

November 8, 2016

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016

Financial Highlights

For the six months ended September 30, 2016 (2Q FY2016)

	2Q FY2016		2Q FY2015
	Millions of yen	Millions of US dollars	Millions of yen
Net sales	122,398	1,210.4	151,541
Operating income	3,123	30.9	11,330
Ordinary income	1,666	16.5	11,300
Profit attributable to owners of parent	(1,514)	(15.0)	7,519
Earnings per share (yen/USD)	¥(7.34)	US\$ (0.07)	¥ 36.39
Cash dividends per share (yen/USD)	¥ 7.50	US\$ 0.07	¥ 5.00
	September 30, 2016		March 31, 2016
Total assets	318,721	3,151.9	329,115
Net assets	95,613	945.5	102,692

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 101.12 yen/dollar.

Business Results

1. Overview

During the six-month period ended September 30, 2016, in the world economy, the U.S. economy continued to see changes in the environment, including the announcement of closures at major department stores, despite stable personal consumption. In Europe, although the economy was underpinned by a recovery in exports to emerging nations, consumer sentiment is believed to be trending downward. China's economy was also on a slowing trend, with the pace of expansion of personal consumption expected to slow down. The Japanese economy continued to stall overall. Personal consumption was sluggish mainly resulting from unseasonal weather and cyclical factors. The environment worsened, due to such factors as the impact of yen appreciation, shifts in consumption by foreign tourists, and stagnating overseas demand. These declines were despite improvements in individual buying power due to rising income levels and other factors.

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For the six-month period ended September 30, 2016, the Company reported consolidated net sales of 122.3 billion yen, a year-on-year decrease of 29.1 billion yen, or 19.2%. On a per-segment basis, sales under the Watches Business and the Electronic Devices Business declined year on year due to the impact of yen appreciation and other factors, while the Systems Solutions Business grew compared to the same period of the previous fiscal year. On an overall consolidated basis, domestic net sales came to 64.1 billion yen (a year-on-year decrease of 10.5%), and overseas net sales were 58.2 billion yen (a year-on-year decrease of 27.1%). Overseas net sales comprised 47.6% of net sales overall. In terms of income, operating income decreased 8.2 billion yen compared to the same period of the previous fiscal year to 3.1 billion yen (a year-on-year decrease of 72.4%). Furthermore, ordinary income amounted to 1.6 billion yen (a year-on-year decrease of 85.3%), as non-operating income and expenses worsened due to factors including the posting of foreign exchange losses. Restructuring expenses of 0.4 billion yen were posted as extraordinary losses, and income taxes were at the same level as the same period of the previous fiscal year, resulting in a loss attributable to owners of parent minus income taxes and profit attributable to non-controlling interests of 1.5 billion yen (compared to profit attributable to owners of parent of 7.5 billion yen in the same period of the previous fiscal year).

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, 2016, came to 64.6 billion yen, a year-on-year decrease of 20.5 billion yen, or 24.1%. In Japan, sales fell due to the shifts in consumption by foreign tourists, in addition to sluggish personal consumption mainly for high-end products. On the overseas front, sales grew on a local currency basis in many markets, particularly Germany and Australia. However, net sales shrank due to factors including the impact of yen appreciation, as well as a delayed recovery in the market of the United States. Sales of watch movements worsened due to the impact of a reduction in products handled, as well as the slump in the watch markets of the United States and China.

With regard to income, the decrease in net sales resulted in a year-on-year decrease of 6.0 billion yen in operating income, bringing it to 3.6 billion yen (a year-on-year decrease of 62.5%).

b. Electronic Devices Business

Net sales under the Electronic Devices Business came to 40.4 billion yen (a year-on-year decrease of 19.5%), and operating income to 1.2 billion yen (a year-on-year decrease of 50.8%). Although semiconductors, mainly those for automobiles and for smartphones, performed strongly on a volume basis, sales declined sharply due to the impact of yen appreciation, which also had a wide-ranging impact on other domains.

