	(2,086)	(1,194)
Net cash provided by (used in) operating activities	10,190	1,904

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	Millions of yen	
	2Q FY 2014	2Q FY 2013
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,095)	(6,608)
Proceeds from sales of property, plant and equipment	47,502	98
Purchase of investment securities	(10)	(19)
Proceeds from sales of investment securities	27	1,326
Payments of loans receivable	(368)	(279)
Collection of loans receivable	597	449
Other, net	(2,392)	90
Net cash provided by (used in) investing activities	41,260	(4,941)
Cash flows from financing activities		
Increase in short-term loans payable	227,899	233,672
Decrease in short-term loans payable	(228,279)	(228,404)
Proceeds from long-term loans payable	14,677	49,306
Repayments of long-term loans payable	(54,352)	(51,229)
Cash dividends paid	(1,033)	(516)
Other, net	(640)	(351)
Net cash provided by (used in) financing activities	(41,730)	2,475
Effect of exchange rate change on cash and cash equivalents	816	(374)
Net increase (decrease) in cash and cash equivalents	10,537	(935)
Cash and cash equivalents at beginning of period	42,568	42,778
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	(38)
Increase (decrease) in cash and cash equivalents resulting from changes in the fiscal year-end of subsidiaries	2	(1,507)
Cash and cash equivalents at end of period	53,108	40,296

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Segment Information

1. Information about Sales and Income (Loss) by Reported Segment

(For the Six Months Ended September 30, 2013)

	Millions of yen	
	Sales 2Q FY 2013	Operating Income 2Q FY 2013
Watches Business	70,439	7,714
Electronic Devices Business	46,905	1,464
Systems Solutions Business	10,421	80
Total for reported segments	127,766	9,259
Others	24,151	(149)
Total for all business segments	151,918	9,109
Eliminations and common	(5,345)	(450)
Total	146,572	8,659

- Notes:
1. The "Others" category denotes business segments not included among reported segments, such as the Clock Business and the Optical Products Business.
 2. Adjustments to segment income in the amount of -450 million yen include -347 million yen in the amortization of goodwill, 601 million yen that mainly consists of the elimination of intra-segment transactions, and -703 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).
 3. Segment income (loss) has been adjusted for alongside operating income on the consolidated quarterly statements of income.

2. Information about Sales and Income (Loss) by Reported Segment

(For the Six Months Ended September 30, 2014)

	Millions of yen	
	Sales 2Q FY 2014	Operating Income 2Q FY 2014
Watches Business	74,031	8,028
Electronic Devices Business	47,498	1,016
Systems Solutions Business	10,160	(67)
Total for reported segments	131,689	8,977
Others	11,296	(409)
Total for all business segments	142,986	8,568
Eliminations and common	(5,035)	(1,020)
Total	137,951	7,547

- Notes:
1. The "Others" category denotes business segments not included among reported segments, such as the Clock Business.
 2. Adjustments to segment income in the amount of -1,020 million yen include -347 million yen in the amortization of goodwill, 304 million yen that mainly consists of the elimination of intra-segment transactions, and -977 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).
 3. Segment income (loss) has been adjusted for alongside operating income on the consolidated quarterly statements of income.

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For further information, please contact:
Corporate Strategy & Planning Department
SEIKO HOLDINGS CORPORATION
Toranomom 15 Mori Building, 8-10, Toranomom 2-chome,
Minato-ku, Tokyo 105-8505, JAPAN
Tel: +81-3-6739-3111
Fax: +81-3-6739-9205