

8 November 2011

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

Financial Highlights

For the six months ended 30 September 2011 (2Q FY2011)

	2Q FY2011		2Q FY2010
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	149,803	1,955,653	155,608
Operating income	4,620	60,313	5,452
Ordinary income	603	7,872	2,111
Net income	(2,395)	(31,266)	1,366
Earnings per share (yen)	(13.11)	\$(0.17)	7.88
	30 September 2011		31 March 2011
Total assets	388,751	5,075,078	400,457
Net assets	39,463	515,183	46,270

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 76.6 yen/dollar.

Business Results

1. Overview

For the six-month period ending 30 September 2011, SEIKO HOLDINGS CORPORATION reported consolidated net sales of 149.8 billion yen, a year-on-year decline of 5.8 billion yen. On a per-segment basis, the watch business exhibited a steady increase in sales both in Japan and newly-developing countries despite a worsening in the foreign currency environment. The electronic components business got off to a late start in the three-month period ending 30 June 2011 having been impacted by disorder in supply chains. However, in the three-month period ending 30 September 2011, said business progressed nearly on par with levels demonstrated during the same quarter last year. In the clock business, sales exceeded those of the same six-month period last year; conversely, those in the optical products business and other businesses declined. Total consolidated net sales came to 71.4 billion yen for Japan (a year-

on-year decline of 2.5%) and 78.3 billion yen for overseas (a year-on-year decline of 4.8%), with overseas sales representing 52.3% of the total (relative to 52.9% of the same six-month period last year). In terms of income, despite selling, general and administrative expenses being reduced over last year, operating income declined year on year by 0.8 billion yen to halt at 4.6 billion yen, with this due mainly to depressed sales. Additionally, ordinary income came to 0.6 billion yen following a year-on-year decrease of 1.5 billion yen due chiefly to the posting of foreign exchange losses. In addition to 0.2 billion yen in gains from the sale of noncurrent assets and 0.3 billion in gains on the reversal of a provision for disaster losses posted under extraordinary income, 1.5 billion yen in losses on the valuation of inventories was posted under extraordinary losses. Additionally, following a year-on-year increase of 1.2 billion yen in income taxes, net losses for the period came to 2.3 billion yen (relative to 1.3 billion in net income for the same period during the previous year).

2. Results by Segment

Results for each segment are as follows:

a. Watch business

Net sales under the watch business for the six-month period ending 30 September 2011 increased by 6.6 billion yen, or 14.0%, on a year-on-year basis to become 53.9 billion yen. The inclusion of the timepiece retail business, which had been accounted for under other businesses during the six-month period ending 30 September 2010, in the watch business for the same period this year yielded an impact of 4.6 billion yen. In Japan, sales of the GRAND SEIKO line, particularly those of the SEIKO 130th Anniversary Commemorative model, progressed favorably. Consequently, CREDOR and other high-value range products demonstrated sales performance that exceeded that for the same period last year. Additionally, among medium- to low-value range products, the LUKIA and TISSÉ ladies watch models spearheaded steady improvements in sales growth. On the overseas front, sales in China and other Asian countries continued to progress satisfactorily, with robust sales also posted in the United States. Sales in the watch movement sales business grew principally around high value-added movement.

With regards to income, although factors consisting mainly of the worsening of the foreign exchange environment and rising purchasing costs came into play, these were offset to an extent by efforts to reduce the costs of manufacturing, which resulted in operating income under this segment increasing by 0.5 billion yen year on year to 4.4 billion yen.

b. Electronic components business

Net sales in the electronic components business came to 78.8 billion yen (a year-on-year decline of 6.8%), with operating income coming to 1.5 billion yen (a year-on-year decline of 42.1%). On a per-domain basis, electronic devices, specifically semiconductors, got off to a late start due mainly to the impact of the Great East Japan Earthquake. However, the performance of semiconductors has recovered after entering the three-month period ending 30 September 2011. Additionally, sales of mechatronic devices fell below those of the previous year mainly due to customers adjusting their inventories of hard disk components. Systems applications also demonstrated favorable progression in sales, particularly the likes of mobile telecommunications modules used in security-related products for the domestic market. Sales of Geiger counters also grew due to the string of recent events related to nuclear power plants.

