

9 November 2010

CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Financial Highlights

For the six months ended 30 September 2010 (2Q FY2010)

	2Q FY2010		2Q FY2009
	Millions of yen	Thousands of US dollars	Millions of yen
Net sales	155,608	1,856,454	71,063
Operating income	5,452	65,044	(3,476)
Ordinary income	2,111	25,185	(5,294)
Net income	1,366	16,297	(5,948)
Earnings per share (yen)	7.88	\$0.09	(51.74)
	30 September 2010		31 March 2010
Total assets	403,115	4,809,294	405,960
Net assets	41,601	496,314	42,554

Note: Japanese yen amounts have been converted into US dollars, for convenience only, using the rate of 83.82 yen/dollar.

Business Results

1. Overview

For the six months ended 30 September 2010, SEIKO HOLDINGS CORPORATION reported consolidated net sales of 155.6 billion yen, an increase of 84.5 billion yen from the same period of the previous year. The increase includes 85.0 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. Also, sales in the watch business and electronic components business recovered, but sales in the optical products business and other businesses declined. The Company reported operating income of 5.4 billion yen compared to an operating loss of 3.4 billion yen in the same period of the previous year. Although interest expenses and foreign exchange losses increased, the Company posted ordinary income of 2.1 billion yen compared to an ordinary loss of 5.2 billion yen in the same period of the

previous year due to improved equity in earnings of affiliates and other factors. 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 0.8 billion primarily due to loss on retirement of noncurrent assets and the effects of applying the Accounting Standard for Asset Retirement Obligations, income after income taxes and minority interests stood at 1.3 billion yen (compared to a net loss of 5.9 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. Starting this fiscal year, Seiko Instruments' watch manufacturing and watch movement 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 a 17.4 billion yen increase in sales to 47.3 billion yen (a 58.4% increase from the same period in the previous year). The effects of the change to a consolidated management organization amounted to 16.7 billion yen. Domestically, Grand Seiko sales were robust focused mainly on the 50th anniversary model, and sales of the high-priced products are recovering. Medium to low-priced products were steady on the whole, with Tissé ladies watches continuing to perform briskly. Overseas, although sales in Europe were slow to recover, sales in China and other Asian countries were brisk, and signs of recovery in the United States are appearing. As a result, total sales exceeded the level of the same period in the previous year. 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 3.4 billion yen from the same period in the previous year to 3.9 billion yen.

b. Electronic components business

The electronic components business reported sales of 84.6 billion yen and an operating income of 2.6 billion yen. The figure includes sales of 14.7 billion yen from those businesses that during the previous fiscal year came under the precision products business. In the electronic device area, semiconductors continued 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 sales of large printers were sluggish because of the slow recovery in the billboard industry. 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 4.3 billion yen (a 5.4% increase from the same period of the previous year). In Japan, average prices continue to decline as a result of sluggish personal consumption, and conditions remain difficult. But overall sales managed to grow compared to the previous year primarily thanks to overseas growth. However, the clock business reported an operating loss of 0.4 billion yen (compared to an operating loss of 0.4 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 11.8 billion yen (a 5.8% decline from the same period of the previous year). Although sales in Europe and the United States grew steadily, in Japan sales were slow because of the effects of an increasingly harsh competition in lenses for mass merchandisers. With respect to income, in contrast to the operating loss of 0.2 billion yen in the same period of the previous year, the business reported an operating income of 0.1 billion yen as a result of reductions in operating expenses.

e. Other businesses

Other businesses reported sales of 12.7 billion yen (an 8.9% decrease from the same period of the previous year) and an operating loss of 0.7 billion yen (compared to an operating loss of 0.9 billion yen in the same period of the previous year). Consumption in Japan remained flat as a result of extremely hot weather during the summer, and circumstances remain quite adverse.

Financial Condition**Status of Assets, Liabilities, and Net Assets**

Total assets as of 30 September 2010 were 403.1 billion yen, a decrease of 2.8 billion yen compared to the end of the previous consolidated fiscal year. Notes and accounts receivable-trade decreased by 3.8 billion yen owing to seasonal fluctuations, but inventory assets increased by 4.8 billion yen and deferred tax assets (current) increased 1.9 billion yen. As a result, current assets increased 2.3 billion yen. Noncurrent assets fell 5.1 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 1.8 billion yen from the end of the previous fiscal year to 361.5 billion yen mainly due to lower debt. Retained earnings increased 9.0 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 0.9 billion yen compared to the end of the previous fiscal year to 41.6 billion yen.

Cash Flows in the 2nd Quarter Are Summarized as Follows:

Cash and cash equivalents at the end of the second quarter of the current fiscal year stood at 55.4 billion yen, an increase of 0.1 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 15.8 billion yen due to the inclusion of 1.4 billion yen in income before income taxes and minority interests, 7.8 billion yen in depreciation and amortization expenses, a 2.0 billion yen decrease in notes

and accounts receivable-trade, and an 8.7 billion yen increase in notes and accounts payable-trade.