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c. Systems Solutions Business

Net sales under the Systems Solutions Business came to 9.6 billion yen (a year-on-year increase of 10.8%), and operating income to 0.5 billion yen (compared to operating losses of 22 million yen for the same period of the previous fiscal year). Sales were favorable in some businesses such as data services, which includes payment terminals, and as mobile solutions for home security.

d. Others

Net sales under Others amounted to 12.6 billion yen (a year-on-year decrease of 7.1%). Among segments included in Others, sales under the Wako Business fell due to the shifts in consumption by foreign tourists, and the Clock Business saw a steady increase in sales in Japan despite a decrease in sales to overseas due to the impact of yen appreciation. Operating losses came to 0.2 billion yen (compared to operating income of 0.1 billion yen for the same period of the previous fiscal year).

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2. Financial Condition

Status of Assets, Liabilities, and Net Assets

Total assets at the close of the six-month period ended September 30, 2016, amounted to 318.7 billion yen, a decrease of 10.3 billion yen from the close of the previous fiscal year. Current assets amounted to 151.7 billion yen, a decrease of 7.9 billion yen. This was mainly due to decreases of 5.4 billion yen in cash and deposits, 5.4 billion yen in notes and accounts receivable-trade, and 1.4 billion yen in accounts receivable-other, offsetting an increase of 4.9 billion yen in inventories. Under non-current assets, property, plant and equipment decreased 1.8 billion yen, and investments and other assets decreased 0.8 billion yen, resulting in total non-current assets of 166.9 billion yen, a decrease of 2.4 billion yen.

For liabilities, the Company posted 223.1 billion yen in total liabilities, a decrease of 3.3 billion yen over the close of the previous fiscal year. This was mainly attributable to decreases of 5.9 billion yen in accounts payable-other, 0.6 billion yen in income taxes payable, and 3.7 billion yen in net defined benefit liability, which offset increases of 0.8 billion yen in notes and accounts payable-trade and 6.2 billion yen in long- and short-term loans payable.

Additionally, total net assets decreased by 7.0 billion yen over the close of the previous year to become 95.6 billion yen, due to a decrease of 3.2 billion yen in shareholders' equity mainly due to the recording of loss attributable to owners of parent and payment of cash dividends, in addition to a decrease of 4.2 billion yen in total accumulated other comprehensive income due to factors such as worsening of the foreign currency translation adjustment from the impact of yen appreciation.

Cash Flows in the Current Fiscal Year Are Summarized as Follows:

The balance of cash and cash equivalents at the end of the six-month period ended September 30, 2016 came to 33.4 billion yen, a decline of 5.4 billion yen relative to 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 negative 3.2 billion yen (compared to a positive cash flow of 11.0 billion yen for the same period of the previous fiscal year). This was the result of the Company posting 1.2 billion yen in profit before income taxes; factoring mainly in depreciation amounting to 5.2 billion yen, a 2.8 billion-yen decrease in notes and accounts receivable-trade, and a 2.7 billion-yen increase in notes and accounts payable-trade that were added to cash flow, as well as a 7.5 billion-yen increase in inventories, a 4.7 billion-yen decrease in accounts payable-other, and payment of 2.8 billion yen in extra retirement payments that were deducted from cash flow.

-Cash flow from investment activities

Net cash flow from investment activities came to negative 5.4 billion yen (compared to a negative cash flow of 0.3 billion yen for the same period of the previous fiscal year) due to cash inflows consisting mostly of 1.3 billion yen in proceeds from sales of property, plant and equipment and outflows consisting mainly of 6.0 billion yen in purchase of property, plant and equipment.

-Cash flow from financing activities

Net cash flow from financing activities came to positive 4.8 billion yen (compared to a negative cash flow of 13.5 billion yen for the same period of the previous fiscal year) due mainly to repayments and borrowings of long- and short-term loans payable.

3. Outlook for the Year Ending March 31, 2017

There are no changes at this point to the consolidated business results forecast for the year ending March 31, 2017 (FY2016).

If it becomes necessary to change the consolidated business results forecast for the year ending March 31, 2017 (FY2016), released on September 13, 2016, notification will be made immediately.