c. Clock business

Net sales in the clock business came to 5.1 billion yen (up 16.3% from the same period last year). In Japan, products intended for mass merchandisers in particular exhibited steady sales growth. Meanwhile, overseas sales of products for the United States market progressed favorably. In terms of income, despite an improvement over the same period last year due to the sale of unprofitable businesses, operating losses came to 0.1 billion yen (relative to 0.4 billion yen in operating losses for the same period last year).

d. Optical products business

Net sales in the optical products business came to 11.4 billion yen (a year-on-year decline of 3.7%). Europe and the United States demonstrated steady progression in sales. In Japan, alongside centering efforts under this business on back surface progressive addition lenses, double-sided aspherical single-vision lenses and other high value-added products as well as single-vision low-priced strategic products,

efforts were also made to cultivate new distribution. However, sales of products intended for mass merchandisers were sluggish, resulting in sales in Japan declining slightly from the previous year. In terms of income, operating income amounted to 0.1 billion yen, remaining nearly on par with levels demonstrated during the same period last year.

e. Other businesses

In other businesses, net sales came to 6.3 billion yen (a year-on-year decline of 50.6%) and operating losses came to 0.5 billion yen (relative to operating losses of 0.7 billion yen for the same period last year). The timepiece retail business, which had been accounted for under other businesses during the six-month period ending 30 September 2010, was included in the watch business for the same period this year. This yielded a decline in net sales of 5.3 billion yen. In addition, the withdrawal of the Company from its golf business was another key factor contributing to the year-on-year decline in sales. Going forward, the Company will endeavor to recuperate its sales by aggressively rolling out the SEIKO brand through its newly-positioned flagship store at the Wako department store, which opened in June following renovations of the Main Building of that establishment.

Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets for the six-month period ending 30 September 2011 amounted to 388.7 billion yen, a decline of 11.7 billion yen relative to the end of the year ending 31 March 2011. Cash and deposits decreased by 8.8 billion yen and inventories increased by 5.0 billion yen, which collectively resulted in total current assets decreasing by 3.6 billion yen. In non-current assets, machinery, equipment and vehicles increased by 1.5 billion yen due mainly to replacement investment. Conversely, in addition to depreciation, sales of land in particular yielded a decrease of 2.3 billion yen, and investment securities fell by 2.5 billion yen due to the diminished market value of shares held by the Company. These were the main factors behind an 8.0 billion-yen decline in total noncurrent assets. Additionally, long-term and short-term loans payable declined by 2.3 billion yen and accounts payable-other declined by 2.9 billion yen, which caused total liabilities to come to 349.2 billion yen, a decline of 4.8 billion yen

from the end of the year ending 31 March 2011. Lastly, relative to the end of the year ending 31 March 2011, net assets decreased by 6.8 billion yen to 39.4 billion yen. This was mainly due to the posting of dividends payable and net losses for the period in question.

Status of Cash Flows

The balance of cash and cash equivalents at the end of the six-month period ending 30 September 2011 came to 42.9 billion yen, a decline of 8.9 billion yen relative to the end of the year ending 31 March 2011. Cash flow from operating activities declined by 1.3 billion yen due mainly to net losses before taxes and minority interests coming to 0.7 billion yen and inventories increasing by 6.4 billion versus depreciation of 7.2 billion yen. Cash flow from investment activities declined by 4.2 billion yen due mainly to 2.1 billion yen from sales of property, plant and equipment versus 6.8 billion yen in acquisitions under the same accounting item. Cash flow from financing activities declined by 1.7 billion yen due mainly to the repayment of long-term and short-term loans payable.