- Cash flows from investing activities

Net cash outflow from investing activities was 4.5 billion yen mainly due to 5.4 billion yen in expenditures for the purchase of property, plant, and equipment.

- Cash flows from financing activities

Net cash outflow from financing activities was 10.1 billion yen as a result of the repayment of long- and short-term loans.

In addition, there was also a 1.0 billion yen outflow due to the effect of exchange rate changes on cash and cash equivalents.

Outlook for the Year Ending 31 March 2011

Although markets in Asia continue to recover, the economies in Europe and the United States remain sluggish, and as a result, we expect the pace of the global economic recovery to be slow for the time being. In addition, factors contributing to future instability such as concerns about the yen remaining at a high value for an extended period are increasing, and business confidence remains low.

Although sales were slightly below projections through the second quarter, the Company's consolidated income was favorable. In the third quarter, however, we forecast the electronic components business to enter a modest adjustment phase, and taking into account the effects of exchange rates, we forecast sales to be 330.0 billion yen, which is 10.0 billion yen below the previous forecast. The forecasts for operating income and other results remain unchanged based on our progress in reducing operating expenses.

Projections for results by segment have been revised as indicated below.

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

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	330.0	143.0
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	96.0	5.5
Electronic Components Business	180.0	5.0
Clock Business	9.5	(0.5)
Optical Products Business	24.0	0.3
Other Businesses	27.0	(0.3)
Total for all business segments	336.5	10.0
Consolidated total	330.0	10.5

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

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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 2010

	Millions of yen	
	30 September 2010	31 March 2010
	Amount	Amount
Assets		
Current assets:		
Cash and deposits	56,501	56,548
Notes and accounts receivable-trade	47,086	50,918
Merchandise and finished goods	41,033	37,969
Work in process	11,759	10,890
Raw materials and supplies	9,812	8,912
Accounts receivable-other	2,419	3,339
Deferred tax assets	6,299	4,347
Other	5,047	4,777
Allowance for doubtful accounts	(1,323)	(1,402)
Total current assets	178,635	176,301
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	107,785	107,916
Machinery, equipment and vehicles	98,218	97,437
Tools, furniture and fixtures	35,188	35,067
Other	1,148	781
Accumulated depreciation	(164,946)	(161,075)
Land	80,636	80,739
Construction in progress	2,669	2,382
Subtotal	160,701	163,249
Intangible assets:		
Goodwill	11,624	12,075
Other	11,890	12,305
Subtotal	23,514	24,381
Investments and other assets:		
Investment securities	31,400	32,415
Deferred tax assets	2,713	2,939
Other	9,640	10,070
Allowance for doubtful accounts	(3,490)	(3,395)
Subtotal	40,263	42,028
Total noncurrent assets	224,480	229,659
Total assets	403,115	405,960

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	Millions of yen	
	30 September 2010	31 March 2010
	Amount	Amount
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	47,644	40,798
Short-term loans payable	78,691	102,276
Current portion of long-term loans payable	36,778	59,777
Accounts payable-other	8,295	11,567
Income taxes payable	1,692	1,084
Deferred tax liabilities	10	21
Provision for bonuses	4,824	1,938
Other provision	669	552
Asset retirement obligations	60	-
Other	10,193	8,227
Total current liabilities	188,860	226,244
Noncurrent liabilities:		
Long-term loans payable	128,772	93,016
Deferred tax liabilities	4,946	5,207
Deferred tax liabilities for land revaluation	5,490	5,490
Provision for retirement benefits	25,858	26,398
Other provision	1,392	1,746
Asset retirement obligations	531	-
Negative goodwill	1,136	1,325
Other	4,524	3,976
Total noncurrent liabilities	172,653	137,161
Total liabilities	361,513	363,405

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	Millions of yen	
	30 September 2010	31 March 2010
	Amount	Amount
Net assets		
Shareholders' equity:		
Capital stock	10,000	10,000
Capital surplus	7,122	14,770
Retained earnings	22,327	13,262
Treasury stock	(2,535)	(2,984)
Subtotal	36,914	35,048
Valuation and translation adjustments:		
Valuation difference on		
available-for-sale securities	589	1,388
Deferred gains or losses on hedges	(14)	44
Revaluation reserve for land	7,154	7,154
Foreign currency translation adjustment	(10,202)	(8,173)
Subtotal	(2,473)	414
Minority interests	7,160	7,092
Total net assets	41,601	42,554
Total liabilities and net assets	403,115	405,960