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, 2016

	Millions of yen	
	September 30, 2016	March 31, 2016
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	33,637	39,131
Notes and accounts receivable - trade	36,125	41,623
Inventories	70,160	65,196
Accounts receivable - other	2,265	3,753
Deferred tax assets	4,371	4,966
Other	6,503	6,466
Allowance for doubtful accounts	(1,329)	(1,488)
Total current assets	151,735	159,649
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	69,983	70,424
Machinery, equipment and vehicles	79,465	80,454
Tools, furniture and fixtures	30,272	30,654
Other	2,904	2,983
Accumulated depreciation	(138,437)	(140,016)
Land	48,173	48,674
Construction in progress	744	1,758
Total property, plant and equipment	93,106	94,934
Intangible assets:		
Goodwill	7,377	7,663
Other	8,696	8,262
Total intangible assets	16,073	15,925
Investments and other assets:		
Investment securities	42,806	42,407
Deferred tax assets	8,249	8,966
Other	6,930	7,432
Allowance for doubtful accounts	(181)	(199)
Total investments and other assets	57,806	58,606
Total non-current assets	166,986	169,466
Total assets	318,721	329,115

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	Millions of yen	
	September 30, 2016	March 31, 2016
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	25,097	24,267
Electronically recorded obligations - operating	7,213	7,766
Short-term loans payable	40,670	39,565
Current portion of long-term loans payable	39,720	35,342
Accounts payable - other	9,531	15,442
Income taxes payable	1,242	1,851
Deferred tax liabilities	19	19
Provision for bonuses	4,171	4,054
Other provision	586	766
Asset retirement obligations	-	16
Other	10,699	10,696
Total current liabilities	138,953	139,789
Non-current liabilities:		
Long-term loans payable	50,561	49,811
Deferred tax liabilities	9,982	9,232
Deferred tax liabilities for land revaluation	3,614	3,614
Other provision	541	605
Net defined benefit liability	13,260	17,011
Asset retirement obligations	649	459
Other	5,543	5,898
Total non-current liabilities	84,154	86,633
Total liabilities	223,108	226,423

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	Millions of yen	
	September 30, 2016	March 31, 2016
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,245	7,246
Retained earnings	54,233	57,323
Treasury shares	(328)	(158)
Total shareholders' equity	71,150	74,411
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	11,500	10,719
Deferred gains or losses on hedges	(311)	(28)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	(3,534)	1,647
Remeasurements of defined benefit plans	64	(417)
Total accumulated other comprehensive income	15,909	20,110
Non-controlling interests	8,554	8,170
Total net assets	95,613	102,692
Total liabilities and net assets	318,721	329,115

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended September 30, 2016

	Millions of yen	
	2Q FY 2016	2Q FY 2015
	Amount	Amount
Net sales	122,398	151,541
Cost of sales	76,683	95,510
Gross profit	45,715	56,031
Selling, general and administrative expenses	42,591	44,700
Operating income	3,123	11,330
Non-operating income:		
Interest income	68	97
Dividend income	369	490
Other	919	1,137
Total non-operating income	1,357	1,725
Non-operating expenses:		
Interest expenses	919	1,095
Foreign exchange losses	1,158	62
Other	736	597
Total non-operating expenses	2,814	1,755
Ordinary income	1,666	11,300
Extraordinary losses		
Restructuring expenses	403	-
Business structure improvement expenses	-	1,536
Total extraordinary losses	403	1,536
Income before income taxes	1,262	9,763
Income taxes	2,305	2,155
Profit (loss)	(1,042)	7,608
Profit attributable to non-controlling interests	471	89
Profit (loss) attributable to owners of parent	(1,514)	7,519

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Statements of Comprehensive Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended September 30, 2016

	Millions of yen	
	2Q FY 2016	2Q FY 2015
	Amount	Amount
Profit (loss)	(1,042)	7,608
Other comprehensive income		
Valuation difference on available-for-sale securities	943	(3,625)
Deferred gains or losses on hedges	(282)	36
Revaluation reserve for land	-	4
Foreign currency translation adjustment	(4,641)	(963)
Remeasurements of defined benefit plans, net of tax	467	29
Share of other comprehensive income of entities accounted for using equity method	(763)	826
Total other comprehensive income	(4,276)	(3,692)
Comprehensive income	(5,319)	3,916
Comprehensive income attributable to		
owners of parent	(5,716)	3,892
non-controlling interests	396	23