Outlook for the Year Ending 31 March 2012

The third quarter of this year and beyond is laced with concerns that the current foreign exchange environment punctuated by the over-appreciated Japanese yen will continue to be prolonged. Coupled with this are the tremendous difficulties in ascertaining the extent of the impact caused by flood damage in Thailand. While the watch business is anticipated to progress favorably, particularly in Japan and newly-developing countries, orders in the electronic components business currently remain sluggish due to a sense of uncertainty regarding future economic conditions. This, combined with the sizeable impact of foreign currency, is expected to yield total consolidated net sales that fall below the previously-issued forecast. Additionally, despite efforts to further reduce operating expenses, the sluggishness in sales is regrettably expected to cause operating income, ordinary income and net income for the year to fall below the previously-issued forecast. The Company therefore revises its outlook for its consolidated business results forecast for the year ending March 31, 2012 in the following manner.

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■ Forecast for the consolidated business results for the year ending 31 March 2012 (FY2011)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	300.0	-4.4
Operating income	7.5	-35.7
Ordinary income	2.5	-62.0
Net income	0.5	-77.1

■ Forecasted results by segment for the year ending 31 March 2012 (FY2011)

	Net Sales (Billions of yen)	Operating Income (Billions of yen)
Watch Business	110.0	8.0
Electronic Components Business	150.0	1.0
Clock Business	10.0	0.0
Optical Products Business	23.0	0.2
Other Businesses	15.0	0.0
Total for all business segments	308.0	9.2
Consolidated total	300.0	7.5

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 September 2011

	Millions of yen	
	30 September 2011	31 March 2011
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	43,082	51,958
Notes and accounts receivable-trade	50,839	50,897
Inventories	66,028	60,974
Accounts receivable-other	1,869	2,837
Deferred tax assets	5,593	4,489
Other	4,842	4,849
Allowance for doubtful accounts	(1,263)	(1,352)
Total current assets	170,992	174,654
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	106,690	107,510
Machinery, equipment and vehicles	101,812	100,248
Tools, furniture and fixtures	35,045	35,410
Other	4,095	3,191
Accumulated depreciation	(171,373)	(168,054)
Land	81,179	83,505
Construction in progress	1,395	1,054
Subtotal	158,845	162,866
Intangible assets:		
Goodwill	10,721	11,172
Other	10,134	10,373
Subtotal	20,855	21,545
Investments and other assets:		
Investment securities	29,413	31,989
Deferred tax assets	2,005	2,600
Other	10,071	10,229
Allowance for doubtful accounts	(3,432)	(3,428)
Subtotal	38,057	41,390
Total noncurrent assets	217,759	225,802
Total assets	388,751	400,457

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	Millions of yen	
	30 September 2011	31 March 2011
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	45,572	45,175
Short-term loans payable	71,861	75,306
Current portion of long-term loans payable	71,197	58,606
Accounts payable-other	8,215	11,182
Income taxes payable	1,685	1,691
Deferred tax liabilities	145	127
Provision for bonuses	3,242	1,520
Other provision	691	1,466
Asset retirement obligations	52	39
Other	9,425	11,045
Total current liabilities	212,091	206,163
Noncurrent liabilities:		
Long-term loans payable	92,427	103,952
Deferred tax liabilities	4,553	4,632
Deferred tax liabilities for land revaluation	5,490	5,490
Provision for retirement benefits	25,358	25,241
Other provision	975	1,083
Asset retirement obligations	335	351
Negative goodwill	757	946
Other	7,298	6,325
Total noncurrent liabilities	137,196	148,023
Total liabilities	349,288	354,187

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	Millions of yen	
	30 September 2011	31 March 2011
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,550	7,521
Retained earnings	20,360	23,140
Treasury stock	(878)	(1,010)
Subtotal	37,032	39,650
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	(1,694)	740
Deferred gains or losses on hedges	(58)	99
Revaluation reserve for land	7,154	7,154
Foreign currency translation adjustment	(12,416)	(10,455)
Subtotal	(7,015)	(2,461)
Minority interests	9,446	9,080
Total net assets	39,463	46,270
Total liabilities and net assets	388,751	400,457