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Statements of Income

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended 30 September 2010

	Millions of yen	
	2Q FY 2010	2Q FY 2009
	Amount	Amount
Net sales	155,608	71,063
Cost of sales	107,799	45,706
Gross profit	47,808	25,357
Selling, general and administrative expenses	42,356	28,834
Operating income (loss)	5,452	(3,476)
Non-operating income:		
Interest income	95	50
Dividends income	89	173
Amortization of negative goodwill		189
Equity in earnings of affiliates	619	–
Other	1,025	501
Subtotal	1,830	915
Non-operating expenses:		
Interest expenses	2,736	1,488
Foreign exchange losses	1,251	
Equity in losses of affiliates	–	775
Other	1,182	468
Subtotal	5,170	2,733
Ordinary income (loss)	2,111	(5,294)
Extraordinary income:		
Reversal of provision for directors' retirement benefits	225	–
Gain on sales of noncurrent assets	–	221
Subtotal	225	221
Extraordinary loss:		
Loss on adjustment for changes of accounting standard for asset retirement obligations	332	–
Provision of allowance for doubtful accounts for subsidiaries and affiliates	237	101
Loss on retirement of noncurrent assets	174	–
Loss on litigation	97	–
Impairment loss	–	456
Subtotal	841	558
Income (loss) before income taxes and minority interests	1,496	(5,631)
Income taxes-current	1,503	622
Income taxes-deferred	(1,567)	(294)
Subtotal	(63)	327
Income before minority interests	1,560	–
Minority interests in income (loss)	193	(10)
Net income (loss)	1,366	(5,948)

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Statements of Cash Flows

Seiko Holdings Corporation and Consolidated Subsidiaries

For the Six Months Ended 30 September 2010

	Millions of yen	
	2Q FY 2010	2Q FY 2009
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	1,496	(5,631)
Depreciation and amortization	7,897	2,882
Increase (decrease) in provision for retirement benefits	(460)	(288)
Increase (decrease) in provision for directors' retirement benefits	(261)	(7)
Increase (decrease) in allowance for doubtful accounts	92	125
Interest and dividends income	(185)	(223)
Proceeds from dividends income from affiliates accounted for by equity method	7	204
Interest expenses	2,736	1,488
Foreign exchange losses (gains)	460	89
Equity in (earnings) losses of affiliates	(619)	775
Impairment loss	–	456
Loss (gain) on sales of noncurrent assets	–	(221)
Loss on retirement of noncurrent assets	249	48
Decrease (increase) in notes and accounts receivable-trade	2,066	(198)
Decrease (increase) in inventories	(5,983)	177
Decrease (Increase) in accounts receivable-other		2,262
Increase (decrease) in notes and accounts payable-trade	8,753	1,564
Increase (decrease) in accounts payable-other	(3,525)	(1,495)
Increase (decrease) in provision for bonuses	2,885	
Increase (decrease) in other current liabilities	1,630	
Other, net	2,111	(184)
Subtotal	19,353	1,822
Interest and dividends income received	185	224
Interest expenses paid	(2,791)	(1,524)
Income taxes paid	(852)	(328)
Net cash provided by (used in) operating activities	15,895	194
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(5,466)	(665)
Proceeds from sales of property, plant and equipment	879	452
Purchase of investment securities	(48)	(0)
Proceeds from sales of investment securities	24	36
Proceeds from redemption of investment securities	–	3,600
Payments of loans receivable	(246)	(205)
Collection of loans receivable	237	279
Other, net	88	(23)
Net cash provided by (used in) investing activities	(4,531)	3,471

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	Millions of yen	
	2Q FY 2010	2Q FY 2009
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	319,914	223,722
Decrease in short-term loans payable	(337,069)	(228,927)
Proceeds from long-term loans payable	46,912	23,580
Repayment of long-term loans payable	(40,240)	(20,775)
Cash dividends paid	–	(290)
Other, net	331	(140)
Net cash provided by (used in) financing activities	(10,151)	(2,830)
Effect of exchange rate change on cash and cash equivalents	(1,050)	(125)
Net increase (decrease) in cash and cash equivalents	163	710
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	55,494	17,467

Segment Information

1. Information about Business Segment (For the Six Months Ended 30 September 2009)

Millions of yen

	Sales		Operating Income	
	2Q FY 2009		2Q FY 2009	
Watch Business	29,874		530	
Precision Products Business	13,713		(287)	
Optical Products Business	12,589		(276)	
Clock Business	4,166		(408)	
Other businesses	14,048		(987)	
Total for all business segments	74,393		(1,428)	
Eliminations and common	(3,329)		(2,047)	
Total	71,063		(3,476)	

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

Millions of yen

	Sales		Operating Income	
	2Q FY 2010		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	

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
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	Golf clubs, musical accessories, high-end clothing and miscellaneous goods, real estate rental, system clocks, and sports timing equipments

For further information, please contact:

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