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Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended September 30, 2016

	Millions of yen	
	2Q FY 2016	2Q FY 2015
Cash flows from operating activities		
Income before income taxes	1,262	9,763
Depreciation	5,250	4,894
Increase (decrease) in provision for directors' retirement benefits	(31)	(111)
Increase (decrease) in allowance for doubtful accounts	(9)	209
Increase (decrease) in net defined benefit liability	(24)	(453)
Interest and dividend income	(438)	(587)
Interest expenses	919	1,095
Foreign exchange losses (gains)	322	62
Share of (profit) loss of entities accounted for using equity method	172	(197)
Loss on retirement of non-current assets	50	44
Decrease (increase) in notes and accounts receivable - trade	2,830	891
Decrease (increase) in inventories	(7,556)	(7,857)
Increase (decrease) in notes and accounts payable - trade	2,782	6,916
Increase (decrease) in accounts payable - other	(4,749)	(3,000)
Other, net	759	2,264
Subtotal	1,540	13,934
Interest and dividend income received	438	587
Proceeds from dividend income from entities accounted for using equity method	13	14
Interest expenses paid	(897)	(1,114)
Extra retirement payments	(2,816)	(377)
Income taxes paid	(1,504)	(2,000)
Net cash provided by (used in) operating activities	(3,227)	11,043

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	Millions of yen	
	2Q FY 2016	2Q FY 2015
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,072)	(6,489)
Proceeds from sales of property, plant and equipment	1,358	5,219
Purchase of investment securities	(0)	(0)
Proceeds from sales of investment securities	15	100
Payments of loans receivable	(191)	(337)
Collection of loans receivable	245	456
Other, net	(799)	691
Net cash provided by (used in) investing activities	(5,444)	(360)
Cash flows from financing activities		
Increase in short-term loans payable	205,961	212,725
Decrease in short-term loans payable	(204,264)	(207,025)
Proceeds from long-term loans payable	21,100	15
Repayments of long-term loans payable	(15,906)	(16,581)
Cash dividends paid	(1,550)	(1,550)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(338)
Other, net	(521)	(801)
Net cash provided by (used in) financing activities	4,819	(13,556)
Effect of exchange rate change on cash and cash equivalents	(1,612)	(273)
Net increase (decrease) in cash and cash equivalents	(5,465)	(3,146)
Cash and cash equivalents at beginning of period	38,914	40,279
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	45
Cash and cash equivalents at end of period	33,449	37,179

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Segment Information

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

(For the Six Months Ended September 30, 2015)

	Millions of yen	
	Sales 2Q FY 2015	Operating Income 2Q FY 2015
Watches Business	85,278	9,660
Electronic Devices Business	50,191	2,479
Systems Solutions Business	8,673	(22)
Total for reported segments	144,143	12,117
Others	13,616	181
Total for all business segments	157,759	12,299
Adjustments	(6,217)	(968)
Total	151,541	11,330

- Notes:
1. The "Others" category denotes business segments not included among reported segments, such as the Clocks Business.
 2. Adjustments to segment income in the amount of -968 million yen include -283 million yen in the amortization of goodwill, 244 million yen that mainly consists of the elimination of intra-segment transactions, and -929 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, 2016)

	Millions of yen	
	Sales 2Q FY 2016	Operating Income 2Q FY 2016
Watches Business	64,694	3,626
Electronic Devices Business	40,409	1,218
Systems Solutions Business	9,606	551
Total for reported segments	114,710	5,397
Others	12,651	(249)
Total for all business segments	127,361	5,148
Adjustments	(4,962)	(2,024)
Total	122,398	3,123

- Notes:
1. The "Others" category denotes business segments not included among reported segments, such as the Clocks Business.
 2. Adjustments to segment income in the amount of -2,024 million yen include -283 million yen in the amortization of goodwill, 82 million yen that mainly consists of the elimination of intra-segment transactions, and -1,823 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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