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended 30 September 2011

	Millions of yen	
	2Q FY 2011	2Q FY 2010
	Amount	Amount
Net sales	149,803	155,608
Cost of sales	104,838	107,799
Gross profit	44,964	47,808
Selling, general and administrative expenses	40,344	42,356
Operating income	4,620	5,452
Non-operating income:		
Interest income	154	95
Dividends income	91	89
Other	924	1,644
Subtotal	1,169	1,830
Non-operating expenses:		
Interest expenses	2,742	2,736
Foreign exchange losses	1,710	1,251
Other	733	1,182
Subtotal	5,186	5,170
Ordinary income	603	2,111
Extraordinary income:		
Reversal of provision for loss on disaster	367	–
Gain on the sale of non-current assets	252	–
Reversal of provision for directors' retirement benefits	–	225
Subtotal	620	225
Extraordinary loss:		
Loss on the valuation of inventories	1,578	–
Loss on sales of investment securities	136	–
Other	301	–
Loss on adjustment for changes of accounting standard for asset retirement obligations	–	332
Provision of allowance for doubtful accounts for subsidiaries and affiliates	–	237
Loss on retirement of noncurrent assets	–	174
Loss on litigation	–	97
Subtotal	2,017	841
Income (loss) before income taxes and minority interests	(793)	1,496
Income taxes	1,205	(63)
Income (loss) before minority interests	(1,998)	1,560
Minority interests in income	397	193
Net income (loss)	(2,395)	1,366

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Statements of Comprehensive Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended 30 September 2011

	Millions of yen	
	2Q FY 2011	2Q FY 2010
	Amount	Amount
Income (loss) before minority interests	(1,998)	1,560
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,517)	(966)
Deferred gains or losses on hedges	(158)	(59)
Foreign currency translation adjustment	(2,062)	(2,055)
Share of other comprehensive income of associates accounted for using equity method	81	116
Subtotal	(4,656)	(2,965)
Comprehensive income	(6,655)	(1,404)
Comprehensive income attributable to owners of the parent	(6,950)	(1,516)
Comprehensive income attributable to minority interests	295	112

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Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries
For the Six Months Ended 30 September 2011

	Millions of yen	
	2Q FY 2011	2Q FY 2010
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	(793)	1,496
Depreciation and amortization	7,286	7,897
Increase (decrease) in provision for retirement benefits	182	(460)
Increase (decrease) in provision for directors' retirement benefits	(60)	(261)
Increase (decrease) in allowance for doubtful accounts	(31)	92
Interest and dividends income	(245)	(185)
Proceeds from dividends income from affiliates accounted for by equity method	11	7
Interest expenses	2,742	2,736
Foreign exchange losses (gains)	414	460
Equity in (earnings) losses of affiliates	(176)	(619)
Loss (gain) on sales of investment securities	136	-
Loss (gain) on sales of noncurrent assets	(252)	-
Loss on retirement of noncurrent assets	111	249
Decrease (increase) in notes and accounts receivable-trade	(1,463)	2,066
Decrease (increase) in inventories	(6,417)	(5,983)
Increase (decrease) in notes and accounts payable-trade	1,826	8,753
Increase (decrease) in accounts payable-other	(2,275)	(3,525)
Increase (decrease) in provision for bonuses	1,721	2,885
Other, net	(103)	3,741
Subtotal	2,612	19,353
Interest and dividends income received	245	185
Interest expenses paid	(2,756)	(2,791)
Income taxes paid	(1,459)	(852)
Net cash provided by (used in) operating activities	(1,357)	15,895
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(6,873)	(5,466)
Proceeds from sales of property, plant and equipment	2,154	879
Purchase of investment securities	(0)	(48)
Proceeds from sales of investment securities	984	24
Payments of loans receivable	(292)	(246)
Collection of loans receivable	267	237
Other, net	(446)	88
Net cash provided by (used in) investing activities	(4,205)	(4,531)

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	Millions of yen	
	2Q FY 2011	2Q FY 2010
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	234,459	319,914
Decrease in short-term loans payable	(237,638)	(337,069)
Proceeds from long-term loans payable	23,000	46,912
Repayment of long-term loans payable	(21,920)	(40,240)
Cash dividends paid	(363)	-
Other, net	663	331
Net cash provided by (used in) financing activities	(1,799)	(10,151)
Effect of exchange rate change on cash and cash equivalents	(1,109)	(1,050)
Net increase (decrease) in cash and cash equivalents	(8,472)	163
Cash and cash equivalents at beginning of period	51,901	55,331
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(458)	-
Cash and cash equivalents at end of period	42,970	55,494

Segment Information

1. Information about Net Sales and Operating Income (Loss) by Reported Segment (For the Six Months Ended 30 September 2010)

Millions of yen

	Sales 2Q FY 2010	Operating Income 2Q FY 2010
Watch Business	47,313	3,965
Electronic Components Business	84,620	2,657
Clock Business	4,391	(443)
Optical Products Business	11,864	178
Other businesses	12,793	(725)
Total for all business segments	160,983	5,631
Eliminations and common	(5,375)	(179)
Total	155,608	5,452

2. Information about Net Sales and Operating Income (Loss) by Reported Segment (For the Six Months Ended 30 September 2011)

Millions of yen

	Sales 2Q FY 2011	Operating Income 2Q FY 2011
Watch Business	53,922	4,465
Electronic Components Business	78,859	1,538
Clock Business	5,104	(114)
Optical Products Business	11,427	170
Other businesses	6,320	(583)
Total for all business segments	155,634	5,476
Eliminations and common	(5,831)	(856)
Total	149,803	4,620

Notes:

- Adjustments to segment income in the amount of -856 million yen include -451 million yen in the amortization of goodwill, 869 million yen that mainly consists of the elimination of intra-segment transactions, and -1,274 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 income on the consolidated quarterly statements of income.
- Out of property, plant and equipment in the form of "tools, furniture and fixtures" possessed by certain domestic consolidated subsidiaries, molds had originally been subject to depreciation over a two-year period. However, following a comprehensive revision of their service life based on product development cycles and the past record of usage of the molds, the Company elected to apply a service life of six years beginning with the three-month consolidated period ending June 30, 2011.

The cumulative monetary impact of this change as of the consolidated six-month period in question was an increase of 113 million yen in segment income for the watch business and an increase of 136 million yen in segment income for the electronic components business.

Matters Concerning Changes, Etc. in Reported Segments

Following changes made to the consolidated management framework of the Company, disclosure for Cronos Inc. has been included under the watch business starting from the consolidated cumulative three-month period ending December 31, 2010. During the consolidated cumulative six month period ending September 30, 2010, Cronos Inc. had been included under other businesses.

When this change is reflected in the consolidated cumulative six-month period ending September 30, 2010, net sales to external customers under the watch business increase by 5,369 million yen, internal net sales or transfer amounts between segments decrease by 732 million yen, net sales to external customers under other businesses decrease by 5,369 million yen, and internal net sales or transfer amounts between segments increase by 1 million yen. Additionally, segment income under the watch business increases by 62 million yen, and segment losses under other business increase by 133 million yen.

Reported Segment	Main Products
Watch Business	Watches, watch movements
Electronic Components Business	Hard disk components, semiconductors, quartz crystals, LCD devices, micro batteries and materials, information systems, IC dictionaries, printers, scientific instruments, network systems, and shutters for cameras
Clock Business	Clocks
Optical Products Business	Optical lenses and frames
Other Businesses	Musical accessories, high-end clothing and miscellaneous goods, system clocks, and sports timing equipments

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